Co-op Annual Report 2018

Contents

Top ten places to look in our Annual Report if you only have 15 minutes

Strategic report

Governance report

Financial statements

2018 Highlights

Group revenue

£10.2bn

(up 14% on 2017)

Group profit before tax (continuing*)

£93m

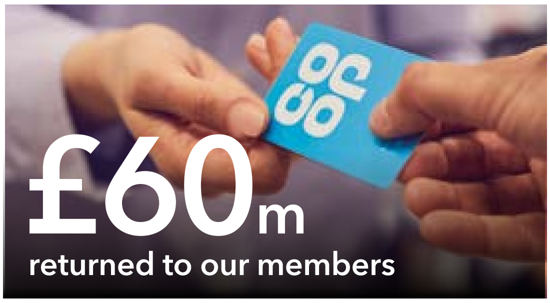
(up 27% on 2017)

* The loss on discontinued operations of £230m relating to the proposed sale of our insurance underwriting business is shown below profit before tax

Group underlying profit before tax

£43m

(in line with 2017)



About us

We're building a stronger Co-op and stronger communities by championing a better way of doing business.

We care about the world we share and so do our members.

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

The Co-op Group is the UK's largest consumer co-operative, with 4.6 million active members and a presence in every postal district in the country.

We're a major food retailer and wholesaler; we're the largest funerals provider in the UK; the largest probate provider; we provide life planning services and sell insurance products. Our businesses are all UK-based and our main support centre is in Manchester.

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

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

By offering great products and services we grow our customers and our membership.

Chairman's introduction

'A way of doing business that looks increasingly modern, relevant and urgent'

Our Co-op is more than just a business, or even a family of businesses. It's a belief that business should serve people and not the other way around.

In 2019 we're marking the 175th anniversary of the consumer co-operative movement in the UK. But it's not a moment for looking back. With our nation deeply divided over Brexit, and with so many challenges needing long-term solutions, co-operative thinking is not just modern and relevant to our current needs, but increasingly urgent.

Co-operation provides us with an outlook on business that offers a holistic response to the needs of people and the communities in which they live. It's a way of working that can tackle long-term challenges with an ethical and sustainable response.

Our own Co-op Society is taking the best traditions of our past and applying them to the world today. We are an organisation that's commercially driven and community focused and we're addressing the needs and concerns of the millions of Co-op members who collectively own us. Our job is to create value for our members. That means creating products and services that meet a genuine need and doing this in an efficient and commercially successful way. Through business success we're then able to address the wider issues and concerns of our members such as supporting British farmers, expanding our Co-op Academy schools or reducing our use of plastic.

It's important to understand that our Co-op's commercial activity and its community and campaigning work go hand-in-hand. It's beyond philanthropy and traditional social responsibility programmes. The support we give to local community causes or the campaigning we do on modern slavery and tackling loneliness are as important as running our food business or selling insurance cover. For us, doing the right thing makes good commercial sense.

At the start of 2018 we launched our Stronger Co-op, Stronger Communities ambition. We see the relationship between our business and the communities we serve as mutually beneficial. The stronger our Co-op becomes, the more good we can do for the communities we trade in. We also believe that strong communities which see the value of co-operation will decide to choose our Co-op more often. This creates a virtuous Co-op circle.

Let me take this opportunity to thank my fellow Board Directors, our Executive team, our Council President and Vice Presidents and all of our National Members' Council for their work as we continue to strengthen all aspects of our Co-op in this anniversary year.

Allan Leighton
Group Chair

Chief Executive's introduction

'Our strategic initiatives are setting us up for long term success'

It's been a busy and productive first year for our Stronger Co-op, Stronger Communities five-year ambition as we work to create value for our millions of members.

- we began our plan to treble the number of Co-op Academy schools we support
- we launched a new campaign to help make our colleagues and communities safer
- we expanded our support for British produce and to Fairtrade farmers
- we reduced our use of plastic in food packaging
- we lessoned our carbon footprint
- we responded to funeral affordability
- and supported our colleagues facing financial pressures
- and our Co-op pension trustees announced their decision to invest up to £50 million into the social and affordable housing market over the next 12 months.

We began our plan to treble the number of Co-op Academy schools we support

And in addition, in 2018 we gave back nearly £60 million to our members through the 5% member reward. £19 million also went to 4,000 local community causes through the 1% member reward that creates our Local Community Fund plus additional funds from the sale of carrier bags.

In the summer we launched our Future of Food ambition setting out our ethics and sustainability priorities through to 2030. The agenda we've set for ourselves recognises the need to integrate our thinking across all aspects of food retail so that we can make the greatest impact for our members and customers.

These are just some of the examples that prove that our Co-op is a different way of doing business. It's a business which puts people and communities first because that's what we were set up to do. Success for us goes beyond bottom-line profit. Our social purpose means our ambitions are far greater.

But any Co-op must also stay commercially-focused and efficiently-run if it's to thrive for the long term.

In 2018 we made strategic changes in Food, Insurance, and Funeral & Life Planning which will set our business up for long-term success. It's these decisions that will enable us to serve the needs of our members and give value back to them and their communities for decades to come.

Commercial performance

Our Group turnover was £10.2 billion, boosted by our acquisition of Nisa in the spring, and our Group underlying profit before tax was £43 million in line with our 2017 performance. This profit measure represents the core trading performance of our business and reflects the £60 million charged to profit which we generated and returned to members through our Co-op membership rewards.

There are five notable business headlines to report
- the outstanding year for our food stores
- the challenging year for our funerals business
- our acquisition of the Nisa wholesale business
- the sale of our insurance underwriting business
- and the purchase of the Dimec platform to prepare for our return to healthcare services

Food had an excellent year with the best growth in seven years. Underlying operating profit was up 12% to £204 million.

The hot summer and a good England performance in the World Cup certainly made a difference, but we wouldn't have been able to take advantage of this if it hadn't been for great products, good planning and our ever improving logistics network.

Our ambition to be the number one convenience food retailer remains on track, driven by our 'Closer' strategy: closer to where are customers are; closer to what they need; and closer to what they care about.

Our acquisition of Nisa wholesaling and the additional deal we've made to supply Costcutter Supermarkets Group, were significant strategic decisions for our food business. This is a rapid expansion of our wholesaling that means we'll reach hundreds of thousands of new homes with our Co-op products and increase the scale of the relationship with our suppliers.

£204m

Underlying operating profit in Food was up 12% to £204 million

Food retail remains one of the most competitive environments in the UK economy and we are not just holding our own but leading the way through innovation, expansion and a commitment to responsible sourcing.

"We remain the number one funeral and life planning business in the UK market. However, that market is changing rapidly."

We remain the number one funeral and life planning business in the UK market. However, that market is changing rapidly.

Choice and price are critical for our clients and in 2018 we responded to these trends with new ways to commemorate the life of a loved one and a continued commitment to improve funeral affordability. We also invested heavily in infrastructure, technology and standards and put in place changes to roles and responsibilities for our colleagues.

However, we saw a sharp drop in underlying operating profit (down £17 million on 2017) and a reduction in the number of funerals we carried out. The reduction in profit was in part caused by the growth in sales of our most affordable funerals. The sale of funeral plans was also down reflecting a drop in the funeral plan market as a whole. This was driven largely by negative media commentary on the value and transparency of such products, even though our own plans have received outstanding recognition from industry experts. We've contributed our views to the Treasury consultation on the regulation of pre-need funeral plans and have responded to the Competition & Markets Authority (CMA) on its study into at-need funerals and crematoria. We welcome improved regulation for the industry and the CMA's decision to launch an in-depth market investigation into the funerals sector.

Meanwhile, we saw significant growth in other parts of the funeral and life planning business, in particular probate and will writing. 2018 saw the successful integration of Simplify Probate which we acquired in the spring.

We need to take stock of the changes we've made over the last few years and understand in more depth the market dynamics in play. In particular we need to see how our Co-op values and way of working can be made clearer to our clients and ensure that our offer remains attractive and relevant.

For Insurance during 2018, the priority was to develop plans for the future of the business by removing the underwriting risk and moving to a distribution model. This will allow us to provide more of our members with a broader range of insurance products while at the same time managing financial risk.

At the beginning of 2019 we announced the sale of our insurance underwriting business to Markerstudy for £185 million and, subject to regulatory approval, the deal should be completed by summer 2019. Markerstudy will protect the jobs of many of our existing insurance colleagues.

Part of the sale is to put in place a new long-term arrangement for distributing Co-op branded motor and home insurance products underwritten by Markerstudy. Meanwhile, we'll continue to work with other partners to further develop our range of policies.

We launched our new Travel Insurance policy

Our accounts for 2018 show our insurance underwriting business as a discontinued operation but the loss shown does not include the income we'll receive from the sale which relates to the distribution agreement in future years. Our strategy is expected to create sustained long-term returns for our insurance distribution business.

The approach we've been moving to with Insurance was illustrated by the launch of our new Travel insurance policy. It was the first new product from our Insurance business for several years and was built with input from our members and by using an external underwriter. On launch of the policy we were recognised as a Which? Recommended Provider.

In 2018 we carried out a strategic review of Co-op Electrical and closed this part of our business in March 2019. Our decision reflects the small scale of our online electrical offer which accounts for less than 1% of annual Co-op turnover. Our review showed that significant capital investment would be needed to expand the business in a market which is facing significant challenge and uncertainty.

A new venture in healthcare

In 2018 we re-entered the healthcare market in an innovative and capital light way, through the acquisition of the digital start-up Dimec.

With an increasingly ageing population with complex health needs, we believe there should be a co-operative and digital solution to the health challenges faced by our members and customers today and in years to come. Our acquisition of Dimec gives us a proven digital platform to help patients connect to their GPs which makes ordering repeat prescriptions easier and takes some pressure off the NHS. This new venture will begin trading nationally in 2019.

Like other businesses, we've been preparing as best we can for the possibility of a no deal departure from the European Union. Our commitment to British farming provides our members and customers, as well as our suppliers, with some welcome protection from any increase in tariffs. However, we still source many of our fresh food products from the EU and we are making contingency plans to the best of our ability. Our priority is to do our best for our members and customers through what could be a challenging time for the whole nation.

Overall, we're confident about the progress we've made in 2018 and the investment decisions we've taken. But there's still much to do to achieve our Stronger Co-op, Stronger Communities ambition.

In 2018 we returned more than

£19m

more than 4,000 local causes across the country

In 2019 we want to further develop our community work through a deeper understanding of the needs and challenges faced by our members. Our plan is to create practical resources, founded on co-operative thinking, to help local communities thrive.

We'll also continue to grow our business and reach more customers with our Co-op difference. We'll do this by opening more Co-op Food stores, through revitalising our Funeralcare business, through developing more Co-op Insurance products, and via our new Healthcare venture. And we'll start telling our story to members and customers with renewed pride and conviction.

I'd like to thank our colleagues across the business for their continued hard work and commitment and for being the greatest advocates for our Co-op.

Steve Murrells
Chief Executive

Report from President of the National Members' Council

Stronger Co-op, Stronger Communities

2018 has been another year of growth and development for our Co-op.

We've now seen five straight years of market-beating like-for-like sales growth in our Food business, as the long-term efforts to improve the quality of our own-brand products, bring down our prices and provide ever-better service continue to bear fruit.

It's because we are a co-op that we're able to take decisions for the long term, without the worry our competitors have that their quarterly profits will affect their fluctuating share price. Our share price has not changed since our inception – it has remained £1 for 174 years.

As we look forward to the 175th Jubilee Anniversary of the Rochdale Pioneers in December 2019, it is a time to celebrate and highlight what makes our Co-op different.

Council progressing

In July, the National Members' Council will complete its fifth year since the governance reforms. We're comprised of co-operators from every nation and region of the UK, representing our millions of individual members and the Independent Society Co-ops that were our founders. Pleasingly, 2018 was the year that the Council became gender-balanced. There remains much work to do to ensure younger and BAME members are properly represented.

It is Council's job to hold our Board to account for the decisions they take in the stewardship of our members' assets and their alignment to our Co-operative Values and Principles. Council carries out its role diligently and with knowledge and passion. We probe and question, champion issues and topics, and offer our particular co-operative expertise to support our business leaders.

We took the opportunity to make representations formally to the Board and we influenced its thinking on the potential sale of our insurance underwriting business, ensuring the interests of colleagues, members and our precious brand were kept at the forefront of decision-making.

Council voted to make the proposed 'Safer Colleagues, Safer Communities' activity a formal Co-op campaign.

Safer Colleagues, Safer Communities

Campaigning on social issues that matter to our members has always been a key component of our co-operative difference, and here Council has had a vital role to play. In December, having championed the issue for a long period, Council voted to make the proposed 'Safer Colleagues, Safer Communities' activity a formal Co-op campaign. There is no more important issue than the safety and wellbeing of our tens of thousands of colleagues on the frontline. I'm proud that Council reached out to millions of members to ask for their ideas and thoughts on how, by working together, we can make all of our communities safer.

Join In

Enabling our members to participate in the Co-op that they own has been a key area of focus for Council. We have consistently championed new and creative ways for members to get involved, and there is no finer model than our 'Join In' programme. Nearly 200 different Join In opportunities have been delivered with nearly 125,000 individual members participating – more than 200,000 times. Whether it's helping to shape our policies on plastic recycling, sharing experiences on bereavement or developing our new products and services, putting members at the heart of the Co-op's thinking is a huge priority for Council.

Academy Schools

Education has always been an essential component of co-operation, and Council is excited by the recent decision to grow the Co-operative Academies Trust to forty schools. We know that our Co-operative Values and Principles can make a real difference to the lives and life chances of young people and we applaud the investment in our children's future that this represents.

Our Members' Council, 2018

In parallel, Council is investigating how we can better tell the story of the co-operative difference by researching best-practice and compelling examples of member education, training and information.

New Opportunities

The Co-op is rightly proud of our heritage but we must not rest on our laurels. Satisfying our members' needs in a distinctly co-operative way that is relevant to now remains the key commercial challenge.

I have been really pleased to see colleagues reaching out to Council members beyond our formal governance role to ask for their insight and feedback. Council member participation in the gestation stage of new products, services, markets and ideas is a personal priority of my presidency, and I'm pleased that the Advisory Teams established in 2018 have proven a successful way to distil the expertise and passion of the Co-op's elected members. These initiatives are colleague-led and will adapt and change over time – they show the benefit of building strong relationships over the last 5 years.

Connecting and Co-operating

"I must thank Council members for their continued commitment, creativity, passion and ingenuity."

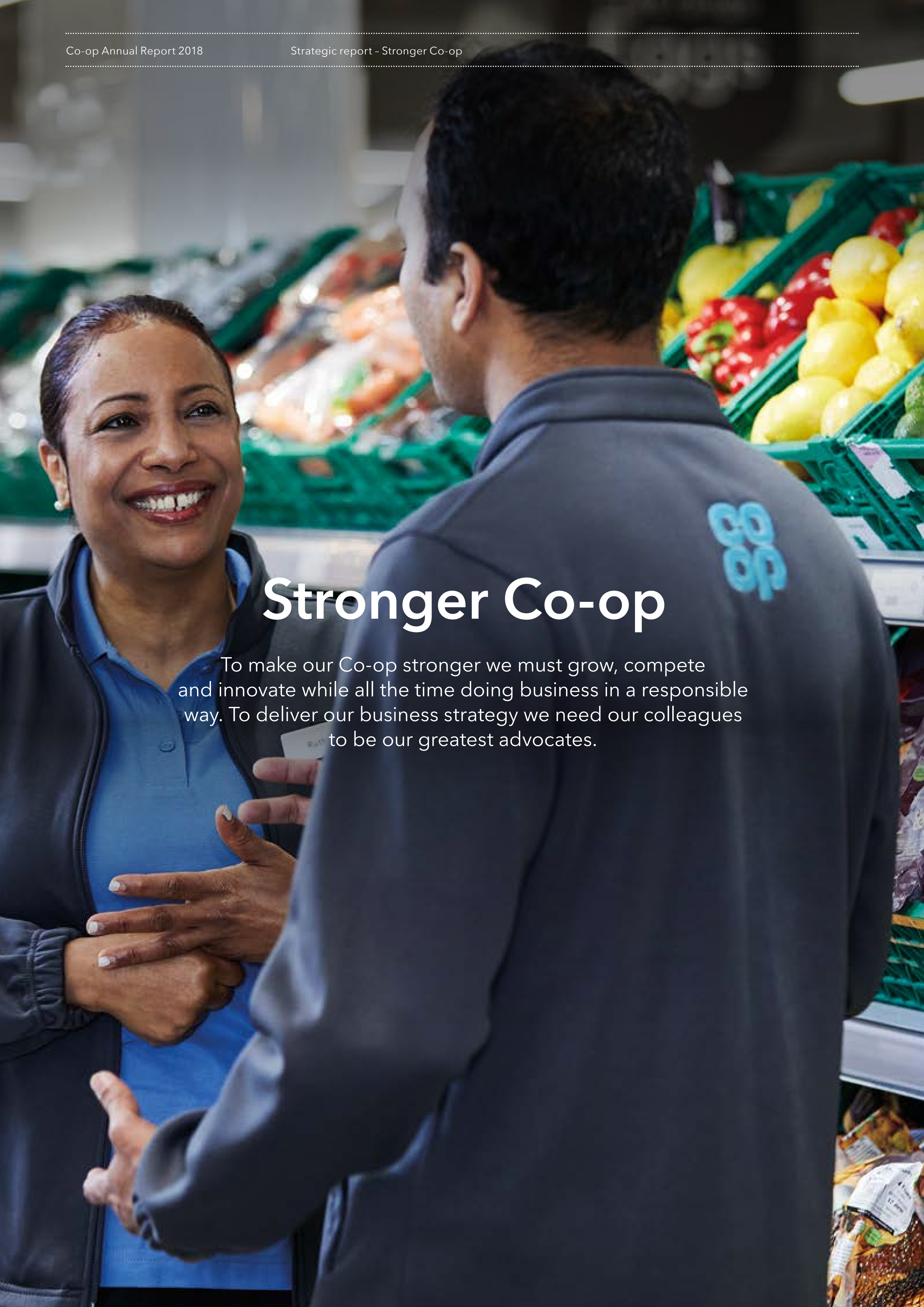
Council has rightly prioritised enabling members to communicate and engage: with one another, with our growing number of Member Pioneers and with Council itself. Progress here has been slow, but there are exciting plans in development to better enable this multi-lateral engagement. Council will continue to highlight the need to bring this area to life.

I must thank Council members for their continued commitment, creativity, passion and ingenuity. The positive and constructive relationships Council have developed with the Board and Executive remain the bedrock of all we want to accomplish on behalf of all of our members.

I have deep appreciation of the Council Secretariat for their work in advancing our agenda. It is a very small team, led formerly by Gill Gardner and now temporarily by Andy Seddon, whose size belies its resourcefulness. All of our members owe them a great debt of gratitude.

Nick Crofts

Nick Crofts
President of the Council



Stronger Co-op

To make our Co-op stronger we must grow, compete and innovate while all the time doing business in a responsible way. To deliver our business strategy we need our colleagues to be our greatest advocates.

Growing

To create a stronger Co-op we want to grow our business by attracting more members and customers. That means investing in better infrastructure and technology, developing new products and services, and finding new ways to share our Co-op difference.

New Food stores

During 2018 we invested £75 million into opening 102 new food stores

During 2018 we invested £75 million into opening 102 new food stores, including 30 in London, and carried out 138 refits of existing stores. This expansion created 1,600 new jobs. We've now opened 417 new stores in the last four years at a time when other retailers are being forced to abandon the high street. We now have 2,582 Co-op Group food stores. The new stores we've been opening have been more profitable than the ones we opened in 2012. We put this down to improved location and the ever-improving range and quality of our products.

In 2018 the first Co-op franchise store opened, owned by the Costcutter Supermarket Group. The Co-op branded store in Guiseley, near Leeds, has a wide range of Co-op products and offers membership benefits. This includes a 5% reward when shoppers buy own-brand products and services, with a further 1% donated to local causes through our Local Community Fund. Our first franchise store on a university campus opened in Leeds in February 2019 staffed by students.

Attracting a younger generation

It's vital that we attract a younger generation of Co-op members and customers who may not be familiar with who we are or the values we stand for. In March 2018 we announced an exclusive partnership with Live Nation to become the first UK food retailer to have a supermarket at four major summer music festivals: Download, Latitude, Reading and Leeds. At each festival we set up a 6,000 square foot shop to cater for 200,000 festival goers. Each store stocked a wide range of items, including food, water, beer and wine, toiletries, medicines and, to cover all eventualities, both sun cream and rain ponchos.

Our Leeds and Latitude Festival food stores

We've committed £28 million to expansion and modernisation of our logistics and store estate.

Logistics investment

We've committed £28 million to expansion and modernisation of our logistics and store estate in Scotland, including £6 million for our new Dalcross distribution centre outside Inverness. We committed over £20 million to invest in our Wellingborough distribution centre to support our members and customers in Central, East and South East England.

In November 2018 we announced plans to build a new £45 million distribution centre in Biggleswade in Bedfordshire just off the A1. When it opens in 2022 it will create 1,200 jobs.

Wholesale

Our biggest investment towards long-term growth came from the rapid expansion of our wholesaling operation beyond supplying other co-ops. In May we completed our acquisition of the Nisa wholesale business. Nisa Partners own and operate their own stores and these remain independent from our Co-op.

The acquisition means we're now supplying 4,000 stores serviced by Nisa across the UK. From the spring we also became the exclusive wholesale supplier to Costcutter Supermarkets Group and the Costcutter, Mace, Simply Fresh, Supershop and Kwiksave convenience stores it operates.

The Nisa and Costcutter stores mean our award-winning Co-op branded food, with its commitment to ethical and sustainable sourcing, will reach hundreds of thousands of new homes across the country. Often in places where we have no existing Co-op stores. During the second half of 2018 we aligned Nisa with our existing wholesale work and we're now supplying more than 850 Co-op branded products to Nisa and Costcutter stores.

Funeral & Life Planning, and Insurance

We opened 16 new funeral homes and refitted another 55. We now have 1,049 funeral homes. Over the last few years we've been re-branding our private named funeral homes in England, Scotland and Wales as Co-op Funeralcare as part of our commitment to transparency and to maximise the value of our national brand. In November the last privately named home in Wales (Pontypool) made the switch. We also opened two new state-of-the-art mortuaries at Fareham and Reading and installed refrigeration at 237 funeral homes.

In April we acquired Simplify Probate, the UK's second largest provider of probate advice and support to families. We've now successfully integrated the business adding to our existing services including Will writing, lasting power of attorney and funeral plans. The deal makes us the UK's largest single provider of probate services. Our clients are already benefiting from faster distribution of estate proceeds. In 2019 we'll continue to offer probate services as part of our funeral support to families.

In Insurance we launched our first new product for many years with our new Travel offer. This has paved the way for an expansion of insurance products during the first four months of 2019.

We now have

1,049

funeral homes

Competitive

All the markets we trade in are highly competitive, with price the deciding factor for many consumers. To stay relevant and strong we've invested in keeping prices down in all areas of our Co-op.

£50m

invested into cutting the price of hundreds of food products

We are committed to offering customers value for money and we're always investing in price as we react positively to the challenges of the retail sector. Last year we invested £50m into cutting the price of hundreds of food products as part of our ongoing investment strategy.

We've been addressing funeral affordability for the last few years and offering greater choice in funeral arrangements. Our national survey into death and bereavement, the biggest ever carried out in the UK, suggested that four million people suffered financial hardship after bereavement. In September, as a response to these findings, we made further changes to our funeral prices in particular for our members. In addition, the growth of our probate work is making it easier for families to pay for a funeral from the estate of the deceased.

In Insurance we promised to beat the renewal quotes of our Co-op members for their home and contents insurance, which led to an increase in renewals. Our offer of Co-op Food vouchers for new Home, Motor and Pet insurance customers also worked well and helped us increase new business overall.

Innovative

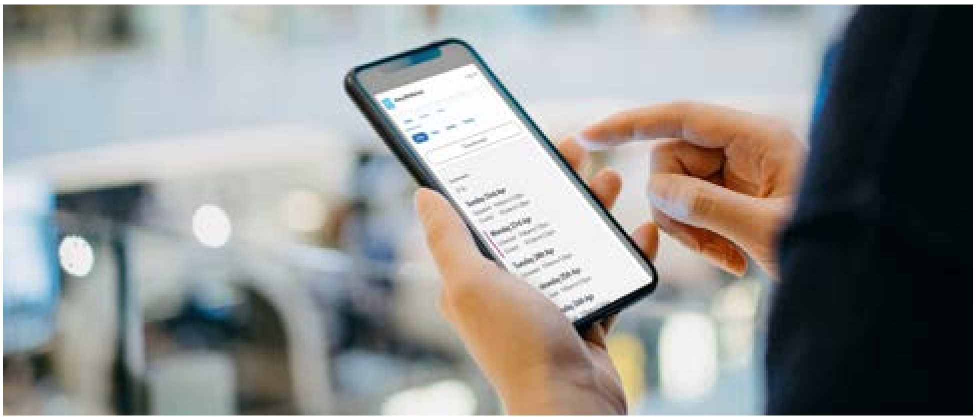
No business can stand still and stay successful. Across the decades our Co-op has always been at its best when we've understood the changing needs of our members and anticipated social trends.

In 2019 we'll re-enter the healthcare market. But we won't be on the high street. Instead, we want to develop a digital approach that will give us flexibility to test our ideas quickly without the need for large-scale capital investment.

In September we bought the healthcare start-up Dimec, a digital platform developed by a team of doctors as a way to connect patients to their GPs so they can order repeat prescriptions online. With an ageing UK population, we recognise that more and more of our members, and other customers, could benefit from this. Currently, there are 1.1 billion prescriptions written annually in England. We believe this kind of online innovation will also take pressure off the NHS.

The co-founders of Dimec are working with our new ventures team on the development of the platform and we've created a national medicine distribution hub within our Lea Green food depot in Merseyside.

We've been introducing new technology across every part of our Co-op during 2018. In Funeral & Life Planning we completed the national roll-out of our industry-leading Guardian funeral arrangement software which streamlines processes and reduces internal bureaucracy. The Guardian technology also has the potential to become customer-facing as it evolves. Most importantly, it gives our colleagues more time to serve the needs of bereaved families.



Our new Shifts App in Food is making it easier for colleagues to access their work schedules and plan their week

Our new Shifts App in Food is making it easier for colleagues to access their work schedules and plan their week. It's a significant advance in giving colleagues greater control and flexibility over their work life. We've also been trialling 'pay in aisle' technology for our Food stores and robotic home delivery.

In May we launched our new Cremation Without Ceremony funeral costing £1,395 (£1,230 in Scotland), for those who would like a simpler choice for their funeral without compromising on high standards of care.

Cremation Without Ceremony has been brought to the public's attention by both David Bowie and novelist Anita Brookner's funeral wishes. The ceremony is different from a traditional funeral as there are no mourners present at the cremation. The popularity comes from more people choosing celebratory gatherings, rather than a traditional funeral service. For most of our clients the decision is less about cost and more about how they want to remember their loved one.

Responsible

At the Co-op we've always believed that 'doing good' and 'doing good business' go hand-in-hand. We see commercial responsibility as central to our business model, so strengthening our ethics and sustainability will help us to become a Stronger Co-op. You can read more about our economic, social and environmental commitments in this year's Co-op Way report.

Our new Future of Food strategy brings together and extends our existing work on the environment, sustainability, sourcing, plastics, waste management, animal welfare and how we treat our suppliers.

100% of our energy is from renewables

100% of the electricity that powers our business, including all of our stores, funeral homes and our Manchester Support Centre, is generated from UK wind farms

We recognised the need to act on climate change long before most businesses and we've reported on our climate impacts since 2005. Our long-term aim was to halve our direct Green House Gas emissions by 2020 compared to 2006. We achieved this target three years early, in 2017. We're now going even further, and aiming to halve our direct emissions again by 2025 compared to 2016.

100% of the electricity that powers our business, including all of our stores, funeral homes and our Manchester Support Centre, is generated from UK wind farms.

The UK's first compostable carrier bag

A key priority is to improve the recyclability of our product packaging. Our long term target is for all our own-brand packaging to be 'easy to recycle' by 2023, and 80% (by product line) to be 'easy to recycle' by 2020. By the end of 2018 we'd made good progress, having reached 75% (2017: 71%).

In November we introduced the UK's first compostable carrier bag to 1,400 Co-op stores replacing conventional single-use plastic carrier bags. The new bags can be used to take your shopping home, then as a liner for your food waste bin. This change will remove 60 million conventional plastic carrier bags a year and support local authorities to increase food waste collection. As more local councils roll out food waste collection we'll supply the bags to more of our store estate.

We introduced the UK's first compostable carrier bag to 1,400 Co-op stores

The new material is a bioplastic and starch mix, produced in Italy, which is as strong as conventional plastic bags. In the spirit of co-operation we're sharing the information needed to bring this to market with anyone who wants it.

All our pork is now out-door bred

We know our members and customers are concerned about animal welfare and where the food they buy comes from. Respecting animal welfare is an important part of our work in agriculture. For all our Co-op branded fresh, frozen and prepared meat and poultry products, our minimum welfare standard, and our main focus, is Red Tractor. For higher welfare, we use RSPCA Assured or equivalent. In 2018, we developed our Co-op Pork Farming Group and moved to 100% RSPCA Assured, Outdoor-Bred pork.

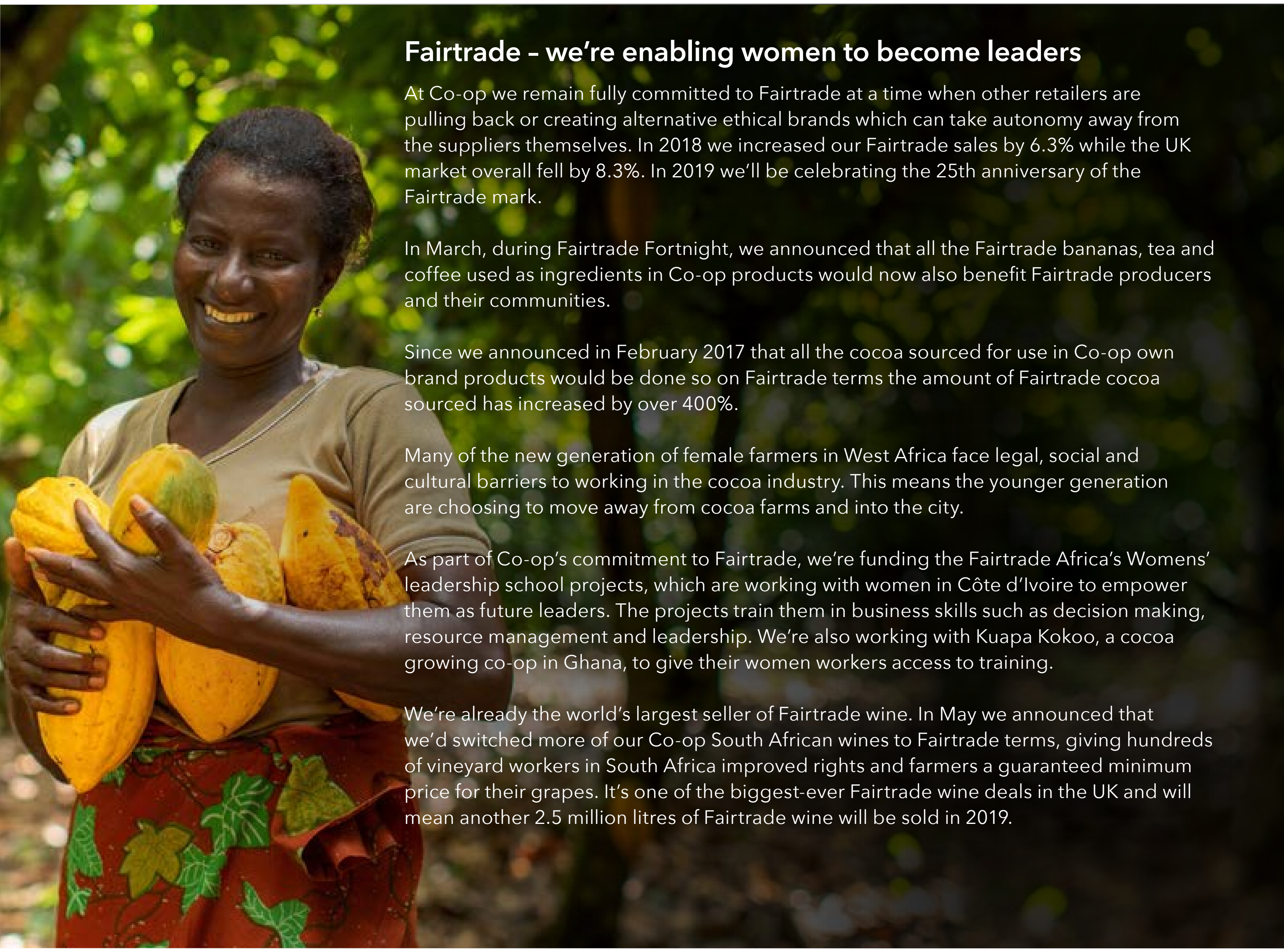
All our fresh and frozen meat is British

We've also expanded our Farming Pioneers programme, where we work with the next generation of farmers to build their skills

Since 2015, we've spent £2.5 billion on British meat, produce and dairy products as part of commitment to British farming. All of our Co-op branded fresh meat is British including the meat used in our sandwiches and ready meals. In 2018 we extended this commitment to frozen products.

We've continued to support British farming financially and through activities like sponsoring Love British Food. We've also expanded our Farming Pioneers programme, where we work with the next generation of farmers to build their skills.

In 2018 the first group of 20 young farmers graduated from the two and half year programme with some great success stories of personal and business development. We're now taking on a fourth cohort of youngsters in 2019, with an ambition to roll this programme out to 100 young farmers.



Fairtrade – we're enabling women to become leaders

At Co-op we remain fully committed to Fairtrade at a time when other retailers are pulling back or creating alternative ethical brands which can take autonomy away from the suppliers themselves. In 2018 we increased our Fairtrade sales by 6.3% while the UK market overall fell by 8.3%. In 2019 we'll be celebrating the 25th anniversary of the Fairtrade mark.

In March, during Fairtrade Fortnight, we announced that all the Fairtrade bananas, tea and coffee used as ingredients in Co-op products would now also benefit Fairtrade producers and their communities.

Since we announced in February 2017 that all the cocoa sourced for use in Co-op own brand products would be done so on Fairtrade terms the amount of Fairtrade cocoa sourced has increased by over 400%.

Many of the new generation of female farmers in West Africa face legal, social and cultural barriers to working in the cocoa industry. This means the younger generation are choosing to move away from cocoa farms and into the city.

As part of Co-op's commitment to Fairtrade, we're funding the Fairtrade Africa's Womens' leadership school projects, which are working with women in Côte d'Ivoire to empower them as future leaders. The projects train them in business skills such as decision making, resource management and leadership. We're also working with Kuapa Kokoo, a cocoa growing co-op in Ghana, to give their women workers access to training.

We're already the world's largest seller of Fairtrade wine. In May we announced that we'd switched more of our Co-op South African wines to Fairtrade terms, giving hundreds of vineyard workers in South Africa improved rights and farmers a guaranteed minimum price for their grapes. It's one of the biggest-ever Fairtrade wine deals in the UK and will mean another 2.5 million litres of Fairtrade wine will be sold in 2019.

All our palm oil is sustainable

We use sustainably-sourced palm oil in our products. Palm oil production has impacts on communities, deforestation, as well as climate change and habitat loss. To make sure we don't contribute to this, 100% of the palm oil in our food products has been certified by the Roundtable on Sustainable Palm Oil since 2012, and non-food has been included since 2016.

A safe used car for your new family

For the last three years Co-op Insurance has been researching the safest used cars to buy for different groups of drivers. In July we revealed our findings for first-time parents. Research showed that 60% of new parents buy a new car before their first baby is born and one of the top criteria is safety. Our own research carried out with new parents revealed that 75% would like to know more about safety issues when they buy.

Research showed that 60% of new parents buy a new car before their first baby is born

Our pension fund is investing in social housing

In November our Co-op pension trustees announced their decision to invest up to £50 million into the social and affordable housing market over the next 12 months. This will provide much-needed support for a sector where demand is clearly outstripping supply.

Across the UK, there are an estimated 1.15 million households on waiting lists for social homes. Many of these are key workers who exceed the income threshold to qualify for social housing, but struggle to afford to buy their own home near to where they work.

An initial investment in 50 units at the Fair Acres development, in Dunbar, Scotland, is being made, which upon completion, will be let to East Lothian Council. 48 units in Glasgow and 71 units in Yorkshire will also be built. The £50 million investment will eventually provide 350 units.

Our Co-op pension fund is investing

£50m

in social housing

Colleagues

Our colleagues are the greatest advocates for our Co-op and we continue to make every aspect of their wellbeing a high priority. To build a stronger Co-op we need colleagues who feel listened to, respected and valued.

Consistently high engagement

At 76% (up 1% on 2017) engagement has now stayed relatively stable for four years in a row. This continues to be above the benchmark for other retailers (72%). There was an improvement in colleagues' sense of belonging to our Co-op too. The annual Talkback colleague survey focused on leadership and there was positive feedback by colleagues on their team leaders – especially about leaders keeping their promises, recognising success and encouraging team members to have their say.

But there was clear room for improvement on involving colleagues in decision making. Building on our annual Talkback survey, in 2018 we introduced more regular 'Talkback Pulse' surveys. This has helped us listen more carefully to colleagues in particular parts of the business and address specific areas of interest or concern.

All our support through one colleague app

LifeWorks

At the beginning of the year we launched LifeWorks, our new wellbeing mobile app for Co-op colleagues. The app gives easy-to-access support on a whole range of wellbeing topics, both inside and outside of work – including health, wellbeing, family life, work issues and money matters. It also makes it easier to access our Co-op Employee Assistance Programme, where colleagues can talk to experienced advisers in confidence 24/7.

The LifeWorks app also includes some great perks – with big discounts and cashback deals from hundreds of high street and online shops.

Barbara French – Winner of the Logistics Colleague of the Year Award

Celebrating our colleagues

In 2018 we introduced new, practical ways for colleagues and managers to simply say 'thank you' for a job well done both face to face and online. All colleagues are encouraged to show the ways they appreciate their colleagues every day which helps them to be at their very best.

Last year we launched our first ever #BeingCoop Awards to celebrate outstanding achievements from our colleagues that make a real difference to peoples' lives. Nominations were open to both colleagues and Co-op members.

£2 million of affordable loans

As part of our commitment to supporting our colleagues outside of the workplace, we partnered with Neyber, a financial wellbeing company which helps UK employees better manage their finances including debt. We wanted to offer our colleagues a practical alternative to pay day loans and other kinds of high cost borrowing. Neyber provides access to fair and affordable loans that colleagues can repay directly from their salary. Since we launched the scheme Neyber has given loans to 433 colleagues totalling £2 million.

In 2019, we'll launch a Workplace ISA (a tax-efficient savings plan) and continue our close relationship with Co-op credit unions, which also provide savings and lending services to our colleagues.

1,000 apprentices

Jasmine Joynt, winner of RateMyApprenticeship Outstanding Intermediate Apprentice of the Year award

By the end of 2018, we'd met our goal to have 1,000 colleagues on apprenticeship programmes across the business, including 572 colleagues who began their training during the year. We'll continue with this commitment in 2019 and expand opportunities in our IT, Finance and Logistics teams. Our apprenticeship programmes go right up to degree level in our Food business and we pay the going rate for the job and provide permanent contracts.

In 2018 we won a number of awards for our apprenticeship programmes. Jasmine Joynt, one of our Insurance apprentices recruited from a Co-op Academy, won the RateMyApprenticeship Outstanding Intermediate Apprentice of the Year award and was also highly commended in the region for the National Apprenticeship Awards. Rachel Lee in our Food business won the Retail Week Apprentice of the Year award. We were also named as a Top 100 employer of apprentices by RateMyApprenticeship.

We're tackling gender equality

Aspire
Women in Co-op

Our Aspire Network for women in the business has 1,000 members and is growing

Over the last few years we've championed gender diversity across the business. We have one of the UK's few female retail CEOs in Jo Whitfield, who leads our Food business, and our Executive team is now four women and three men. Our Aspire Network for women in the business has 1,000 members and is growing. In April we were named in The Times Top 50 Employers for Women for the second time.

Throughout 2018 we began the implementation of our new diversity and inclusion strategy, adopted in 2017, focusing on building a culture that's equal, diverse and inclusive for all colleagues including those with disabilities. On the issue of gender pay gaps, we continue to be better than the national average and have made further progress in closing the gap over the last 12 months. However, like other large employers, there's still progress to be made. Details on gender pay can be found in the remuneration report on page 73.

A bigger voice for colleagues

In July we started our new Colleague Voice Forum made up of 35 colleagues from across our Co-op. The group will meet quarterly to develop new colleague initiatives. A pilot for the Forum has already helped develop our colleague recognition scheme, our new style of wage slips, and our performance process.

Membership

A Stronger Co-op must also mean a stronger relationship with our members. Not only do we want to grow our membership, we want to give our members an active role in our business and our governance.

Member Sales Penetration across all our business areas by the end of the year was 35% of sales.

2018 ended with more than 670,000 local cause selections made by our members. Since we relaunched our membership proposition at the end of 2016 1.2 million members have selected a local cause at least once.

Our online platform for members to participate "Join in" has become increasingly popular in 2018 amongst members and with business teams across the Co-op.

To date the team has delivered 200 opportunities for members to participate in their Co-op. Over 125,000 members have participated on these projects and the numbers continue to grow. The introduction of a new monthly "Join in" email to all marketable members in 2018 has been a powerful driver for participation.

Some examples of 2018 "Join in" opportunities:

- our first ever survey on death and bereavement saw 11,000 members responding
- 14,000 members took part in our test of new digital coupons
- our Insurance team has researched and developed six new products including travel insurance, car care and life policies with the help of members
- members nominated almost 1,000 colleagues for our #BeingCoop awards in 2018

Over
125,000
members have participated on 'Join in' projects

Following a full review of the Co-op Young Members' Board at the start of 2018, the Exec approved the CYMB's proposal to restructure and refocus their activity. The Board's new role will be focused on encouraging a wider group of young people and acting as a gateway for the Co-op to engage with them. Recruitment took place during the second half of the year and a new Co-op Young Members' Group began its work recently on two projects exploring a "Curriculum for Life" for our Community team and engaging more young people in our festival activity for our Food team.

You can read about the work of our National Members' Council in the Council President's report on page 10.

Stronger Communities

Our Co-op was set up to address a social purpose through a successful commercial enterprise. Today we express this as building 'stronger communities'. There are many ways in which we do this and we fulfil our commitment in a local, national and global way.

In 2018 we returned more than £19 million to 4,087 local causes across the country

We're helping every part of the UK

Our Local Community Fund

The most far-reaching example of how we're strengthening local communities is the work we're supporting through our Local Community Fund. In 2018 we returned more than £19 million to 4,087 local causes across the country. Each received, on average, more than £4,500. That's significant money for small organisations often under huge funding pressures.

As we've evolved the Fund's work we've looked to encourage projects which build resilience and togetherness through co-operation in ways that touch all parts of our society.

In Bromley in South London we're helping Living Well which works to tackle loneliness, homelessness and debt by providing foodbanks, community lunches and group activities. With Co-op help, Living Well is funding a local community choir. Dundee Bairns in Scotland is using our support to run a Fun and Food project for children during the school holidays who in term time receive free school meals. On Trak in Bradford is teaching teenage boys struggling with school life how to do bicycle maintenance. In Manchester, City of Sanctuary works with refugees and asylum seekers and is using the money to pay for teaching English to the new arrivals. These are just a handful of examples of how the Local Community Fund is enabling members to support local causes that enrich lives across the UK.

Dundee Bairns in Scotland is using our support to run a Fun and Food project for children during the school holidays

We shortlist projects for our members to choose from which bring people together and address the root causes of social difficulties across the country. We want to prioritise projects which help the most marginalised and isolated.

We know that members who choose a local cause are likely to go on to shop with us more. They see the link between doing good and choosing Co-op. It's the reciprocal relationship of Stronger Co-op, Stronger Communities in action.

On Trak in Bradford is teaching teenage boys struggling with school life how to do bicycle maintenance

Deepening our understanding of community need

The next stage of our community work is to deepen our understanding of what communities most need to help them thrive. In December we asked our Co-op members to try out a new tool we've created to measure wellbeing in communities throughout the UK.

Our Community Wellbeing Index

The Community Wellbeing Index, an idea developed with our Council members, provides a snapshot of how communities score in nine key areas – everything from education and skills to equality, participation and trust. We've built it as a resource for communities to use, but it's also been extremely valuable to us as we set out to develop the next phase of our community programme.

The index has already helped us identify areas where we think Co-op community investment can make a difference and we have chosen to prioritise three:

1. Physical and mental wellbeing
2. Education and skills
3. Community spaces

We'll have more to say about the Community Wellbeing Index and how it's shaping our community plans in the coming months.

Our Member Pioneers are connecting local communities


Geoff Toogood, one of the 300 Member Pioneers in place in 2018

A unique aspect of our community work is the role of Member Pioneers. These are paid, part-time roles rather than add-on responsibilities for our existing colleagues. We had 300 Member Pioneers in place in 2018 with the aim to significantly grow this number in the coming years. Our Member Pioneers are bringing people together in the communities around our food stores and funeral homes. They get people talking about what matters most in their local community and work with other Co-op members, our Council, colleagues and the local causes we support to tackle issues, make connections and get things done.

Our Co-op Foundation empowering young people

The Foundation is the Co-op's own charity, which helps communities work together to make things better. The Foundation is governed by trustees from our Council, colleagues, and independent trustees with significant experience of the charity sector.

In 2018, more than 63,000 Co-op Members chose to give a total of £238,192, through their 1% reward, to support the Foundation's Belong programme tackling youth loneliness. This UK-wide network of projects has already made a measurable impact, connecting and empowering more than 1,100 young people. This has been achieved


Young people from The Proud Trust

by developing young people's confidence and skills to navigate challenging life transitions, such as leaving care, as well as creating more opportunities for young people to become active citizens who contribute to their communities.

Co-op Members chose to give a total of

£238,192

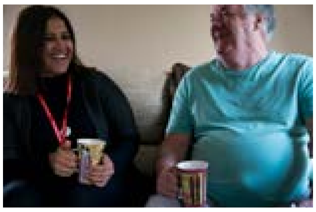
through their 1% reward, to support the Foundation's Belong programme tackling youth loneliness

Foundation

In June, the Foundation announced a £2 million match funding partnership with the government, the Building Connections Fund Youth Strand, tackling youth loneliness among groups such as young carers and those with disabilities or experiencing bereavement. Delivering on a key commitment in its new loneliness strategy, in November the government awarded the Foundation a further £1.4 million to extend this fund, with a focus on making community spaces more inclusive for young people. Building on its existing partnership with the #iwill Fund in England, and its support for similar projects in Scotland, Wales and Northern Ireland, the Foundation is now the UK's leading charity tackling youth loneliness.

Other Foundation activities which launched in 2018 included: a new offer of interest-free loans and grants to help community spaces improve their financial sustainability; and support for charities and social enterprises to make better use of technology to meet the needs of communities.

Campaigning – we're tackling loneliness for thousands of people



Over 7,000 people people experiencing loneliness have received support through our British Red Cross Community Connector services

In 2015, our members told us that loneliness is an issue that is affecting communities across the UK. Since then we've raised £6.7 million to help thousands of people reconnect with their communities. And we've secured lasting change on the issue through our British Red Cross Community Connector services in 38 locations across the UK. The results have been overwhelmingly positive, with over 7,000 people supported to date to reduce their loneliness.

Moreover, we saw the first-ever Minister appointed with responsibility for loneliness and, in October 2018, government's first ever Loneliness strategy was launched. Our campaign – marked by how we have brought more than 40 organisations together in the Loneliness Action Group which the Co-op co-chairs - has been at the very forefront of making loneliness a national issue to which the government has responded. The Loneliness Action Group is a key part of the government's plan to deliver its strategy. In addition, we've shared more than £6.6 million between 2,634 local projects that are responding to loneliness and promoting social inclusion in their communities through our Co-op Local Community Fund.

Campaigning – we're helping the victims of modern slavery rebuild their lives

For the past two years we've been raising awareness of modern slavery and campaigning for better support for survivors, and we've been recognised as one of the leading British businesses on the issue and the only one to date to receive the Thomson Reuters Stop Slavery Award.

42 organisations have joined our Bright Future programme helping victims of modern slavery into paid work

Central to our campaign is our Bright Future programme which offers victims of modern slavery a paid work placement and the opportunity of a permanent job. Since its launch in 2017, our partnership with the charity City Hearts has grown into a multi-charity, multi-business partnership, coordinated through a 'National Matching System' – with the needs of slavery survivors at its heart.

Our focus in 2018 was on creating new work placements within the Co-op and with our new Bright Future Business Partners and encouraging other businesses and charities to join us. 42 organisations are now co-operating to support victims into work throughout the UK. We have seen 77 survivors referred with 61% of those who take up a placement finding a full-time permanent role at the end.

Without changes to the wider support available to victims from the government, thousands of individuals are at risk of homelessness, poverty and re-trafficking. During 2018 we continued to push for change through new partnerships, forums and targeted campaigns, including joining the 'Free for Good' coalition to support Lord McColl's 'Modern Slavery (Victim Support) Bill' to increase government support for victims.

Campaigning – we're creating safer communities for colleagues, members and customers

Creating safer communities, starting with our own Co-op colleagues in stores up and down the country, has become our latest campaign and another way in which we'll help to build stronger communities.

In 2018 we spent £4.5 million introducing new headsets for Food store colleagues which help to improve safety and security in our stores. Thanks to our members, we've invested £3.9 million in over 1,200 local causes addressing some of the underlying issues that are fuelling rising crime across the country.

We'll continue to invest in innovative measures to keep our colleagues safe at work

We'll continue to invest in innovative measures to keep our colleagues safe at work and we're urging the government to do more to protect our colleagues through increased law enforcement and criminal justice responses.

In the autumn we supported David Hanson MP's amendments to the Offensive Weapons Bill. This would make attacks on shop workers selling age-restricted goods an aggravated offence, carrying heavier sentences. In November, we supported Usdaw's 'Respect for Shop Workers' week, hosting 48 MPs in our Co-op Food stores as part of our activity. These visits have helped MPs understand the realities our colleagues face and our determination to protect them. We've also received strong support from Co-op Party representatives.

However, we know that as well as doing all we can to protect our colleagues, we also need to use our assets to help tackle the root causes of the crime we see in our stores. We've already launched two pilots in London and Manchester to support grassroots groups who are working to help people make choices which lead them away from a life of violence and crime. We aim to develop best practice by working in partnership with local charities and other organisations to tackle the root causes of crime in our communities which we'll share with the government, MPs and other relevant groups sharing our concerns.

At the end of the year our Members' Council approved the activity to tackle crime and violence as an official Co-op campaign.

Our Safer Colleagues, Safer Communities report sets out why tackling crime against colleagues and the communities in which they live is so important to our Co-op, and shows what we'll be doing in the coming months and years.

We want to give 40,000 children a better start in life

In March 2018 we announced a huge expansion of our support for the Co-op Academies Trust with a further £3.6 million over the next four years to kick start the next phase of growth. Since then six new academies, two secondary and four primary, have joined the trust bringing the number to 18. Our ambition is to have 40 academy schools in 2022. The Trust divides the academies, which are mainly in economically deprived areas, into three hubs: Greater Manchester, West Yorkshire, and Merseyside and North Staffordshire.

The Co-op academies inspected by Ofsted in the past two years have all received at least a "good" rating. This shows the success the Trust has had in turning around the predominantly weak schools it has taken on. Radically improving attendance has been a notable achievement in the schools. In December, the influential Sutton Trust's Annual Report on the performance of academy chains showed that for the fifth year in a row the Co-op Academy Trust achieved above-average outcomes in terms of progress for disadvantaged students.

Our vision is to inspire a new generation of high-achieving, aspirational, skilled and confident young people. We continue to provide governance expertise from our business, including 50 governors who are Co-op colleagues.

Co-op Academy Failsworth

Pupils from our Brownhill Primary Academy

Pupils from Co-op Academy Priesthorpe

Looking ahead

Stronger Co-op

We know that Brexit is likely to cause us some uncertainty in 2019 and we continue to plan for the various scenarios as best we can. More information can be found in the risk management section on page 38.

Our Food business will continue to grow with more new stores planned to open in 2019, showing our commitment to the communities we serve. We'll continue with our aim to become the number one convenience retailer in the UK by achieving our 'Closer' strategy: closer to our customers through more stores, closer to the products our customers need, and closer to the causes they care about.

In 2019 we'll open more new stores and increase our reach through franchising

As well as new stores, we'll increase our reach through our expanded wholesale network and through franchising. We're innovating our formats and exploring new ways to connect with customers and members.

We'll remain focused on the things that our members and customers care about, building on our commitment to sustainability through our Future of Food programme, reducing plastics and improving the recyclability of our packaging. We've already made sure all of our palm oil is from sustainable sources and this year we'll extend that commitment to soya. We'll continue to make sure none of our products are contributing to deforestation. We'll also maintain our commitment to reducing plastic and improving recyclability of our packaging. Having launched our Future of Food ambition in 2018 we plan to take a 'one co-op' view of the whole of our business and take a consistent and holistic approach to all aspects of sustainability.

In March 2019 the Groceries Code Adjudicator (GCA) found that we had contravened the Groceries Supply Code of Practice in relation to delisting and variation of supply agreements without reasonable notice. We've sent a full apology to our suppliers following the findings and had already taken decisive steps during 2018 to ensure we treat suppliers fairly, including providing refunds to those wrongly impacted by the introduction of charges. We welcomed that the GCA found that we had not been, "malicious," or acted in a way, "intended to result in gain." You can read more about our response to the GCA report on page 96.

In the first few months of 2019 we're taking stock of the changes we've made to our Funeral business over the last few years. We're looking in more depth at the factors that are rapidly changing the marketplace with the aim of putting even greater focus on the needs of our clients and their communities.

In 2019 all of our Funeralcare services and prices will be available to view and buy through a relaunched website

We'll recover ground lost in 2018 in funerals and the sale of funeral plans and we'll continue to grow our probate services and inheritance planning by integrating them into our funeral provision. We're also looking for new ways to help clients cope with funeral costs through integrating our probate work with our funeral services and through alternative payment options including instalment plans.

We're committed to transparency and in 2019 all of our services and prices will be available to view and buy through a relaunched website. An all-channel approach to marketing and a stronger use of our Co-op brand will help us reach new clients and compete effectively against independent operators. We'll continue to focus on the needs of our Co-op members where we've seen significant growth.

In 2019 we've returned to providing a Life cover product, working with Royal London, which will cover serious illness as well as death

We'll continue to work with the Treasury on regulation of pre-need plans and with the CMA following the launch of their investigation into the funerals and crematoria markets.

Our new insurance model means we can continue to provide our members and customers with an increasing set of high quality products, which will maintain their distinctive Co-op character and difference.

In 2019 we've returned to providing a Life cover product, working with Royal London, which will cover serious illness as well as death. We've also just launched a new digital product for student renters which allows them to cover mobile phones, laptops and bikes. Our new Co-op Car Care product, covering servicing and MOTs, is now available across the UK.

Using our new Dimec digital platform we'll begin to roll-out our online repeat prescription business using part of our Lea Green depot as a distribution hub.

Stronger Communities

Connecting our communities
This year we want to move to the next phase of our support for local communities by using the data we're building through our Community Wellbeing Index. We'll be talking to more of our members to understand how we can best prioritise the three main issues that are emerging: physical and mental wellbeing, community spaces, and education and skills. We're also looking at digital ways to connect communities facing similar issues so that they can share experience, learning and solutions.

Our new Safer Colleagues, Safer Communities campaign will become our main focus in 2019

Campaigning
We'll continue to campaign on modern slavery and loneliness and look for more businesses to join our Bright Future programme. Our new Safer Colleagues, Safer Communities campaign will become our main focus in 2019. We'll build partnerships with colleagues, communities, Usdaw, the police and politicians to develop our thinking, share knowledge and strengthen our resources to tackle crime. Our aim is to start creating a best practice model that helps tackle some of the root causes of violence and crime that can then be taken up by others.

Students at our Stoke-on-Trent Academy

Co-op Academies Trust
In 2019 we aim to add a further nine schools to the Co-op Academies Trust. Connell College will be the first sixth form college to join the Trust and we'll be offering paid work experience to its students as well as guaranteed interviews for our apprenticeship schemes.

The new Director of the Trust, Chris Tomlinson, currently Regional Director (Secondary), for Harris Federation, will take up the post in the summer following the retirement of Frank Norris.

Telling our story
We're convinced that co-operative ways of doing business are relevant now more than ever, and have the ability to address many of the challenges we face in society. We want our business to be an inspiring example of a successful co-op that puts people and communities first.

In 2018 we made significant progress on our Stronger Co-op, Stronger Communities ambition. In 2019 we want to show to our members, customers and the UK public that co-operative thinking can make a significant different to their communities and the challenges we face as a nation.

So we're going to tell our story with greater clarity, conviction and emotion so more and more people understand how the Co-op brings people together and keeps them together.

Our financial performance

£10.2bn

Our sales increased in 2018 by £1.2 billion (14%) to £10.2 billion

Our sales increased in 2018 by £1.2 billion (14%) to £10.2 billion. £1 billion of this increase came from the acquisition in May of Nisa's wholesaling operations and Food added £0.2 billion of sales from excellent like for like sales growth.

Profit before tax was £93 million, up from £73 million in 2017. It's easier to understand our profit performance by breaking profit before tax into two parts. The first and most important part is our underlying profit before tax which was £43m, in line with 2017. This measure represents the core trading performance of our businesses of £107 million less underlying interest of £64 million. Underlying profit is after we have charged £60 million (2017 £61 million) returned to our members through the 5% member reward. Our underlying profit performance is discussed in more detail within the 'How our businesses have performed' section below.

The second part of our profit before tax is made of non-recurring items that don't come from trade with customers, like profits or losses on the sale of properties we no longer need for trading, or valuation changes on our debt or investment properties. These are discussed in more detail below.

We announced on 18 January this year that we'll be selling our insurance underwriting business, CIS General Insurance Limited ('CISGIL'), to Markerstudy and putting in place a long-term arrangement to distribute insurance products under the Co-op brand. The sales and profits of CISGIL are therefore not included within our profit before tax number and instead they are moved to the bottom of the income statement into the 'loss on discontinued operations' line. The loss of £230 million also includes the write-down of the net assets of the insurance business together with some costs relating to the sale. More details of the loss on discontinued operations are shown below.

How our businesses have performed

While overall underlying profit before tax was flat year on year, our Food business had an excellent year with like for like sales growth of 4.4% driving an increase of £22 million (12%) in underlying segment operating profits. This is particularly pleasing as food retail remains one of the most competitive environments in the UK economy.

Our wholesale business started this year with our acquisition of Nisa wholesaling and the additional deal we've made to supply Costcutter Supermarkets Group. The underlying loss of £11 million was in line with our expectations and includes initial set-up and acquisition costs as we deliver better products and pricing into the business.

Our funeral and life planning business had a difficult year in a market that is experiencing unprecedented rapid change. We saw a sharp drop in underlying segment operating profit, down £17 million to £25 million reflecting a reduction in the number of funerals we carried out (down 3,000, or 3%, on 2017 adjusted to a 52 week basis as 2017 was a 53 week accounting year). Sales of funeral plans were also down (12,000 fewer than in 2017 on a 52 week basis).

In contrast, other parts of the business saw significant growth, in particular probate and will writing. Also 2018 saw the successful integration of Simplify Probate which we acquired in the spring.

The way we report our funeral and life planning business results has changed from last year following the adoption of a new accounting standard, 'IFRS 15 Revenue from Contracts with Customers'. We no longer record any profit when we sell a funeral plan. Instead we only record the profit when the funeral takes place. This has reduced funeral and life planning sales and profits by around £20 million each year as currently the number of plans sold is higher than the number of plans redeemed. We have adjusted the 2017 results so that they are prepared on the same basis as 2018. More information on this change is provided in the restatements note in the General Accounting Policies section.

During 2018 we launched our 'Fuel for Growth' initiative looking at ways to drive efficiencies through changing the way our organisation is set up and how and where we spend our money. We aim to achieve annual savings of over £100 million over the programme. In 2018 this delivered around £30m of savings allowing us to invest in the business as well as reducing our costs across all business areas. Costs of supporting functions reduced by £7m in the year mainly reflecting Fuel for Growth savings.

One-off items, non-trading items and joint ventures

The table shows how we get from reported profit before tax to underlying profit before tax, adding back losses and subtracting gains.

	2018 £m	2017 £m
Profit before tax	**93**	**73**
One-off items	(9)	-
Property and business disposals	54	4
Change in value of investment properties	(38)	(15)
Finance income and non-cash finance costs	(57)	(11)
Share of (profits) from associates and joint ventures	-	(8)
Underlying profit before tax	43	43

One-off items of £9 million mainly relate to two pension items that net off to a gain of £11 million overall. A £24 million gain arising from changes in expected pension benefits is partially offset by a £13m charge for the cost of aligning guaranteed minimum pensions following a recent High Court judgement affecting a large number of pension schemes.

The £38 million gain in the value of our investment properties included £25m on three sites, two where planning permission was received and one that was sold for a development opportunity. The remaining increases arose from the year end valuation exercise.

Property and business disposals are shown below:

	2018 £m	2017 £m
Write down of assets on loss making stores	(12)	(7)
Property and business disposals and closures	(42)	(9)
NOMA joint venture sale	-	12
	(54)	(4)

Property and business disposals and closures include costs of £8 million relating to the closure in 2019 of Co-op Electrical and a provision increase of £26 million for rent and other holding costs arising from leases we are committed to on buildings that we no longer use.

Last year's results also included a £12 million profit from our investment in NOMA, a property joint venture to redevelop a number of ex Co-op buildings and sites in central Manchester in which we had a 50% share. We sold our stake in NOMA at the end of 2017.

Finance income and non-cash finance costs

The table below shows what we include in finance income and non-cash finance costs, excluding the underlying finance interest of £64m in both 2018 and 2017.

	2018 £m	2017 £m
Pensions interest	**41**	42
Fair value movement on quoted debt	**37**	(11)
Fair value movement on interest rate swaps	**(11)**	(12)
Other non-underlying interest	**(10)**	(8)
Finance income and non-cash finance costs	**57**	11

The main difference in our financing costs from 2017 is the fair value movement on our quoted debt. The fair value movement depends on the market value of some of our debt and so can be income or a cost depending on what is happening in the financial markets. In 2018 this was income of £37 million whereas in 2017 it was a cost of £11 million.

During the first half of 2018, we adopted a new accounting standard, IFRS 9 Financial Instruments. The main impact of this relates to how we value our quoted Eurobond debt. Previously this was revalued every month according to its value in the financial markets. With the adoption of IFRS 9 we now record some of this debt (the portion that is not matched by interest rate swaps) at 'amortised cost'. Amortised cost means we don't revalue the debt every month. We aren't required to restate last year's accounts for the IFRS 9 change and so they aren't directly comparable. You can find out more about this change on page 192.

Other non-underlying interest mainly relates to discount unwind in the year. Discount unwind is explained in the jargon buster at the back of this report.

Loss on discontinued operations

We announced the sale of our insurance underwriting business, CIS General Insurance Limited ('CISGIL'), to Markerstudy in January this year. In November 2018 our Board gave us the go ahead to explore the sale in detail with Markerstudy and at that point CISGIL became classified as a 'discontinued operation' in the accounts. This means that we no longer treat CISGIL as an ongoing business operation of Co-op and its results are not included within profit before tax but instead shown at the bottom of our income statement within the 'loss on discontinued operations' line.

At the point CISGIL became classified as discontinued, we are required to write down the value of its net assets to the amount we expect to receive when we sell it. We agreed a price of £185 million for the sale of CISGIL (£150m payable on sale and £35m deferred). As part of the sale we put in place a long term distribution arrangement for home and motor products marketed under the Co-op brand. Once the arrangement completes Markerstudy will underwrite Co-op insurance products, as well as looking after the sales and service and claims handling. These products will be marketed and distributed by Co-op.

In accounting for the sale we treat the £185 million proceeds as being £84 million for the distribution arrangement and £101 million for the net assets of CISGIL. The £84 million of value from the distribution arrangement can only be recognised once the sale completes and therefore the impairment of £207 million shown in the table below does not reflect £84m of value in the deal for Co-op.

The £29m trading loss in the year was largely caused by the impact of the significant weather event the 'Beast from the East' in early 2018 that increased the cost of home and motor claims.

The analysis of the amounts included within loss on discontinued operations is shown below.

Impairment of CISGIL net assets:	2018 £m	2017 £m
Agreed sale proceeds (including £35m deferred consideration)	185	
CISGIL net assets at date it became discontinued	(263)	
	(78)	
Less:		
discounting of deferred consideration and other adjustments	(2)	
legal and professional transaction costs	(13)	
IT and migration costs	(30)	
deferred income attributable to distribution arrangement	(84)	
Impairment	**(207)**	
Trading losses of CISGIL in the year	(29)	(21)
Tax	6	4
Total loss on discontinued operations	**(230)**	(17)

The proposed sale will generate £125m cash for Co-op as shown below:

	£m
Sale proceeds (including £35m deferred consideration)	185
Less:	
legal and professional transaction costs	(13)
IT and migration costs recognised in 2018	(30)
Future migration, exit and support costs	(17)
Net cash	**125**

Financing and cashflow

Net debt was £792 million at year end up from £775 million last year (details of what is included in net debt are provided in note 20).

The £775 million of net debt in 2017 included £74 million of CISGIL debt that in 2018 has been transferred into liabilities held for sale. The like for like increase in debt is therefore £91 million and this reflects our investment in the business, particularly arising from the Nisa acquisition on 8 May 2018. We acquired £65 million of Nisa debt and paid £26 million of consideration in 2018 with a further £108 million (pre-discounting) payable over 4 years as explained in note 34. As we realise all of the buying and working capital benefits the impact of the acquisition on debt will be minimal.

We invested £414 million of capital expenditure in 2018 principally on Food refits (£93 million) and new stores and extensions (£92 million). We also invested £43 million in our funerals business and £67 million in technology mainly upgrading IT systems to improve supply chain and service to stores in the Food business. This capital spend was partly funded by £81m of cash from disposals, mainly property sales.

Underlying interest payable was flat year on year at £64 million.

The Trading Group is comfortably within the ratios of debt and interest agreed with our banks and our funding position is strong. A £450m tranche of our Eurobond expires in July 2020, our intention was to partially re-finance this bond but the on-going uncertainties around Brexit has meant we have not been able to access the capital markets to issue a bond at a pricing level we would be comfortable with. As an alternative approach we have reached an agreement with our banks to provide a £180m liquidity facility to provide us with additional headroom. We will continue to monitor the markets and will look to issue a bond depending on market conditions.

Tax

We won't be paying corporation tax in respect of the year because we've brought forward capital allowances and tax losses in excess of the taxable profit. These allowances and losses are explained in more detail in notes 8 and 14. In 2018 we paid £196 million (2017:£201 million) to the government in respect of VAT, business rates, Stamp Duty Land Taxes and Employers' National Insurance.

We retained the Fair Tax Mark accreditation in 2018 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/.

Pensions

The surplus on our pension schemes on an accounting basis increased by £300 million from £1.5 billion to £1.8 billion. The main reason for the increase is that the interest rate used to discount and value the pension scheme liabilities has increased from 2.6% to 3% which reduces the valuation of the liabilities. The interest rate we use is advised by our actuaries and is linked to the same market data every year so is consistently applied.

It's important to remember that the way we value our pension scheme for our accounts is determined by accounting rules and is different to the way the pension trustees have to value the scheme (the 'funding valuation'). The latest funding valuation of the PACE scheme, which is by far the largest scheme, was carried out at 5 April 2016. It showed a funding level of 103% and a surplus of £251 million. We don't pay any contributions into PACE because it is in surplus but we have some smaller schemes in deficit into which we are currently paying £50 million per annum.

During 2018 we completed the legal 'sectionalisation' (effectively separation) of the pension assets and liabilities of PACE between those relating to the Co-operative Bank and those relating to the Group. This was a major achievement being one of, if not the, largest pension scheme sectionalisations ever completed.

Balance sheet

Our total equity increased by £54 million to £3.1 billion with the main changes being the £300 million increase in the pension valuation partly offset by the £207 million write down of the net assets of the insurance business discussed in the discontinued items note earlier.

The assets and liabilities of the general insurance business were reclassified as held for sale on our balance sheet as a result of the decision to sell the business. This means that the assets and liabilities for 2018 are no longer split out on the balance sheet but are included within two lines 'assets held for sale' of £1.1 billion and 'liabilities held for sale' of £1 billion. The 2017 balance sheet comparatives for CISGIL are not restated so that's why there is a large year on year reduction in other investments and insurance contracts

Contract liabilities have increased by almost £200 million to £1.48 billion. These relate to funeral plan sales and represent the value of the future funeral we will perform for the plan holder. The increase represents the value of new plans sold in the year less plans redeemed. The increase in liabilities is matched by corresponding increases in funeral plan investments, shown within 'Other investments' in the balance sheet, and increases in instalment debtors (included within 'Trade and other receivables') where customers pay by instalment rather than lump sum. Note 13 shows that we have a healthy surplus of funeral plan investments above the cost of delivering those funerals for the plan holder.

Intangible assets increased largely as a result of the acquisition of Nisa which added goodwill of £75 million and other intangibles of £47 million. More details of the acquisition are shown in note 34 to the accounts.

Outlook

We have made great progress in 2018 but there's no doubt 2019 will be challenging with Brexit uncertainty, intense competition in Food retail and a rapidly changing funerals market. However we are well-placed to meet these challenges. Our Food business continues to deliver strong sales and we have exciting new businesses opportunities we believe can grow rapidly with limited capital investment.

Key performance indicators (KPIs)

Financial KPIs

Why are these measures important?
A profitable business and financial stability is essential in helping our Co-op meet its plan for Stronger Co-op, Stronger Communities which our Chief Executive talks about on page 6. It's important to get the right balance between the returns to members and reinvesting in our Co-op for future growth.

More information on our financial performance can be found on page 32.

Note that 2017 numbers have been restated for the accounting standard change IFRS 15 and because the results of Insurance are now shown in the "discontinued" line on the income statement which is below profit before tax. The notes to the accounts have more details of these changes.

Underlying profit before tax
£43m
2017: £43m

Underlying operating profit (see below) less underlying interest

Total revenue
£10.2bn
2017: £8.9bn

Net revenue as shown in the consolidated income statement (page 107)

Underlying operating profit
£107m
2017: £107m

A measure of underlying profit before one-off items and gains or losses on disposals of assets (see note 1 for more details on how it's calculated)

Operating profit
£100m
2017: £118m

Operating profit as shown in the consolidated income statement (page 107). Includes the underlying operating profit of our businesses as well as one-off items and gains or losses on disposals of assets

Net debt
£792m
2017: £775m

Bank loans and borrowings less the cash we hold

Profit before tax (continuing*)
£93m
2017: £73m

Total profit (or loss for the year) from continuing operations before taxation

* The loss on discontinued operations of £230m relating to the proposed sale of our insurance underwriting business is shown below profit before tax

Colleague KPI

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

More information on colleague engagement can be found on page 20.

Colleague engagement is measured by our annual Talkback survey

Membership and Community KPIs

Why are these measures important?
Membership and community are at the heart of what we do as a co-op. What we measure shows us how well we're doing at connecting with members and providing them with products and services they really value. The returns made to members and their communities through the 5% and 1% are one way in which our Co-op shares value.

Active members
4.6 m
2017: 4.6 million

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

5% reward earned by members
£60m**
2017: £61m

The amount members earned for themselves through the 5% Membership offer on own brand products

1% reward earned for communities
£12m
2017: £13m

The amount members earned for local communities through the 1% membership offer on own brand products

Member sales in Food
33%
2017: 33%

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

** In 2018 we changed the way members received a reward on arranging a funeral, offering a discount on the price of the funeral as opposed to members receiving a 5% reward credited to their membership account.

Risk management

Making sure we deliver a Stronger, Safer Co-op

We're creating a 'One Co-op' culture where all colleagues share responsibility for identifying and responding to risk and making decisions that fit with Co-operative Values and Principles. Dealing with risk in the right way means we continue to create value for our members and communities – delivering our objective of Stronger Co-op, Stronger Communities. Our risk management framework gives colleagues a consistent and robust method for identifying and managing risks.

Our risk management foundation

Governance

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

Policies and control standards

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

Risk Appetite

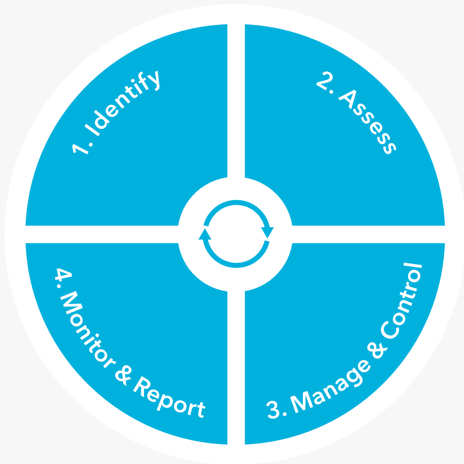
- Our tolerance for risk is considered for our Co-op as a whole and by risk category.
- The Executive, with the support of senior leaders, strives to take decisions in line with our risk appetite.

Roles and responsibilities

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

Our approach to risk

We have a four-step approach which helps our leaders and colleagues to recognise and manage risk as part of their day-to-day roles.



Identify
We identify the key risks, both internal and external, that could impact our business by using our experience, judgement, policies and standards.

Assess
We assess the likelihood and impact of the risks we identify by looking at the way we run our projects and change programmes. We also consider the potential financial and reputational outcomes to our Co-op.

Manage and Control
Our Board, Executive and senior leaders manage the impact of risks to our business by making sure that the appropriate controls and resource are in place.

Monitor and Report
Reports are regularly provided to our Business Risk & Assurance, Executive Risk, and Risk & Audit Committees to help with the monitoring of risks. Business unit and enabling functions review management Information to assess if our risk responses are progressing as intended.

Our risk appetite

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

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

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

Operational
Our processes, systems and ways of working must meet the needs of our colleagues, members and partners with minimum disruption tolerated.

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

Our Ethical Behaviours
Co-operative Values and Principles are at the centre of our approach to business and how we engage with our communities, members and colleagues. We balance the level of risk we take in our business decisions with our ethical values.

Our Risk Plan

In 2018 we made good progress in strengthening our approach to risk management with risk increasingly becoming a part of our culture.

This included implementing our enhanced risk management framework, policies and control standards, rolling out Co-op wide training and formalising our thinking on risk appetite.

Our 2019 continuous improvement plan focusses on:

- ✓ Increasing the ease, ability and capability of our colleagues to manage risk across our Co-op.
- ✓ Embedding risk and risk appetite considerations into our strategic and operational decision making.
- ✓ Joining up how colleagues manage risk on a daily basis to our internal control framework.

How we manage risk

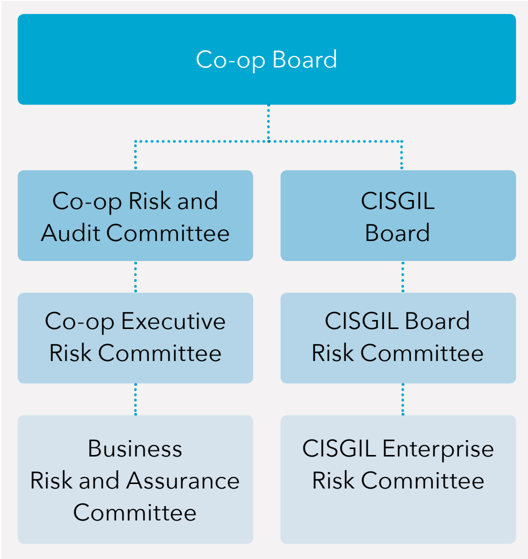
Our Board regularly looks at the principal risks and monitors management's plans. In 2018, the Risk and Audit Committee (RAC) and Executive Risk Committee (ERC) met regularly to look at the risks affecting our Co-op and have made a robust assessment of the principal risks and the activity undertaken by management to mitigate these.

Read more about our principal risks and uncertainties on Page 41 - 42 ⟶

The ERC considers the principal risks to our strategy and our Co-op as part of our annual planning exercise. This includes an evaluation of the current and target risk status. The impact of emerging risks and external events are considered on an ongoing basis and their impact on the principal risks are revised as required. The impact and likelihood of each principal risk and Management's progress delivering agreed response plans were regularly assessed.

Members of the Executive management team are individually responsible for managing the principal risks and the responses to mitigate those risks with the support of a senior leader. Senior leaders drawn from each business unit and key support functions form the Business Risk and Assurance Committee (BRC). The BRC has delegated responsibility from the ERC for managing the delivery of mitigation plans and assessing emerging risks.

Our risk governance structure



How have our principal risks developed?

Our strategic and business risk increased during 2018 driven mainly by the uncertainty around Brexit. The risk profile of our other principal risks has either improved or remained stable during the year.

Brexit deal or Brexit no deal

Development in 2018

The impact of a Brexit deal/no deal has been reassessed against the backdrop of no clear direction from the government on which shape Brexit will take. Given its significance to the structure of the UK economy and possible impact on key parts of our business, we have made our plans on the basis of a worst case no deal scenario with a disorderly exit from the EU. Our analysis is that the largest immediate impact will be to our Food business:

- Movement of goods – stock availability is of critical importance to our customers and members.
- Increased cost of goods – with the impact on our profitability being dependent on our approach to moving retail prices if cost prices increase.
- Security of labour supply – our latest nationality data shows that c.6% of our colleagues are from the EU. We're helping these colleagues as much as we can, and making sure we have the people needed to continue operations.
- Changes to imports, taxes and tariffs – we are applying for Authorised Economic Operator status from HMRC to make importing goods easier in the event of no deal.

Our response

- Brexit Steering Group meeting comprising senior leaders from each business unit and key corporate functions.
- Mitigating plans developed including contingency planning and alternative supply route arrangements.

Read more about our principal risks and uncertainties on Page 41 - 42 ⟶

Emerging risks

As well as understanding the risks that we have already identified and evaluated, it is also important to look forward to identify any new emerging risks that may impact us. The following emerging risks are being monitored:

- Changing regulations in the food and drink sector which are expected to place restrictions on the promotion of food with high fat, salt and sugar content.
- Regulatory changes in the funeral industry.
- Readiness to respond to increased automation and artificial intelligence in our industries.

Principal risks and uncertainties

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

Change

Responsible Exec: **Deputy Chief Executive** | Risk Category: **Strategic and Business** | Risk profile: **Stable**

Risk description	Reasons for risk	What we do	What has changed	What we plan to do
Our Stronger Co-op, Stronger Communities plan needs us to make changes in the way we operate. If our plans are not delivered in an effective way, we will not be able to see the benefits of our change programmes.	• Number and complexity of change programmes • Available resources • Dependencies between change programmes • Cost of change	• Robust governance across all programmes • Regular review of transformational programmes, dependencies and milestones • Colleague training and awareness on managing change activities	• The Executive Team carried out an exercise to prioritise the change programme across the business for 2019	• Review available resources and dependencies • Ensure consistent application of change framework across all programmes

Brexit & other market conditions

Responsible Exec: **Chief Executive Food** | Risk Category: **Strategic and Business** | Risk profile: **Increased**

Risk description	Reasons for risk	What we do	What has changed	What we plan to do
Brexit and its potential impact on the UK economy poses a major threat to our Food business	• Uncertainty • Structural changes to the economy • Availability and access to labour • Supply chain pressure	• Identified key risks and potential impact from Brexit • Brexit Steering Group in place • Engagements with industry working groups	• Regular governance and oversight meetings • Scenario analysis and supply chain assessments	• Secure Authorised Economic Operator status to speed up border checks • Supplementary foreign currency hedging • Impact assessment on non-UK Colleagues of a no deal Brexit

Competitiveness

Responsible Exec: **Deputy Chief Executive / Chief Executive Food** | Risk Category: **Strategic and Business** | Risk profile: **Increased**

Risk description	Reasons for risk	What we do	What has changed	What we plan to do
The competitive landscape in which we operate means that we need to monitor our market share and competitor behaviour to remain viable and innovative.	• New entrants and market competition • Innovation and market disruptions • Pricing pressures • Market cost pressures • Inefficiencies in our operations	• Strategic planning and budgetary monitoring processes • Market Intelligence teams in place • Frequent assessment of external conditions • Extensive due diligence for all acquisition activity	• We have fully incorporated our Nisa operations and Simplify Probate into our business as usual activities • Invested in infrastructure, technology and standards in Funeralcare • Invested in food pricing, opened over 100 new stores and our first Franchise store • Reviewed and improved our ways of doing business	• Improve governance and oversight of new activities and ventures across our business • Monitor financial benefits versus target for ventures and investments in associates • Design and implement the new Co-op IT Operating Model • Continue to evolve our member proposition

Ethical Framework

Responsible Exec: **Chief Membership Officer** | Risk Category: **Brand & Reputation** | Risk profile: **Decreased**

Risk description	Reasons for risk	What we do	What has changed	What we plan to do
We set ourselves high standards for responsible retailing and service and speaking out on the issues that matter to our members. If we don't meet those standards, there's a potential risk to our reputation.	• Living up to Co-operative Values and Principles • Expectations of members, customers and colleagues • Diverse nature of our businesses, product and partners	• Campaigning on key issues like tackling loneliness, and modern slavery • Reporting on our priorities and progress through our Co-op Way report • Ethical sourcing process • Ethical Decision Making Tool used to assess our activities and help make better decisions	• Further embed the Ethical Decision Making Tool • First business to sign the Anti-Slavery International Charter • Signed up to the new global Fairtrade Charter • 'Safer Colleagues, Safer Communities' campaign launched tackling crime against colleagues	• Further embed ethical and sustainable policies and ensure that standards are considered in decision making

Revenue Targets

Responsible Exec: **Deputy Chief Executive / Chief Executive Food** | Risk Category: **Finance & Treasury** | Risk profile: **Stable**

Risk description	Reasons for risk	What we do	What has changed	What we plan to do
The environment for our core businesses is increasingly challenging, adding further pressure to growth targets within business plans.	• Consumer confidence and changes in spending patterns • Price competition • Competitor activity • Product and service availability	• Monthly market share, position and competitor analysis • Sales monitoring and reporting • Formalised horizon scanning process • Agile promotions and marketing responses	• Expanded our wholesale offering through the acquisition of Nisa. • Completed the acquisition of Simplify Probate	• Continuous review of our products and services to ensure customer and financial objectives are met • Expand our reach through physical locations, channels and services that deliver a compelling proposition for customers and members

Pension Obligations

Responsible Exec: **Chief People Officer** | Risk Category: **Finance & Treasury** | Risk profile: **Decreased**

Risk description	Reasons for risk	What we do	What has changed	What we plan to do
The measurement of our Defined Benefit liability is sensitive to changes in a number of factors. Adverse movements could result in lower pension surplus and may need our Co-op to pay additional contributions.	• Changes in interest rates • Changes in inflation expectations • Changes in expectations of future life expectancy	• Established Pension Strategy Committee to manage our pension risk exposure • Regular monitoring of funding and risk positions • Assess key assumptions used in the pension calculation • Review advice provided by internal and external actuaries	• Significant de-risking of our pension investment portfolio with more hedging against interest rates and inflation increases and, less held in equity shares	• Continuous review of pension surplus and obligations and assessment of changes in regulation and external factors

IT & Cyber threats

Responsible Exec: **Chief Finance Officer**		Risk Category: **Operational**		Risk profile: **Stable**
Risk description	**Reasons for risk**	**What we do**	**What has changed**	**What we plan to do**
We hold data on our colleagues, customers, members and partners. We are reliant on technology to deliver our business operations so theft of data or a cyber-attack could significantly disrupt our operations.	• Custody of valuable data • Reliance on technology • Sophisticated and diverse cyber threat landscape • Data privacy and data protection regulations • Colleague, member and customer confidence • Processing of data through third parties	• Specialised Information Security team giving guidance and oversight • 24 hours threat monitoring capability • Patch management and penetration testing • Supplier security due diligence and assurance, and regular testing for security weaknesses	• Actively reduce vulnerabilities through patch management and penetration testing • Improved identify and access management	• Continuous implementation of enhanced security and access controls • Cyber and security Improvement programmes

People

Responsible Exec: **Chief People Officer**		Risk Category: **Operational**		Risk profile: **Decreased**
Risk description	**Reasons for risk**	**What we do**	**What has changed**	**What we plan to do**
Our ability to attract and retain colleagues with relevant skills and experience is important to achieving a strong, competitive Co-op. We need to continue to recruit talent and to invest in our colleagues.	• Selection and assessment process • Talent attraction • Need for greater diversity	• Co-op wide talent management and succession review • Colleague Team Member resourcing and support tool to improve the quality of candidate selection • Implementation of Diversity & Inclusion Strategy	• Embedded our Diversity and Inclusion governance • Launched colleague development framework • Talent Management Review Plan implemented	• Assessment of senior leader capability and performance • Expand our training for all managers and managers of managers

Misuse and/or loss of data

Responsible Exec: **Chief Finance Officer**		Risk Category: **Operational**		Risk profile: **Decreased**
Risk description	**Reasons for risk**	**What we do**	**What has changed**	**What we plan to do**
We hold personally identifiable data on our colleagues, customers, and members. We need to make sure we protect and manage this data.	• Member, colleague and customer confidence • Data privacy and data protection regulations • Information processed on our behalf by third parties	• Dedicated Information Security, and data protection teams to give guidance and oversight • Role specific training packages to manage data protection risks • Data Protection Impact Assessments for any new systems, processes or business activities	• Successfully delivered GDPR Programme to address areas of non-compliance • Improved our data-related operating model, with additional roles and governance structures • Rolled out GDPR training to all colleagues	• Continue to improve to the way we protect and manage data along with its quality • Strengthen central expertise and oversight

Health & Safety

Responsible Exec: **Chief Finance Officer**		Risk Category: **Operational**		Risk profile: **Stable**
Risk description	**Reasons for risk**	**What we do**	**What has changed**	**What we plan to do**
Faced with a rise in violent and abusive crime, and busy retail environments, we need processes in place to protect our colleagues, members, customers and visitors to our premises.	• Keeping our colleagues, members and customers safe • UK Health & Safety Legislation • Complexity of our business	• Co-op Safety Framework in place including minimum safety standards and clear roles and responsibilities • Safety Governance Committee in place with representatives from across the business • Oversight, challenge and assurance of Health & Safety data and compliance including reporting mechanisms	• Changed our Health & Safety operating model • Launched a new Health & Safety accident and incident management system • Launched 'Safer Colleagues, Safer Communities' campaign	• Increase challenge and oversight of our Health & Safety framework and Co-op Minimum Safety Standards across all business areas • Enhanced training and awareness at all levels including the Executive • Review crime and security data and compliance

Supply chain interruption

Responsible Exec: **Chief Executive Food**		Risk Category: **Operational**		Risk profile: **Stable**
Risk description	**Reasons for risk**	**What we do**	**What has changed**	**What we plan to do**
Failure to create the network capacity needed for future growth or an extended supply disruption event could significantly affect the availability of products and services in our stores resulting in loss of sales.	• Pace of business growth • Efficiency of logistics network process, infrastructure and resource capacity • Unpredictable external events like severe weather	• Established Business Continuity programme and incident management processes • Regular testing of IT service levels to ensure resilience to external sources of disruption	• Programme of activity to assess the level of risk management and business continuity within our supply base • Completed enhanced 2018 Disaster Recovery Testing programme for critical services • Supply chain volume controls	• Deliver expanded network capacity • Implement mandatory supplier checks and monitoring • Continue Brexit planning with suppliers including stock building to reduce potential impact

Regulatory Compliance

Responsible Exec: **Group Secretary and General Counsel**		Risk Category: **Regulatory & Compliance**		Risk profile: **Stable**
Risk description	**Reasons for risk**	**What we do**	**What has changed**	**What we plan to do**
Our Co-op is subject to laws and regulations across its businesses. Failure to respond to changes in regulations or stay compliant could affect profitability and our reputation through fines and sanctions from our regulators and affect our licence to operate.	• New and updated regulations • Codes and regulations that apply to our Food business including the Groceries Supply Code of Practice and product safety regulations • Regulations for our new venture businesses	• Oversight and assurance of compliance with Groceries Supply Code of Practice including reporting • Compliance Monitoring Officers in place • Established compliance teams in our regulated business • Processes and procedures to identify and manage regulatory compliance.	• In 2018, the Groceries Code Adjudicator opened an investigation into two practices relating to suppliers. In response we compensated affected suppliers, retrained colleagues and strengthened our compliance activities • The Competition and Markets Authority has launched an investigation into the funerals market and the Treasury has consulted on regulation of pre-need funeral plans	• Improve our systems and processes to ensure compliance with the Groceries Supply Code of Practice and other legislative requirements • Readiness for potential changes to regulation of the Funeral Industry

Governance report

Contents

Governance report

Board biographies

Allan Leighton

Chair
Appointed as Independent Chair on 19 February 2015

Committee membership
Nominations Committee (Chair)

Skills and experience
Allan has held many high profile roles, including Chief Executive of Asda from 1996 to 2000, and Non-Executive Chairman of Royal Mail from 2002 to 2009. Allan is currently the Chairman of Entertainment One Ltd, Canal & River Trust, Element Limited, AllBright (the all women club) and a Non-Executive Director of The Restaurant Group PLC.

Steve Murrells

Group Chief Executive
Appointed as an Executive Director on 1 March 2017

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

Ian Ellis

Chief Finance Officer
Appointed as an Executive Director on 6 April 2016

Skills and experience
Ian joined our Co-op as Chief Finance Officer in 2015. Previously Ian was CFO for Wilko for nearly eight years and before that held a number of senior finance positions at Morrisons and Northern Foods PLC. Ian is a member of the Board of Governors at Nottingham Trent University. Ian is stepping down as CFO and as an Executive Director at our 2019 AGM.

Lord Victor Adebowale, CBE

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

Committee membership
Risk and Audit Committee

Skills and experience
Victor is the CEO of the charitable social enterprise Turning Point Health & Social Care. He has been involved in a number of independent commissions advising governments on mental health; learning disabilities; the role of the voluntary sector; policing and stop and search; policing and mental health; housing policy; the future of public services; employment/skills and race and equalities.

He is currently founding chair of Collaborate CIC; Director of Leadership in Mind, Non-Executive Director of NHS England; Director at IOCOM; Chair of Urban Development music charity; Chair of Social Enterprise UK; a visiting professor and Chancellor of University of Lincoln and a Court member of the London School of Economics.

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

Board biographies continued

Hazel Blears

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

Committee membership
- Nominations Committee
- Risk and Audit Committee

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

Hazel's other roles include being Chair of the Social Investment Business Foundation and Chair of the Institute for Dementia at Salford University. Hazel is also a Trustee of the Social Mobility Foundation.

Simon Burke

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

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

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

Simon is a Chartered Accountant and is currently a Non-Executive Director for the BBC, a Director of The Light Cinemas (Holdings) Limited, Blue Diamond Limited and Non-Executive Chairman for Bakkavor Group PLC. Simon was previously Chair of both BathStore and Hobbycraft, and CEO for Virgin Retail, Virgin Cinemas and Virgin Entertainment Group.

Margaret Casely-Hayford, CBE

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

Committee membership
Remuneration Committee

Skills and experience
Margaret is a qualified lawyer of 30 years standing, was the Director of Legal Services for the John Lewis Partnership for nine years and on the Board of the British Retail Consortium for four years to 2014. During her term on the Board of NHS England she was one of the directors who promoted and championed 'NHS Citizen', the new listening structure for the NHS that enables proper consultation and collaboration. Margaret is currently Chancellor of the University of Coventry, a panel member on the British Council Review, Challenge Panel, Chair of Shakespeare's Globe Theatre and is an advisor to a number of young social enterprises.

Paul Chandler

Member Nominated Director
Elected as a Member Nominated Director on 16 May 2015 and re-elected in 2017.

Committee membership
Risk and Audit Committee

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

Board biographies continued

Sir Christopher Kelly

Senior Independent Non-Executive Director

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

Committee membership

- Remuneration Committee
- Nominations Committee

Skills and experience

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

Rahul Powar

Independent Non-Executive Director

Appointed as Independent Non-Executive Director on 23 July 2018.

Skills and experience

Rahul is the founder and Chief Executive of Redsift, an open platform delivering products that prevent cyber-attacks. Prior to Redsift, he founded Apsmart which was bought by Thomson Reuters Corporation in 2012. At Thomson Reuters he served as the Head of Advanced Products & Innovation. Previous roles include being part of the founding team and principal technical architect of Shazam. Before the launch of the iTunes AppStore, he designed and created the first Shazam iPhone App.

Stevie Spring, CBE

Independent Non-Executive Director

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

Committee membership

Remuneration Committee (Chair)

Skills and experience

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

Stevie's portfolio currently includes chairing the technology company, Kino-mo and the charity Mind. Stevie was named in the Sunday Telegraph/ Debretts 2017 list of Britain's 500 most influential people, and in 2017 was awarded a CBE for services to charity.

Gareth Thomas

Member Nominated Director

Elected as a Member Nominated Director on 20 May 2017.

Committee membership

- Remuneration Committee
- Nominations Committee

Skills and experience

As Retail Director for John Lewis for ten years, Gareth led the business through a huge cultural change. After completing a 30 year career at John Lewis in 2010, he worked for no financial reward for several years as a Trustee in the not for profit sector, including as Deputy Chairman of Save the Children and as a Trustee at TATE; Chairman of Tate Enterprises Ltd and Trustee of the American Museum in Britain. He is currently Non-Executive Director of Share PLC Group, Chair of Waterside Holiday Group Ltd and Chair of Arnolfini Gallery Limited.

Executive biographies

Steve Murrells

Chief Executive
See Board Biographies

Matt Atkinson

Chief Membership Officer
Matt joined our Co-op in January 2018 as Chief Membership Officer (CMO).

Prior to joining our Co-op, Matt was CMO for SAGA where he helped transform them into a digital organisation, winning new customers and entering new markets. Before SAGA Matt held senior marketing and digital roles at Tesco, P&G and a variety of global media agencies

Ian Ellis

Chief Finance Officer
See Board Biographies

Helen Grantham

Group Secretary and General Counsel
Helen joined as Group Secretary in January 2016 and took on the additional role of General Counsel in July 2017. Helen qualified as a solicitor in 1989 and prior to joining our Co-op she held a number of roles as General Counsel and Company Secretary for listed companies across a range of industries, most recently for Dixons Carphone PLC.

Helen Webb

Chief People Officer
Helen Webb became Chief People Officer in April 2017 having previously been the HR Director for Food. Prior to joining our Co-op, Helen held a variety of senior roles for FTSE 100 companies including Sainsbury's, Marks and Spencer and Aviva. She's passionate about diversity and is a strong women's advocate, winning an 'Everywoman Retail Ambassador' award in 2015.

Jo Whitfield

Chief Executive, Food
Jo joined Co-op as Finance Director of Retail in 2016 and is now Chief Executive of Food. Prior to this, Jo was with Asda for eight years and held senior leadership roles at George and General Merchandise.

Jo is a qualified Chartered Accountant having trained with Ernst & Young and subsequently moved into industry. Throughout her career she has worked across various industry sectors and held leadership roles with businesses such as Northern Foods, GE Capital and Matalan. Jo is passionate about inclusion and helping women reach their full potential, being an Ambassador for Girls Out Loud, and is a founder of the Grocery Girls network. Jo is also an executive sponsor for Aspire, our internal women's network.

Pippa Wicks

Deputy Chief Executive
Pippa joined Co-op in 2014 on an interim basis from the business consultants AlixPartners where she co-founded the firm's European operations in 2003. In April 2016 Pippa joined as permanent Chief Operating Officer and in March 2017 was appointed Deputy Chief Executive. She continues to Chair AlixPartners' UK turnaround and restructuring business. Prior to joining AlixPartners, Pippa was CEO of FT Knowledge, a division of Pearson PLC, Group CFO of Courtaulds Textiles PLC and a senior manager with Bain & Company strategy consultants. While at AlixPartners, Pippa took on a number of interim CEO and COO positions at UK and European companies.

Governance review

Chair's Overview

We are the largest consumer co-operative in the UK, with a unique governance structure, and this year we celebrate the 175th anniversary of the birth of the consumer co-operative movement.

We exist to meet the needs and concerns of you, our millions of members, who both own us and have a say in how we are run.

Co-operative Values and Principles are at the heart of everything we do. They apply not just to us but are a common thread which runs throughout the global co-operative movement. We apply those principles in a way which gives back to our members and their communities and creates profitable businesses which can compete successfully in their markets.

Governance Structure

Our Co-op is a large and complex organisation and it needs a governance structure which works both in this environment and for a co-operative. Our new governance structure was put in place in 2015 and following a review, we know it is still as relevant today. Our Board's job, with the support of our Executive and thousands of colleagues, is to create value for our members in the broadest possible way.

Our Members' Council, which is 100 strong, acts as your representatives, holding our Board to account for how the business performs and how we act in line with Co-operative Values and Principles.

We also have certain matters which our members need to decide on themselves, on a "one member, one vote" basis.

Our Board comprises two Executive Directors (EDs), six Independent Non-Executive Directors (INEDs) – of which I am one and four Member Nominated Directors (MNDs). All directors are elected by our members – our EDs and INEDs after first being appointed by our Board – and MNDs are directly elected by our members meaning they have a strong connection with our membership.

No other UK co-operative or listed company has a governance structure like ours. We feel it gives us a board with the necessary skills to run the business, whilst staying in touch with the views of our members.

Decision making

Our members are central to our thinking. When our Board considers a decision of substance, we use what we call the Ethical Decision Making Tool, which challenges us to look at what our members would think, whether it creates commercial and social value for our members, the impact on our communities and whether our members would understand what we have done and why. We also consider any input we have had from the Members' Council.

Member Engagement

Under Nick Crofts' leadership as President, we have continued to have a healthy balance of support and challenge from our Council. An example of this was when we were considering the future of our insurance underwriting business. Council always show their passion for our Co-op, our members and our colleagues and we value the engagement and contributions made.

In December 2018 we were also delighted that the Members' Council agreed to support our campaign Safer Colleagues, Safer Communities, to tackle retail crime. This campaign will add to the work we are already doing in the areas of modern slavery and loneliness.

At the AGM in 2018, as well as voting for the Directors who were standing for re-election, our members supported motions to approve changes to our Rules (relating to terms of office for INEDs and MNDs); to maintain our leadership position in identifying and reducing the sources of plastic pollution and maximising the recyclability of packaging; and to review the impact of our advertising policy. There'll be an update on progress in these areas on our website.

At the AGM in 2019 we'll be asking you to vote on the usual motions relating to Directors, auditors and political donations and we'll also be asking you to vote on our Executive Pay Policy and to support our campaign on Safer Colleagues, Safer Communities. You will also have the opportunity to have your say on the two motions proposed by our Members' Council on responsible sourcing and our continued commitment to Fairtrade. Please vote – it lets us know what you think.

Looking forward

We have some exciting initiatives across all our businesses for 2019 and I'm looking forward to working with our Board to make these a success.

Board Changes

Let me take this opportunity to thank Peter Plumb who stepped down from our Board at the AGM in May 2018. Peter's knowledge and commercial insight was invaluable and complemented the skills on our Board. We continue to look for his successor.

I was also delighted to welcome Rahul Powar to our Board, who brings great knowledge and experience from the digital and tech industry and who has already started to help shape our Board's thinking in these areas.

We were also very pleased that both Hazel Blears and Margaret Casely-Hayford were re-elected as MNDs, Hazel for three years and Margaret for two years following changes to our Rules.

Allan Leighton
Chair

Compliance with the UK Corporate Governance Code (July 2018 version) published by the Financial Reporting Council ('the UK Code')

The Financial Reporting Council published the latest version of the UK Code together with its revised guidance on Board Effectiveness in July 2018. These changes take effect for financial years starting on or after 1 January 2019, and formally only apply to large companies with traded shares. Our Co-op is registered under The Co-operative and Community Benefit Societies Act 2014, is a consumer co-operative which is owned by its members and has listed debt instruments with the UKLA. As such, it is not required to comply with the UK Code. We believe however that good governance and transparency is key to running a good business, so we have decided that it is the right thing for our Co-op to voluntarily comply with the UK Code where it makes sense for us to do so and where it can be applied directly to our democratic model, starting from now - and we are doing so a year early. This section therefore sets out where we have complied directly with the UK Code and explains for those areas that are not directly applicable, what we do and how that ties in with the spirit of the UK Code.

The UK Code is divided into five sections - Board Leadership and Company Purpose; Division of Responsibilities; Composition, Succession and Evaluation; Audit, Risk and Internal Control; Remuneration. We've set out a summary of each of those sections as they apply to our Co-op below and explain what we do to comply.

Co-operatives UK also produces a Corporate Governance Code for Consumer Co-operatives, which is currently being updated, and we regularly review our approach against this code too.

Board Leadership and Purpose

What does the UK Code say?

A successful Board should

- Promote long-term sustainable success for members and their communities
- Establish Purpose, Values and Strategy and make sure all are aligned
- Make sure sufficient resource is available and controls in place to meet its goals and make those goals measurable
- Have effective dialogue with all stakeholders
- Make sure policies across the business support the goals and colleagues can raise any concerns

What do we do?

Our Board takes decisions at the highest level to ensure the long-term success of our Co-op. It is the Board's role to take decisions in what the Directors believe are in the best interests of our members as a whole. Those decisions also need to be commercially sensible, consistent with our Purpose and Co-operative Values and Principles and meet the needs of our members.

Our Co-op's Purpose is stated in our Rules as *Championing a better way of doing business for you and your communities.*

Whenever our Board takes a decision of substance, it also considers what we call our Ethical Decision Making Tool, which our Chair has referred to in his overview at the beginning of this section.

What decisions can our Board take?

Our Board takes a wide range of decisions. There are a limited number of decisions which need approval by members at a general meeting in line with our Rules and Regulations and some which need approval by our Members' Council. The decisions taken by our Board are generally regarding the future direction of our Co-op and the ways it will reach those longer term goals, consistent with our Purpose, the Values and Principles and meeting the needs of our members. The delivery of those goals is delegated to the Executive Team and our Board then holds that team to account for the delivery of those goals. It's not our Board's role to take day-to-day operational decisions. Those matters are covered by the Executive.

There is however a level of decision making which is reserved to our Board and such a structure is in line with the UK Code. Areas covered for Board decision include:

- Strategy and Management
- Structure, Capital and Borrowing
- Financial Reporting and Controls
- Internal Controls
- Contracts/expenditure above certain limits
- Communication
- Board Membership and Other Appointments
- Delegation of Authority
- Governance and Compliance
- Other matters (including for example approving certain major policies)

Our Board can delegate decisions, for example to committees and Directors.

There is also a specific Delegated Authorities Framework which the Risk and Audit Committee regularly review and which is approved by our Board.

Our Board also ensures there is a framework of effective controls for assessing and managing risk and that major policies and practices are consistent with Co-operative Values and Principles and support our Co-op's long-term sustainable success. Colleagues also have processes to enable them to raise any matters of concern.

Engagement and relations with our members

The UK Code says that in order for our Co-op to meet its responsibilities to members and stakeholders, the Board should ensure effective engagement with, and encourage participation from, these parties. As a co-operative, our members are rightly at the heart of what we do.

Our Co-op's governance model is different to that anticipated by the UK Code and is based on co-ownership by its members (the UK Code is based upon large companies with shareholders). Our Members' Council, which has 100 elected members, represents our members, acts as guardian of our Co-op's Purpose, Values and Principles and holds our Board to account.

There are lots of ways our Board, Board Committees, Chair and individual directors interact with Council, its committees, working groups and members. Some of these reflect their formal governance role under our Rules and others are informal and used to add value when our Board, the Executive or colleagues feel input would be useful. The Group Secretary and Council Secretary have regular dialogue. Council regularly raises questions either verbally or in writing, and responses are given. It also puts forward its views to Directors on specific topics for our Board to consider in their decision making. A recent example related to the future of our insurance underwriting business.

Our Board and Members' Council also provide reports on their meetings to each other.

There are six full Council meetings a year, which are attended by a range of Directors. In 2018, Council changed the format of these meetings so that there is a formal session with a selection of Directors where Council members can ask questions and hold our Board to account. Each session focuses on four themes:

- Member Value
- Member Voice
- Ethical and Sustainable Leadership
- Co-operative Leadership

all of which are contained within a document which Council have created to help them hold our Board to account, known as the 'Co-op Compass'. This is followed by more informal sessions where Council members have the opportunity to speak to individual Directors directly and ask questions. Executive Team members also regularly attend Council meetings to update Council members on developments across our Co-op.

The Stakeholder Working Group (SWG) is made up of four Co-op Board members and four from the Council (including the Council President, two Vice Presidents and one other). This is a non-governance forum which meets to have an open debate on topics as may be appropriate from time to time where joint Board and Council input is required, to consider any contentious issues and to help both Board and Council better understand the views of the other on a range of topics.

The Member Nominated Directors Joint Selection and Approval Committee (MNDJC), is a joint Board/Council committee which plays a central role in putting forward MND candidates to a ballot for our members to choose who they would like to vote onto our Board. More detail of the work of the MNDJC can be found in the Composition, Succession and Evaluation section below.

We also interact with members and other stakeholders through a variety of communication channels, including through our website, at the AGM, by email and a variety of different social media sources, including Facebook and Twitter. We also use 'traditional' methods such as writing and engagement through Member Pioneers. We also regularly ask members for their views, to help us develop products, such as our Travel Policy, with member needs in mind.

We regularly identify opportunities for our members to connect with us on projects where they can make a real difference for our Co-op. For example our monthly Join In online activity and our Join In live events alone have engaged over 97,000 members over the past year and 125,000 members since it was launched.

Our Members' Council also actively promotes our Co-op and engages with members. In addition to the communication channels mentioned above, they hosted 24 Join In Live events across the country where members had the opportunity to listen to presentations, engage with local causes and Member Pioneers and ask direct questions of Council members, senior colleagues and Board Directors who were there. More information on the work done by our Members' Council is in its report on page 99.

Members are also encouraged to come to the AGM. Provided they have met the required eligibility criteria, they can vote on motions which are either put forward by our Co-op, our Members' Council, or submitted by members.

Engagement with other key stakeholders

For a number of years, we have communicated with colleagues directly by speaking to them, sending them email communications and making a wide variety of materials and information available through our internal intranet. In 2017, we started sharing our internal announcements and news stories on a new site for colleagues, which can be accessed by all colleagues on any device and is open to questions and comments. This extended the reach of our communications beyond the 20% of colleagues who were able to access our intranet, was developed and promoted further in 2018 and encourages colleagues to get involved with initiatives such as Colleague Voice, which we explain below.

Colleague Voice was started in 2018 and is made up of a team of 35 colleague representatives, who meet quarterly and give regular feedback to leaders. Colleagues can raise issues with these representatives and give feedback on any matters they would like raised with our Co-op's leaders. In addition we run an ongoing cycle of Talkback Pulse surveys with colleagues to find out what colleagues really think about our Co-op, where we can potentially make improvements, and areas for development. The results of these surveys and any colleague initiatives taken are reported to our Board by the Chief People Officer.

Our Co-op is also the major shareholder in Federal Retail and Trading Services Limited (FRTS), which is collectively owned by our Co-op and Independent Co-operative Society Members' (ISMs). FRTS is the platform through which our Co-op collaborates with ISMs on the operation and management of its centralised buying function and other shared or pooled activities (making sure that competition law requirements are observed at all times).

In our engagement with all stakeholders, whether they are colleagues, members, customers, Fairtrade partners, community organisations or suppliers we follow Co-operative Values and Principles and our Board makes sure this is the basis on which we do business. You can read about our stance on issues like sustainability, environmental impact and modern slavery within our Co-op Way Report and Modern Slavery Statement which can be viewed on our website.

Directors' and Officers' liability insurance

Directors have the benefit of Directors' and Officers' liability insurance which covers them against any legal action taken against them for doing Co-op business. Directors also receive an indemnity for specific liabilities which might arise from them doing their job, which means if, when taking a lawful decision or action which forms part of their job, a liability arises, our Co-op will cover them against that liability.

Division of Responsibilities

What does the UK Code say?

- The Chair should lead the Board, set the tone for the culture and encourage constructive director debate
- There should be an appropriate mix of Executive Directors and Independent Non-Executive Directors (INEDs) and a clear division between the roles of the Executive Team and Board
- INEDs should give sufficient time to their role and hold the Executive Team to account
- Board processes should be sufficient to enable the Board to function effectively

What do we do?

Details of key roles

The Code is based on a Board which has two categories of directors, Executive Directors and Non-Executive Directors (particularly INEDs). Our Board is different. We have three categories of directors, Executive Directors, INEDs and Member Nominated Directors (MNDs). We give a more detailed explanation of how we view the independence of Directors in the passages below, but for the purposes of the Code, both our INEDs and MNDs are regarded as independent.

Co-op Chair

The UK Code says the Chair and Chief Executive should be distinct and separate roles, agreed by the Board and done by two different people. That is the situation in our Co-op.

Our Chair's role is clearly set out in his terms of appointment and the Chief Executive's role is clearly set out in his employment contract. The Chair's primary responsibility is to lead our Board and set our Board's agenda, ensuring our Board has appropriate time to discuss strategy, performance (for which it holds the Executive to account) and creation of sustainable value for members.

The Chair is also champion of the culture within our Co-op and sets the tone from the top, making sure an environment of mutual respect and openness exists and allowing debate by giving Directors the chance to express opinions as well as making sure where appropriate, that our Board is aware of the views of our Members' Council and other stakeholders. The Chair also ensures there is constructive dialogue with stakeholders. In all of that activity, our Chair makes sure Co-operative Values and Principles are central to Board's thinking and that our business is conducted ethically and sustainably with the interests of our members and their communities in mind, whilst being alert to the risks facing the delivery of those objectives and checking appropriate controls are in place to minimise those risks.

Allan Leighton is our Co-op's independent chair. Allan was initially appointed as an INED and Chair for two years in February 2015, had his appointment renewed for a further two years in 2017 and has now (subject to re-election by the Members at the AGM) had his appointment extended for a further period of three years to come to an end in February 2022. Before being offered a further term as Chair, the Senior Independent Director (SID) discussed the Chair's performance with the other directors. In accordance with the UK Code, the Chair was determined to be independent on appointment and is classed as an INED under our Rules. Our Board Code of Conduct (BCC) expects the Chair to become fully engaged in the activities of our Co-op and therefore does not expect the Chair to be independent for UK Code purposes throughout their term.

Chief Executive
Day-to-day operation of our Co-op's business is the responsibility of the Executive, which is currently led by Chief Executive, Steve Murrells.

Steve is directly accountable to our Board for our Co-op's financial and operational performance. In consultation with our Board, Steve's also responsible for the appointment of the Executive Team, with the exception of the Group Secretary, who is appointed by the Board, but is a member of the Executive under our Rules.

The Group Secretary's and the Executive Team's responsibilities are set out in our Rules and Steve's main responsibilities are set out in his contract of employment.

Senior Independent Director (SID)
The current SID is Sir Christopher Kelly. Sir Christopher was initially appointed for two years in November 2014, had his appointment renewed for a further two years in 2016 and has now (subject to re-election by the Members at the AGM) had his appointment extended for a further period of three years to come to an end in November 2021. His main role is to bring his wealth of experience in advising, guiding and providing feedback to the Chair and the other Directors. He also deals with any issues relating to governance, our Board or Chair's performance and any matters which for any reason it's not appropriate to raise directly with the Chair. He leads the annual Board evaluation process (whether internally or externally facilitated), is responsible for leading the Chair's annual performance appraisal and acts as a sounding board for stakeholder views, making sure our Board is aware of these views. Chris is a member of our Stakeholder Working Group (SWG) which he chaired in 2018 (which we'll tell you more about below) and performs a key role in liaising with our Members' Council.

Group Secretary
The Group Secretary has specific functions under our Rules. Our current Group Secretary is Helen Grantham, who took up the role in January 2016 and also became General Counsel in July 2017.

Helen is a member of the Executive Team and reports directly to the Chair in her capacity as Group Secretary. Helen is a solicitor and advises our Board as Group Secretary. Appointment and removal of the Group Secretary is a matter for our Board under our Rules.

Our Rules set out specific rights, obligations and discretions for the Group Secretary, including advising the Chair and Board on all governance and procedural matters. The Group Secretary also has a key role in making sure the right level of information flows between the Executive Team and our Board and Members' Council and that the induction process for new Directors gives them access to the information and training they need for the role.

Terms of office

Executive Directors are appointed by our Board and don't have a maximum term of office. Following Rule changes voted for by our members in 2018 they are subject to re-election by our members at the AGM every three years.

INEDs are subject to election by members at the first AGM following their appointment and following the Rule changes referred to above are subject to re-election by our members every three years thereafter. The exception to this is to avoid a situation where more than half of the other Directors (excluding the MNDs) would be retiring from office in a particular year (if agreed by the Council and the Nominations Committee have recommended their re-appointment). All INEDs also now have a maximum term of office of nine years.

Following the Rule changes referred to, MNDs now have a maximum term of office of nine years with any individual appointment lasting no longer than three years. Current MND terms are staggered so that at least one MND needs to step down each year and submit themselves to re-election by members (should they wish to stand for re-election).

INEDs

In addition to our Co-op Chair and the SID, there are currently four additional INEDs, Simon Burke, Stevie Spring, Victor Adebowale and Rahul Powar. Simon, Stevie and Victor were all re-elected by members at the 2018 AGM and Rahul will be standing for election in 2019, having only been appointed in July 2018. Peter Plumb was also an INED during the period and stood down at the AGM in May 2018.

MNDs

There are currently four MNDs on our Board, Paul Chandler, Hazel Blears, Margaret Casely-Hayford and Gareth Thomas. Paul was originally elected by members in 2015, re-elected in 2017 and will be standing for re-election in 2019. Hazel was originally elected in 2015 and then re-elected by members in 2016 and 2018. Her current term is due to expire at the AGM in 2021. Margaret was elected by members in May 2016 and re-elected in 2018. Her current term of office is due to expire at the AGM in 2020. Gareth was elected by members in May 2017 and will stand for re-election in 2019.

Executive Directors

There are currently two Executive Directors on our Board, Steve Murrells, Chief Executive, who was appointed on 1 March 2017, and Ian Ellis, Chief Finance Officer, who was appointed on 6 April 2016. Steve was elected by members at the 2017 AGM and will stand for re-election in 2020. Ian was elected by members at the 2016 AGM and re-elected at the AGM in 2018. Ian will be retiring at the AGM in 2019 and the search for his successor is underway.

Conflicts of interest

Our Rules cover the position relating to any actual or potential Director conflicts of interest. All Directors have a duty to avoid conflicts of interests and are asked to disclose any other appointments they may have and any potential conflicts of interest before being appointed and at all times after appointment. Any appointments or conflicts disclosed are checked before appointment to make sure it's still appropriate to appoint a Director to our Board.

We also do a number of background checks on all Directors before appointment to make sure there are no significant conflicts of interest or other issues which would make it inappropriate for a Director to serve on our Board.

We also have a specific Board Conflicts Toolkit which gives guidance on what to do in potential conflict of interest situations.

All Directors must tell our Board if any specific conflict of interests arise. In such situations, the conflicted Director won't be allowed to take part in the discussion on that topic and won't be allowed to vote on it. As all Directors have access to all Board minutes, if a Director has been excluded from any part of a discussion because of a conflict, they'll receive a copy of the minutes with the part of the minutes recording that discussion removed.

Composition, Succession and Evaluation

What does the UK Code say?

- The Board composition should be diverse in terms of gender, social and ethnic backgrounds, cognitive and personal strengths
- Directors should be appointed using open and clear criteria and there should be a succession plan in place to make sure the Board is refreshed from time to time
- Annual evaluation of the Board is recommended to assess whether the Board is operating effectively and this evaluation should be facilitated by an external organisation at least once every three years

What do we do?

Our Board has formed a Nominations Committee, which is chaired by our Co-op Chair, Allan Leighton, who regularly reports to our Board at each Board meeting. The Nominations Committee has a variety of functions, but is primarily responsible for making recommendations to our Board relating to the appointment of INEDs and Executive Directors, ensuring at all times our Board balance is appropriate for a business of the complexity and scale of our Co-op and making sure adequate succession plans are in place to maintain that required balance. A copy of the Nominations Committee report setting out a fuller explanation of their role and detailing the work they did during the year is on page 88.

Our Co-op is different to the companies the UK Code is designed for. The Code thinks about directors in two categories – Executive and Non-Executive and it places emphasis on the need for Independent Non-Executive Directors.

We have two different ways of looking at independence - as defined within the UK Code and as defined within our Rules and Board Composition Charter (BCC). The BCC sets the standards our Co-op requires for individual qualification for our Board and also what is expected in terms of composition for our Board as a whole. The UK Code states that at least half our Board, excluding the chairman, should be Non-Executive Directors determined by our Board to be independent. Applying the same standards, ten of the twelve current directors on our Board are independent.

All Board Directors need to satisfy strict membership and eligibility criteria which are laid out in our Rules and also have to show a strong commitment to Co-operative Values and Principles. That is not enough on its own though. The BCC requires that all our Directors meet the high standards of professional competence needed to run a business which is the size and complexity of our Co-op.

All of our Directors have been appointed in line with our Rules and the BCC and the composition of two Executive Directors and ten Non-Executive Directors goes beyond what is expected by the UK Code.

We actually have two different categories of Non-Executive Directors, all of whom satisfy the UK Code criteria for independence. We have MNDs and INEDs and we'll explain the difference between the two below.

MNDs are directly elected by members. As referred to above, the MNDJC, is responsible for overseeing the process by which MND candidates are put forward to the members, who have the chance to elect the MNDs they would like to see appointed to our Board.

The MNDJC works with a recruitment firm to identify MND candidates who meet all the requirements of our Rules and the BCC. All candidates which reach the threshold are put forward into a membership ballot and voted for by members. That election process is completed before the AGM and the results announced at the meeting. Following Rules changes voted for by the members last year, MNDs are currently allowed to serve a maximum of nine years provided each individual term of office isn't longer than three years.

The appointment process for INEDs is different. They are appointed directly by our Board on the recommendation of the Nominations Committee, which carries out the recruitment process. The Committee appoints an independent search firm to support the Committee's search for suitable INED candidates. That search firm is given a brief which sets out how our Co-op is different, what our Co-op requires in its Rules and BCC and stresses the importance of Co-operative Values and Principles.

The Nominations Committee also has responsibility for making recommendations to our Board in respect of Executive Director appointments to our Board.

All newly appointed INEDs and Executive Directors are put forward for election by members at the AGM following their appointment.

The Nomination Committee's report is on pages 88 and details the work it has done during the course of the year and how it has put these principles into practice.

When an INED appointment is made to our Board, the Nominations Committee submits a report to the Council Scrutiny Committee, whose function is to check the process for appointment of each INED (likewise for appointment of the Chair) and satisfy itself that the process has been appropriate. The Scrutiny Committee also oversees the MND screening process and its Report is on page 103.

Our Board applauds diversity of thought which it believes is a vital ingredient of getting the right balance on our Board. Our Board has a Board Diversity Policy which is reviewed regularly and is published on the website: https://www.co-operative.coop/investors/rules

Equality and equity are key strands of co-operative thinking and whilst our Board wholly endorses those principles, appointments are based upon identifying the best candidate for the role and not by artificial quotas. Our Board currently comprises nine men and three women, of which three are Black, Asian and Minority Ethnic (BAME) Directors.

The Nominations Committee is tasked to keep the effectiveness of our Board under review by being responsible for an annual Board evaluation. Our Rules say this should be done by an external firm every second year unless the Nominations Committee and the Chair both agree a good reason why that shouldn't happen. There was an external review in 2017, which we reported on last year and the Nominations Committee, led by the SID, oversaw the internal review in 2018. The main themes of the 2018 review and identified focus areas are dealt with in the Nominations Committee report on page 90.

Our Board has an emergency succession plan in place for the key roles of Chair, Senior Independent Director and Chairs of the Risk and Audit, Remuneration and Nominations Committees respectively. As set out in their report, the Nominations Committee will be reviewing succession more generally in 2019 to take account of the Rules changes adopted in 2018 and when a suitable successor for Peter Plumb has been appointed.

Executive succession planning is led by the Chief Executive with the support of the Chief People Officer and kept under review by our Board.

Audit, Risk and Internal Control

What does the UK Code say?

- The Board should make sure that internal and external auditors are independent and effective and as a result the published accounts give a fair reflection of our Co-op's financial position
- The Board needs to check that our Co-op's position and prospects are presented in a way which are fair, balanced and understandable
- The Board should make sure that there are adequate financial controls across the business so that financial decisions taken are in line with the level of risk the Board is prepared to take

What do we do?

Our Board has formed a Risk and Audit Committee (RAC), which, amongst other functions, conducts the tender process and makes recommendations to the Board, about the appointment, reappointment and removal of the external auditor and approves the remuneration and terms of engagement of the external auditor. The members have the opportunity to vote on the appointment of the auditor at the AGM in line with the UK Code. (The current auditors are Ernst & Young LLP, who were appointed in 2016 following a competitive tender process led by the RAC).

The RAC also has a central function in looking at risk and how risk is assessed and mitigated across our Co-op, including financial controls which are in place. The RAC Chair, Simon Burke, gives regular updates to our Board after each RAC meeting. A copy of the RAC report explaining the work they did during the year is on page 62.

Remuneration

What does the UK Code say?

- Policies relating to pay should support and be linked to the purpose referred to above
- There should be a transparent procedure for developing the policy relating to Executive Director pay and no Director should be involved in setting their own pay
- Directors need to apply independent judgement when authorising Executive pay looking at our Co-op's performance, Directors' performance and any other relevant circumstances

What do we do?

Our Board has formed a Remuneration Committee, chaired by Stevie Spring, which looks at all executive remuneration issues in detail. Last year our members voted to support an amendment to our Executive Pay Policy, which governs the high level principles of how executive remuneration is looked at. We make sure that executive remuneration is aligned to our Co-op's Purpose, strategy and Co-operative Values and Principles. The full Remuneration Committee Report is on page 70.

Remuneration of the Chair, INEDs and MNDs is looked at by the Nominations Committee, who consider advice and guidance provided by the Remuneration Committee (particularly on relevant market benchmarking data) and make proposals to our Members' Council Non-Executive Directors' Fees Committee. More detail on what the Nominations Committee did on this element of remuneration is contained within the Nominations Committee Report on page 88.

Additional Governance Information

Board Committees

Our Rules allow our Board to delegate authority for certain things to one or more directors, committees or one or more colleagues. Risk and Audit, Remuneration and Nominations are the three regular Board committees. You'll see in the above sections where each of the Committee Reports can be found. Our Board selects Directors to serve on the committees and certain members of the Nominations Committee are entitled to sit on the committee because of their role. Our Members' Council President, Nick Crofts, also sits on the Nominations Committee.

As with Board papers, all committee papers are available for the committee members on iPad well in advance of meetings and the papers and minutes are also made available to all Directors (unless there's a conflict of interest). There's a standing item on all Board agendas which gives the Chairs of the various committees the chance to update our Board on any committee activity.

Our Rules give our Board the right to form additional committees it may need to deal with specific issues from time to time, such as signing off final versions of financial reports, or receiving updates from the Executive Team on specific projects. A record of these committee meetings is kept, minutes from these meetings are given to our Board and oral reports of matters discussed at the meetings are given to our Board as required.

Whilst not formal Board committees, Directors also take part in committees established under the Rules, such as the MNDJC referred to above, and our Co-op also has informal discussion forums with our Members' Council such as the Stakeholder Working Group, also referred to above. Our Executive and colleagues also have access to Council members outside formal governance for informal discussion and to gain insight.

Board and Board Committee Meetings and Attendance

Board director biographies are on pages 45 - 47. Members are able to see copies of the Directors' appointment letters by asking the Group Secretary.

The table below sets out how many scheduled meetings were held by our Board and various committees during the reporting period and how many of those meetings the various Directors went to. The number in brackets shows how many meetings each Director was entitled to be at (the fact some Directors may have been entitled to attend fewer meetings than others arises if they stepped down or were appointed part way through the year). Any meetings which were called on an "as needed" basis are not included in the figures.

Director	Co-op Board	Nominations	Remuneration	Risk and Audit
Allan Leighton	11(11)	4(4)	n/a	n/a
Lord Victor Adebowale	11(11)	n/a	n/a	4(6)
Hazel Blears	10(11)	4(4)	n/a	6(6)
Simon Burke	11(11)	2(4)	n/a	6(6)
Margaret Casely-Hayford	11(11)	n/a	4(4)	n/a
Paul Chandler	11(11)	n/a	n/a	6(6)
Ian Ellis	11(11)	n/a	n/a	n/a
Sir Christopher Kelly	11(11)	4(4)	4(4)	n/a
Steve Murrells	11(11)	n/a	n/a	n/a
Peter Plumb*	4(5)	n/a	0(2)	n/a
Rahul Powar**	5(5)	n/a	n/a	n/a
Stevie Spring	11(11)	n/a	4(4)	n/a
Gareth Thomas	10(11)	4(4)	4(4)	n/a
Nick Crofts***	n/a	3(4)	n/a	n/a

* Resigned 19 May 2018
** Appointed 23 July 2018
*** Nick Crofts is not a director, but is the Council President and a member of the Nominations Committee.

All meetings are scheduled taking into account Directors' availability. Executive members and their teams are regularly invited to go to Board meetings and the INEDs and MNDs meet after each Board meeting has finished without the Executive Directors being there.

Our subsidiaries

Our subsidiaries operate in line with the strategy and direction set by our Board and we have a number of rules, policies and procedures (particularly governance requirements) which apply across all our entities. Apart from that, our subsidiaries are run as independent businesses. CIS General Insurance Limited (CISGIL) and Co-operative Legal Services Limited (CLSL) are treated slightly differently to other subsidiaries as both are regulated (CISGIL by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) and CLSL by the Solicitors Regulation Authority (SRA)). This means that whilst our Co-op retains general oversight of the businesses, they need to retain a higher degree of responsibility for their own independent conduct and day-to-day operational decisions. We announced in January 2019 that we had agreed to sell the insurance underwriting business, CISGIL, subject to PRA approval of the deal. On the basis that approval is given, ownership of CISGIL will pass to Markerstudy. We do however retain a distribution model insurance business, owned by Co-op Insurance Services Limited (CISL) which is regulated by the FCA.

2018 Elections
The following directors were re-elected at the 2018 AGM:

- Ian Ellis (CFO)
- Lord Victor Adebowale (INED)
- Simon Burke (INED)
- Stevie Spring (INED)

In 2018, Hazel Blears and Margaret Casely-Hayford were also re-elected as MNDs following a contested election and the results of that election were announced at the 2018 AGM.

2019 INED and Executive Director Elections
The following Directors are standing for election/re-election at the 2019 AGM:

- Rahul Powar (INED)
- Allan Leighton (Chair)
- Sir Christopher Kelly (INED and SID)

Ian Ellis, (CFO) is retiring at the 2019 AGM.

The Nominations Committee has confirmed that all directors who are standing for election/re-election have met the required Membership and Eligibility Criteria. The directors' commitment to Co-operative Values and Principles was also assessed on appointment, on each occasion they have been recommended for election/re-election and in 1-2-1's with the Chair as part of his year-end assessment. Our Board is satisfied that all the directors continue to show a strong commitment to Co-operative Values and Principles and will continue to be able to devote sufficient time to their duties as directors and recommend their election/re-election.

2019 MND Elections
The MNDJC has led on the current MND election process. Paul Chandler and Gareth Thomas have both indicated they wish to stand for re-election for a further three-year term and the MNDJC have approved their inclusion on the ballot form. Details of all the candidates for the two vacancies are set out in the AGM Booklet.

Independent professional advice and Board support
The Group Secretary, Secretariat and the Executive Team support our Board, who have direct access to advice or assistance from these sources. If required in order to undertake their duties, there are also procedures for directors to take independent professional advice, at Co-op's expense.

Annual General Meeting
The AGM is held in line with The Co-operative and Community Benefit Societies Act 2014 and our Rules and this year will take place on 18 May 2019. All eligible members are welcome to come to the meeting and vote on a one member, one vote basis. The rules for Independent Society Member's are a little different and their vote is calculated on the amount of trade they do with our Co-op.

Report of the Risk and Audit Committee

Introduction from your Committee Chair

Once again, the Risk and Audit Committee had a very full agenda during 2018, and we experienced both successes and disappointments. Overall, however, I can report that progress towards better management of risk, safety and financial control all advanced further during the year.

Colleague and customer safety

I am pleased to report further progress in managing the risks to health, safety and security across our Co-op. Our reporting has become better and is discussed frequently by our Board and this Committee. Though improving overall, some aspects, notably the level of crimes affecting our colleagues, continue to be of concern and we are working in a number of directions to achieve a meaningful reduction.

Risk management

The team has made good strides in creating a strong awareness of risk and how to use it to make better decisions in all our activities. We now have a well-established risk register and we review and refresh the key risks list regularly. A particular risk in focus recently has been Brexit, where the Committee as well as our Board has followed developments and considered carefully the implications for our Co-op.

In addition, we have carried out detailed reviews to understand risks, controls and issues facing key parts of the business. This year the Committee has carried out these 'deep dives' into Estates (management of Co-op properties), Funeralcare, focusing on funeral plans and the management of funds, and Life Planning.

Groceries Supply Code of Practice

By now you will have seen the report of the Groceries Code Adjudicator following her investigation into certain aspects of our trading practice. We have taken the issues which gave rise to this very seriously from the outset, and the Committee has been supporting the Executive in addressing them even whilst the investigation was still underway. Everyone is determined that we will never find ourselves in a position where something like this could happen to our Co-op again.

Retail change programme

The food retail business has been undertaking a very significant programme of change activity, including the replacement of its key stock and merchandising systems. These projects carry large costs and high levels of risk, particularly of disruption to trading. Our job is to ensure that the risks are fully recognised and managed, and to ensure that the work is done in the right way to get the maximum benefit.

People's data

The new GDPR regulations for the proper management and protection of our members' customers' and colleagues' data came into force during the year. The Committee has been involved in ensuring that our Co-op fulfils its responsibilities to look after personal information that our customers and members entrust to us.

Whilst these are some of the key topics we worked on, we also addressed subjects including cyber-security, financial reporting (in particular the impact of new accounting standards), litigation, sustainability reporting, the sale of the Insurance underwriting business, the integration of NISA, and internal audit activity.

I am very grateful for the significant work and support provided by my colleagues, Hazel Blears, Victor Adebowale and Paul Chandler throughout the year. We all share a strong desire to help make the financial and risk management of our Co-op stronger, for the benefit of members and colleagues alike.

Simon Burke
Chair of the Risk and Audit Committee

Risk and Audit Committee membership and attendance

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

The UK Corporate Governance Code ('the UK Code') recommends that there are at least three independent directors on the Risk and Audit Committee and we met this recommendation during 2018. All committee members are considered by our Board to be independent under the UK Code providing objectivity and independent scrutiny. Two members are Member Nominated Directors – Hazel Blears and Paul Chandler – and two are Independent Non-Executive Directors – Simon Burke and Victor Adebowale. Our Board is satisfied that Simon Burke's relevant and recent financial experience means he is qualified to be Chair of the Committee.

Details of attendance by Committee members at meetings held during 2018 are on page 60.

The Chief Finance Officer, Group Secretary, Assistant Secretary, Director of Internal Audit, Chief Risk Officer, Group Accounting Director and the external auditors attended all Committee meetings other than the 4 April 2018 meeting at which the agenda was limited to approving revised wording to the annual compliance report to regulators. Other colleagues also attend meetings if asked to do so by the Committee. The Committee also met the internal and external auditors privately, so they could talk without management being there.

What the Risk and Audit Committee does

The main areas the Committee looks after includes the following:

Financial and regulatory reporting

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

Internal controls

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

Internal Audit

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

External Audit

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

Risk

- To check how effective our Co-op is at managing and controlling risks
- To oversee the risks our Co-op faces and to help improve the framework we use to manage risk
- To ensure that our Co-op is complying with health and safety principles

Sustainability Reporting

- To review and recommend to our Board the approval of our Co-op Way Report
- To ensure that we have someone independent check what we say in our Co-op Way report

Other

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

The Committee's terms of reference give more detail on what it does and can be found on our website: www.co-operative.coop/investors/rules

In 2018, our Committee's main activities included reviewing:

- That the financial information we provide to our members is prepared honestly, especially the Annual and Interim Reports, and the reasonableness of the key judgements and assumptions
- How well the risk and control systems work, including Internal Audit's work, plans and reports
- How we comply with the UK Code
- The approach we take to key judgements and significant matters when producing our financial information
- Compliance with new accounting standards
- Updates on our priority risks, together with how we're reducing risks and ensuring compliance with applicable regulations.
- How our Co-op uses and looks after data and information, including how we comply with the General Data Protection Regulation (GDPR) which came into force in 2018
- Risks and controls around cyber security
- Risk updates including changes to risks to our Co-op and progress on the Risk Transformation project to improve our risk management processes
- In depth reviews of both our Funeralcare and Life Planning business and our property management activities
- The progress of key projects including:
  - separating our Co-op's IT systems from those of The Co-operative Bank
  - the integration of Nisa within our Co-op and
  - Retail Business Transformation (RBT) which is the multi-year programme set up to simplify and streamline our retail processes, systems and ways of working, to support more effective decision making.
- How we work with suppliers so we comply with the Grocery Supply Code of Practice (GSCOP) and go above and beyond the Code's expectations
- How good our systems are at spotting risks and then controlling them (COSO) and the steps being taken by each of the businesses against targets for further improvement
- Approval of our external auditor's non-audit fees
- The proposed new tax policy
- What Co-op's internal audit team does and its reports
- The 2018 Co-op Way Report and providing input on it
- Reports on whistleblowing activity
- The annual review of our Co-op's pension schemes

Significant issues relating to the financial statements

When our Committee looked at the 2018 financial statements, it considered the following key areas of judgement. In all cases, it discussed them with management and the external auditor:

Area of focus	What was done
Going concern Management continue to monitor our borrowings, facilities and banking covenants to ensure that we have enough financial headroom to continue to run our business as a going concern.	Our Committee reviewed management's assessment and agreed there was adequate headroom and that our Co-op is a going concern.
Goodwill and fixed asset impairment Our Co-op's Balance Sheet includes significant goodwill and property, plant and equipment balances. The most significant elements of these balances are in the Food business.	Our Committee reviewed the results of management's annual impairment review, and discussed the key judgements and assumptions underpinning the calculations. The discount rate had been benchmarked against the market and analysed externally.
Onerous leases and other provisions Our Co-op makes provisions for likely future liabilities. Management must apply judgement to determine whether, and how much, we should account for a provision, notably in relation to onerous leases which require significant judgement.	Our Committee reviewed key management judgements regarding significant provisions. It checked these judgements with external experts, which supported them. The provisions were assessed for consistency of approach compared with previous years, and against our accounting policies.
New accounting standards: IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments IFRS 15 Revenue from Contracts with Customers is the new accounting standard that sets out how revenue should be accounted for. This has required changes to revenue accounting in the Funeralcare business. Our Co-op has complied with this standard in 2018, and to ensure comparability, we've restated the previous year's figures. IFRS 9 Financial Instruments is a new accounting standard that was adopted this year, which covers long-term loans, equity investments, and other financial assets and liabilities.	Our Committee received regular updates on the likely impact of the changes to the standard on the reporting of Funeralcare revenue. Our Committee also reviewed management's assessment of the impact of the new IFRS 9 standard on its bonds, associated interest rate swaps and on the impairment of debtors.
Pensions scheme IAS19 valuation Our Co-op has a number of defined benefit pension schemes, of which the PACE scheme is the largest. Management must make assumptions (about things like the future growth rate of investments and the death rate of members of the scheme), which can materially affect the valuation of the pension schemes. The assets and liabilities of the PACE scheme have been split between our Co-op and the Bank to create two discrete sections of the scheme (sectionalisation). This is accounted for and disclosed in the financial statements.	Our Committee assessed the key assumptions that underpinned the pension calculations. It also reviewed advice provided by internal and external actuaries, including market benchmarking.
Revenue recognition: Supplier income Management must ensure that income from suppliers is accounted for in line with supplier agreements, at an appropriate level and in the relevant period.	Given the complexity of this figure, which includes bonus income, promotional income and long-term agreements, the terms of which can be complex or varied, our Committee sought continued assurance from the Food and Wholesale business that the controls were operating effectively.
Nisa acquisition As we acquired Nisa during the year management needed to make significant accounting entries to record the value of assets and liabilities acquired and appropriately recognise other aspects of the transaction.	Our Committee reviewed and assessed the accounting treatment of the acquisition and took independent accounting advice on the valuation of intangibles and goodwill acquired.
Sale of CISGIL As the sale of CISGIL was approved during the year, management needed to ensure that CISGIL was appropriately accounted for at year end, including the allocation of proceeds to reflect fair value.	Our Committee assessed the impact of the sale of CISGIL and the relevant disclosures.
Litigation and regulatory matters There was an investigation by the Groceries Code Adjudicator (the GCA) in relation to the Groceries Supply Code of Practice. The GCA has the power to levy a penalty of up to 1% of total revenues in the event of a breach. She has reported that this is not warranted and Management concluded that there's no need for a provision or contingent liability disclosure.	Our Committee considered whether it would be right to record a provision or contingent liability disclosure.

Review of the Committee's effectiveness

In 2018 there was an external evaluation of the effectiveness of our Board and its Committees. This included the Risk and Audit Committee and, in summary, the review showed that whilst the Committee was working well, it could do better by having external support in some key areas including training in some technical matters.

External audit activities

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

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

Independence, objectivity and fees

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

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

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

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

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

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

Effectiveness of auditors

The Committee reviewed the effectiveness of EY. The outcome of the review showed that EY are providing a professional, independent and objective service.

Internal audit

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

Our Committee reviewed and approved the Internal Audit programme of work. At each meeting, we received a report from the Director of Internal Audit on:

- the work of Internal Audit and the progress it has made against its plan
- the impact on the systems of risk and control from internal audit findings
- whether management's done what it said it would do to fix the issues

During the year, our Committee reviewed Internal Audit reports covering key processes, systems and controls and IT projects and programmes. The reports have covered a range of different areas and businesses at our Co-op.

We also approved changes to the Internal Audit plan following changes in the business and to our strategy and reviewed the internal audit charter, reaffirming the purpose of internal audit in the context of our Fuel for Growth cost reduction strategy.

Internal control

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

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

Each Executive member was asked to review how well the controls were working for their area of responsibility and to self-certify the results of their review. This included consideration of the key elements of internal control operated and the key improvement initiatives.

Our review of the Executive's self-assessments forms an important part of the annual review of the systems of risk and control.

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

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

- Having the right colleagues in place with everyone knowing what job they have to do, what they can authorise and how they should report, supported by a system that helps colleagues perform to the best of their abilities and so helps our Co-op deliver its business objectives;
- Co-ordinating the way colleagues do things across our Co-op through regular management meetings and other forums;
- Setting policies for how we spend our money and making sure that if it is necessary to spend a large amount of money, our Board gives permission; and
- The Code of Business Conduct, which sets out how colleagues should act in line with Co-operative Values and Principles with customers, members, other colleagues, suppliers, the community and competitors. This code tells colleagues how they can report any serious wrongdoing confidentially. An anti-fraud policy also supports this code.

Planning
Looking at what could go wrong and how we try to stop this happening is important to protect our members' interests and our reputation, and to make sure we comply with regulatory standards and achieve our business objectives.

Our Board and Executive Team are responsible for identifying and evaluating our Co-op's main business risks. They aim to have systems that manage the risk in an efficient and effective manner.

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

During 2018, we received updates on our Co-op's priority risks and the Risk, Health and Safety Transformation programme.

Doing
Our Co-op's control procedures are designed to ensure that risks are appropriately managed. This includes risks around the completeness and accuracy of accounting for financial transactions, as well as for reducing the potential cost from loss of assets or fraud. Procedures and reference information on our Co-op's rules, accounting policies, insurance, colleagues and Code of Business Conduct are issued to appropriate management.

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

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

Whistleblowing procedure

To ensure our Co-op does the right thing in line with best practice and Co-operative Values and Principles, a whistleblowing procedure, known as 'Speak Up', has been in place during the year. The service is managed by an external independent company and allows colleagues to raise concerns about business practices confidentially should they not wish to talk to someone within our Co-op. This procedure also allows suppliers to report on any wrongdoing.

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

The whistleblowing policy is included in the Code of Business Conduct, and is available on the colleague intranet and our website. The Committee considers the whistleblowing procedures to be appropriate for our size and scale.

Other activities

Audit actions
Our Committee reviews audit reports and supports the business to ensure that any issues raised are addressed appropriately. We have had a particular focus on ensuring that managers complete actions on a timely basis.

Brexit
Brexit is a key risk to our Co-op and our Committee has paid close attention to the changes in the political landscape to ensure that the business is able to plan and respond accordingly. This will remain a key area of interest through 2019.

Co-op Way Report and change in oversight of this
Our Committee has responsibility for reviewing our Co-op's approach to sustainability reporting and social impact accounting. They review and recommend the approval of the sustainability report to our Board, giving the sustainability report the same importance and focus as the Annual Report and Financial Statements. The sustainability report is known as the 'Co-op Way Report'.

Deep dives
Our Committee undertook detailed reviews in key areas to gain a deeper understanding of the activities, services, risks and challenges facing key parts of the business. This year we carried out these 'deep dives' into the management of all our Co-op's properties (including food stores, Funeralcare branches and mortuaries, the non-trading estate and corporate occupancies) and into Life Planning and Legal Services.

Groceries Supply Code of Practice (GSCOP)
The Committee approves the Annual Compliance Report for submission to the Competition and Markets Authority as is required to by the Groceries (Supply Chain Practices) Market Investigation Order 2009. A summary is on page 96. During 2018 our Co-op has engaged positively with the Groceries Code Adjudicator. The Committee has, throughout the period, kept under review how our Food business is improving its levels of compliance and improving supplier engagement through updates from the Code Compliance Officer and the Supplier Relationship programme.

GDPR – in the build-up to the May 2018 implementation date
The General Data Protection Regulation (GDPR) was an area of focus for our Committee in the run up to the May 2018 implementation and beyond. We have received regular updates to ensure that our Co-op continues to meet its obligations to be trusted with data and to use it as a valuable asset to deliver benefits to you and your communities. Our Committee has also received progress updates from management in relation to information security and cyber security.

Retail Business Transformation and Retail change activities
RBT is the multi-year programme set up to simplify and streamline our retail processes, systems and ways of working. Throughout 2018, our Committee has considered updates about the progress of the programme and has challenged management to ensure that the programme delivers quality.

Report of the Remuneration Committee

Committee Chairman's statement

Introduction

I am pleased to introduce to you my fourth Remuneration Report as Chair of the Remuneration Committee ('the Committee').

In 2018 we've continued to build on the real progress we have made in the last few years to ensure our approach to pay fully reflects our Values and Principles. Getting the balance right in executive pay is not easy and not all members will agree with the choices we make, but our Committee continues to focus on what it believes is right and fair for our Co-op.

Financial performance is a crucial factor in executive pay and our business performed very well in 2018 especially considering the challenges faced. However, as a Co-op, the financial aspects are only one measure of the value we're creating as the UK's biggest consumer-owned co-op. Allan has given you more details on our Stronger Co-op Stronger Community strategy on page 5. We are proud that we are a different way of doing business and we reflect this in the way we set objectives, evaluate performance and ultimately pay our Executive team.

Background

Pay reform

Executive pay continues to make the headlines with scrutiny on pay arrangements that are deemed too generous, too difficult to understand and not aligned to driving long-term success or to an organisation's strategy and values.

There have been some important developments in 2018 to address these concerns. The Financial Reporting Council published the new UK Corporate Governance Code together with its revised guidance on Board Effectiveness and the Government set out changes to the UK directors' remuneration reporting requirements. These changes take effect for financial years, starting on or after 1 January 2019, and formally only apply to large companies with traded shares. We have decided that it is the right thing for our Co-op to voluntarily comply with both of these where it makes sense for us to do so, starting from now - and we are doing so a year early.

As part of these changes the Government has introduced mandatory reporting of the pay ratio between a firm's chief executive compared to the 25th, median and 75th percentiles of full-time employees. We have chosen to publish an additional ratio on this basis, as well as publishing our own ratio in the same way we have done for the last two years and you can find it on page 73.

As a Committee we are committed to making pay for our most senior colleagues less complex and clearer and we fully support the new reporting requirements.

How we report to you

We are a co-op owned by millions of members who are also our customers. We believe in being open with our members and for this reason we apply the reporting rules for large companies with traded shares where it is appropriate for our type of business. Indeed in some areas we go beyond the requirements, in particular by providing pay information for our full Executive, compared to just for board directors in large public companies which in our case would just be our Chief Executive and Chief Finance Officer. We also take on board Council's views and those of the wider UK co-op movement.

The Committee recognises that this report contains a lot of information, but we've tried to make it as clear as possible. It has two sections:

i. Part I – Executive Pay Policy. We have included a summary of our pay policy. We asked our members to vote on our policy in 2016 and 90% voted for it and also to support changes to this policy in 2017 and 2018. We are going to provide our members with the opportunity to vote on our pay policy again this year and further details are provided on page 75. We pay our Executive in line with this policy, and how the Committee is applying the policy in 2019 is set out on page 79.

ii. Part II – Annual Report on Remuneration, which covers how we applied the policy in 2018.

We have also included a Pay at a Glance section, on page 76, where we pull together the key information we believe you will want to see in a simplified format.

How we have engaged with our members

Our members have given the Committee the role of deciding what we pay our Executive. However, we strongly believe in listening to our members and act on their concerns wherever possible and appropriate to do so.

In 2018 we had a number of meetings with Council members to hear their views and to explain our thinking. At our 2018 Annual General Meeting (AGM) I gave an update on our approach to pay and answered members' questions. We continue to welcome feedback from you.

Our approach to pay

How we look at pay

We are committed to an approach to pay that is clear, visible and fair and allows all colleagues to share in the success of our Co-op. We need to be able to compete for talented executives with the right skills and values for our Co-op. We also need to reward high-performing colleagues for a job well done. We do this in a way we feel supports our Purpose and the Values of our Co-op.

How our pay links to strategy

Our aim is to clearly link our pay with our Co-op's strategy. We explain our strategy and business model on pages 4 and 5 and we have shown the clear link between our strategy and 2018 pay in the Pay at a Glance section on page 76.

Decisions and changes

The Committee decided that no annual salary increases should be made for our Executive in 2018.

In 2018 we simplified our approach to bonuses by moving to a single bonus plan – the Bonus Plan (BP), which replaced the Annual Incentive Plan (AIP) and Long Term Incentive Plan (LTIP). In summary, the BP operates as follows:

- A one-year performance period, with performance assessed at the end of this period against measures which we believe are important to our Co-op. This includes financial performance, which remains important, but also reflects other areas we, and our members, care about like community and colleagues.

- A subsequent two-year deferral period so that the award is not all paid in one go – 50% will be paid two years later, ensuring that an element of the overall package links to the long term. It also works as a retention device as it's our intention that colleagues will only be eligible to receive the deferred payment if they are still working for our Co-op and not under notice.

To ensure performance measures are aligned across our Co-op we also launched the BP for colleagues who previously participated in our AIP.

The Committee also completed a review of how the decisions made by the Committee in 2018 conform to the Executive Pay Policy, and I'm pleased to confirm all decisions made were in line with the Executive Pay Policy.

What about our colleagues across our Co-op?

Our Committee and Board regularly discuss how we pay our colleagues across our Co-op for the great job they do. We recognise that a focus on wider employee pay is a key area of the new UK Corporate Governance Code, and are proud that we have been ahead of the curve in this area.

We're continuing to invest in customer-facing colleague pay. We increased hourly pay rates for Customer Team Members (CTMs) in Food stores by over 5% in 2018 meaning our minimum wage for all colleagues was £8.00 an hour. We have also further increased this rate to £8.38 an hour from 1st April 2019, which is an increase of another nearly 5%. After 1 April 2019 increase we will have increased hourly pay rates for our experienced CTMs by 24.5% in the last four years.

We have continued to pay above National Living Wage (NLW) and apply our rates to all colleagues, which means that, unlike many other employers, we have not reduced rates for younger colleagues or apprentices. We also still provide paid breaks, again unlike many other employers. NLW will continue to increase each year and we are aiming to ensure we remain well ahead of this.

So, we have made good progress with increasing customer-facing colleague pay in recent years but we want to do more and are continuing to find ways to do so. But we must get the balance right between our offer to members and customers, and our offer to colleagues, in order to meet our aims.

We want every colleague to feel proud to work here and be recognised for the part they play in our success. We also want them to know that we genuinely care about their wellbeing so we have doubled our efforts in providing a range of health and financial wellbeing support benefits.

43,000 colleagues are active members of our pension scheme. Many colleagues find pensions complex and difficult to understand. One of the aims of our wellbeing programme is to provide colleagues with a range of financial education tools to help them to make informed decisions on their personal finances.

We know that debt is a problem for many people in the UK and we've chosen to improve the support we give our colleagues to tackle this. We have a long tradition of supporting and promoting Co-op Credit Unions, which will continue, and we've added more support to our colleagues through a partnership with Neyber. By combining these resources as part of our wellbeing programme we can provide colleagues with a trusted source of information.

Pay ratio

With effect from financial years starting on or after 1 January 2019 the government will require large public companies to report the ratio of total pay and benefits between a firm's chief executive compared to the 25th, median and 75th percentiles of full-time employees. We have chosen to adopt this voluntarily and to do so a year early.

To calculate each percentile we have sorted all our colleagues in order of their total pay from high to low. We then split them into 4 equal groups to work out the percentiles i.e. if there are 101 colleagues the 25th highest paid colleague is used for the 75th percentile, the 51st highest paid colleague for the median and the 75th highest paid colleague for the 25th percentile.

I have set out below our pay ratios calculated in line with the Corporate Governance code guidance.

Year	Method	25th percentile ratio	Median pay ratio	75th percentile ratio
2018	Option C	116:1	111:1	92:1

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

A large proportion of our colleagues work in front line roles in our stores, and both the 25th percentile and the median comparators are CTMs in our food stores. In recent years we have invested heavily in increasing pay for our front line colleagues to ensure our pay is market aligned which is in keeping with our pay policy.

The new government pay ratio calculation is based on actual pay received. It therefore can change a lot as bonus payments are likely to vary each year given that they are linked to both business and personal performance.

In addition, for the last two years we have shared our pay ratio based on target earnings rather than actual as this approach makes sense to us and we believe it will make it easier for members to compare progress over time. We will continue to provide the ratio on this basis, and I have set out below the ratio between our highest paid executive and lowest paid colleague for 2017 to 2019 on base pay and for base pay plus target bonuses.

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

We have seen an increase in the base pay plus on target bonus ratio for 2019 compared to 2018. This is due to the supported increase to our Chief Executives maximum bonus opportunity from 200% to 250% which was agreed at the 2018 AGM.

Gender pay reporting

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

2018 Bonus outturns

Payments under the 2018 BP are based on a combination of business and individual performance. Our Co-op performed well in 2018 and the majority of targets set were achieved. The 2018 balanced scorecard measures, their weightings and the final performance for each measure are detailed below:

2018 Balanced scorecard measures	Weighting	Performance
Financial		
Co-op Operating Profit	50%	Target +
Being Co-op		
Member – measures focused on our membership proposition	10%	Target
Community – measures focused on championing co-operation and engagement with community activities	10%	Target
Colleague – measures focused on building and maintaining colleague engagement	10%	Threshold +
Personal performance		
Assessment of how each Executive performs against their job requirements and our Ways of Being Co-op.	20%	Determined in reference to individual performance

Awards under the 2018 BP for our Executive were between 69.25% and 74.96% of their maximum opportunity. Not all of the 2018 BP awards is paid in one go – 50% will be paid in two years' time. Further details of the amounts paid to our Executive can be found on page 82, and the amounts deferred can be found on page 84.

The 2016-18 Long Term Incentive Plan (LTIP) consisted of four targets, the performance of which is shown below:

Target	Weighting	Performance
Ratio of Net Debt/EBITDA	40%	Target +
Membership spend as a percentage of total sales value	25%	Threshold
Co-op colleague engagement	25%	Threshold not met
Brand health	10%	Target +

The Committee decided that for the 2016-18 LTIP, 43.95% of the maximum award should be paid. See page 83 for more information.

Looking ahead

Over the last couple of years our Committee has been reviewing how we reward our Executive to ensure our approach to pay works for our Co-op. We have made significant improvements such as ensuring a better balance between fixed and variable pay. We've also simplified our approach to bonuses to make them simpler and improve transparency. We will continue to review our approach to ensure it works but as a Committee we believe our approach to pay for our Executive is in a good place as we continue to build on the great steps our Co-op has made in the last few years. We're not expecting to make any significant changes over the next few years but we do want to make sure the criteria we use to measure performance in our bonus plan is appropriate to help us succeed in delivering our Stronger Co-op and Stronger Communities strategy, and we particularly appreciate the help Council have given in setting the criteria for 2019.

Governance

Committee

The Committee has worked hard this year and made a strong contribution. We said farewell to Peter Plumb who had served as an INED on this Committee for 3 years and chose to step down from our Board. I'd like to personally thank Peter for his valued contribution whilst in post.

My thanks to all the Committee members, and to the members of the Council Remuneration Working Group under Lesley Reznicek's leadership, for the insight and challenge they provided through the year – particularly in making sure our members' voice was always heard.

AGM

Members will be asked to approve the Annual Report on Remuneration and to approve our Executive Pay Policy for a further three years at our 2019 AGM. Both votes are advisory. While technically not binding, in the event of a vote against the Executive Pay Policy, our Board has committed to consult with the Council Remuneration Working Group about amendments to the policy, with a view to bringing an amended version forward for another vote at the 2020 AGM. In the meantime, the existing policy will remain in force until it is amended.

We would welcome your support by voting in favour of both the motions.

Stevie Spring
Chairman of the Remuneration Committee

2018 Pay at a Glance

This section provides an overview of our pay policy in action and payments made to our executives in 2018. Full details of our policy and what we paid in 2018 are set out on page 77.

Executive Pay Policy

Our Co-op is committed to a reward strategy that is clear, visible and fair, allowing us to compete for skills and talent and encourage and reward high performing colleagues, while also reflecting our Purpose and Values.

How 2018 pay aligned to our strategy

The following table describes how key elements of our strategy link to the way we reward performance. We are committed to a clear link between our reward structures and how our business performs, while maintaining a strong connection with our colleagues and supporting our Co-op Purpose and Values.

Co-op KPIs	Net budgeted profit	Debt	Reputation	Membership	Community	Colleague
	It's important we make profit to reinvest and support our future strategy and Purpose.	Maintaining responsible debt levels is an important part of our financial strategy. We must manage debt well but not at the expense of profit.	It's important that out Co-op continues to have a strong reputation and brand perception	We exist to create value for our members and the communities in which we trade.	Supporting local communities where our members live, and where we trade, creates much of the shared value that makes our Co-op a better way of doing business.	Colleagues play a significant role in ensuring we continue to deliver to our customers and communities.
Long Term Incentive Plan (LTIP)	✗	✓	✓	✓	✗	✓
Bonus Plan (BP)	✓	✗	✗	✓	✓	✓

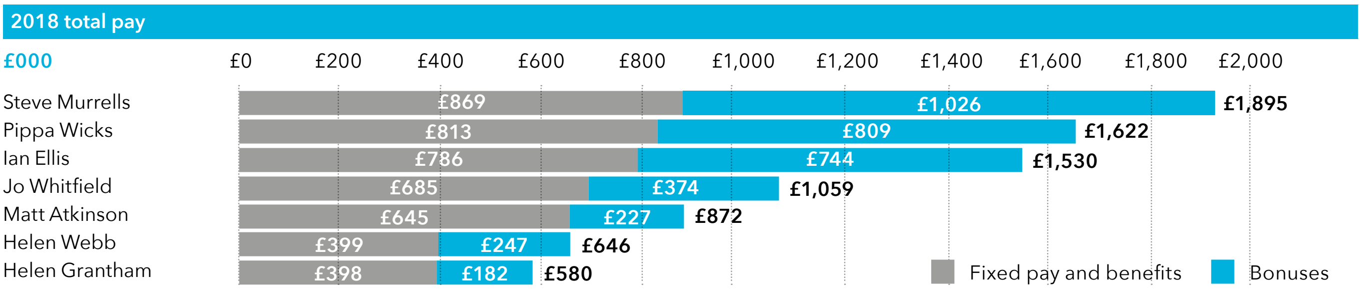
2018 pay

The key elements of pay for our Executive are:

Total Pay	Salary	Benefits	Pension	2018 Bonus Plan (BP)	2016-18 Long Term Incentive Plan (LTIP)
Total Pay is made up of different elements. Salary and benefits are fixed. BP and LTIP are variable and the amount an executive receives depends on the performance achieved.	Our Executive receives a salary for performing their core role.	The benefits provided are in line with what happens elsewhere and could include a car or car allowance, fuel in certain cases, relocation assistance, healthcare cover and life cover.	Opportunity to participate in Co-op's pension plan or receive a cash allowance instead.	Payments are based on a combination of business and individual performance. For 2018 our executives were paid between 64.25% and 74.96% of their maximum bonus opportunity. 50% of the award is deferred for two years.	Awards are cash based, have a three-year performance period, and the amount paid will depend on the level of performance against the measures and targets set at the start of the three-year plan.

2018 total pay

The chart below shows the pay which our executives received in 2018 and full details can be found in the Annual Report on Remuneration which starts on page 82.



Notes to chart

1. The 2018 financial year ran from 7 January 2018 to 5 January 2019 which is a week shorter than the 2017 financial year which ran from 1 January 2017 to 6 January 2018.
2. Matt Atkinson joined our Co-op on 16 October 2017 on a one day a week basis, changing to full time on 8 January 2018.

I Executive Pay Policy

Reward philosophy

Our Co-op is committed to an approach to pay that is clear visible and fair which allows us to compete for skills and talent while encouraging and rewarding high performing colleagues. It also must reflect the Purpose and Values of our Co-op.

This is supported by the following reward principles:

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

Summary of Executive Pay Policy

Our current Executive Pay Policy is summarised below.

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

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

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

Bonus Plan	
Purpose and link to strategy	To motivate and reward achievement of key business performance measures which support the delivery of our Purpose and Values.
Summary and operation	Our Executive will be eligible for a payment under a Bonus Plan (BP) agreed by the Committee. The performance measures and targets for each annual BP cycle will be set at the start of each year. Payments will be based on a combination of business and individual performance. 50% of any award is subject to a two-year deferral period – not all of the award will be paid in one go – 50% will be paid two years later. Payments made under the BP are subject to malus and clawback provisions.
Maximum Opportunity	The maximum possible bonus opportunity under the BP is 250% of salary. The maximum amount payable under the BP varies by Executive member and is set at an appropriate level in accordance with our reward philosophy. Target performance bonus is 50% of maximum. Also see Note 1

Notes to table

1. The performance measures for the 2019 Bonus Plan are shown on page 79.

Following the implementation of the BP in 2018 we no longer operate the LTIP. LTIP awards which have already been granted continue. This applies to those made in 2016 and 2017. If goals are met payments can still be made in 2018 and 2019 for these awards. No new awards will be made under the LTIP. For further details please refer to our previous Executive Pay Policy which can be found in our 2017 Report of the Renumeration Committee.

Implementation of the Pay Policy in 2019

Base salary

Annual base salaries for our Executive are set out below:

Executive member	2018[1] £000	2019 £000	Comments
Steve Murrells	750	750	Joined Executive 16 July 2012, promoted to Chief Executive 1 March 2017
Pippa Wicks	700	700	Joined Executive 1 April 2016, promoted to Deputy Chief Executive 1 March 2017
Ian Ellis	700	700	Joined Executive 4 September 2015
Jo Whitfield	550	550	Interim appointment to Executive 1 March 2017, promoted to Chief Executive, Food 17 July 2017
Matt Atkinson[2]	110	450	Joined Executive 16 October 2017
Helen Webb	350	350	Joined Executive 18 April 2017
Helen Grantham	350	350	Joined Executive 11 January 2016, promoted to Group Secretary and General Counsel 1 July 2017

Notes to table

1. Salaries are as at 1 January or appointment date to our Executive if later.
2. Matt Atkinson joined our Co-op on 16 October 2017 on a one day a week basis. He changed to full-time on 8 January 2018 and his full time salary is shown for 2019.

We benchmark the total pay of our Executive using market data from a pre-determined comparator group comprising a selection of retail PLCs, mutuals and co-operatives as determined by the Committee.

The Committee has determined that no annual salary increases will be made in 2019 for our Executive.

Benefits

Our Executive will receive benefits in line with the current policy.

Pension

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

Bonus Plan

This was a new scheme introduced in 2018, and replaced the previous Annual Incentive Plan and Long Term Incentive Plan.

The table below sets out the maximum amount each Executive member can receive under this plan in 2019.

Executive member	Maximum BP opportunity as a % of bonusable pay
Steve Murrells	250%
Pippa Wicks	200%
Ian Ellis	180%
Jo Whitfield	150%
Matt Atkinson	150%
Helen Webb	150%
Helen Grantham	150%

Performance under this plan is assessed by reference to a number of measures which we believe are important to our Co-op. This goes beyond just financial performance and also covers other areas we know our members also care about like community and colleagues as well as personal performance. The 2019 balanced scorecard measures and their weightings are detailed below:

2019 Balanced scorecard measures	Weighting
Stronger Co-op	
Co-op Operating Profit	50%
Colleague – measures focused on building and maintaining colleague engagement	10%
Stronger Communities	
Member – measures focused on our membership proposition	10%
Community – measures focused on championing co-operation and engagement with community activities	10%
Personal performance	
Assessment of how each Executive performs against their job requirements and our Co-op 'Ways of Being'.	20%

Key requirement
Underlying profit before tax is an important performance measure for us to enable us to deliver strategic objectives of our Co-op. If we do not achieve a minimum of 90% of our 2019 profit target then no payment will be made under this plan.

The Committee will look at performance at the end of each year and decide what should be paid under the BP scheme. The Committee can decide nothing is paid or that a payment is made between nil and the maximum opportunity for each executive depending on performance. The Committee has discretion to adjust targets, performance results or payments (up to the maximum or down to zero) for exceptional events which they were not aware of at the time of granting the award.

Policy for the recruitment of new members of our Executive

The pay package for any new executive will be set using the same policies that apply to current executives, benchmarked externally by role. This means that the Committee would set a total pay package that is aligned to an appropriately-defined basket of external comparators, while ensuring that it pays no more than is necessary to secure the individual.

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

- **Relocation.** The Committee will consider contributing towards relocation costs for an executive who needs to move home to be closer to their place of work or stay close to their place of work during the working week. When applicable, this is provided under a relocation policy that seeks to provide appropriate financial assistance based on the nature of the move and individual circumstances, without encouraging people to spend extended periods away from family.
- **Forfeiture of previous bonus type awards.** Under exceptional circumstances and at its absolute discretion, the Committee will consider compensating a new executive for variable bonus awards lost from a previous employer. The exact type and amount of compensation will vary depending on the variable bonus plans operated by the previous employer. Any payments agreed under this policy will not be more generous than, and will mirror as far as possible, the terms of the forfeited awards and will be subject to performance criteria.

Entitlements of executives on leaving our Co-op

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

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

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

The Committee has discretion to determine whether, and to what extent, a leaver is allowed to retain LTIP awards they already hold and whether any part of the BP payment for the financial year should be made in respect of the period they have been employed. In exercising its discretion the Committee will take account of the reasons for leaving, performance and contractual commitments.

Comparison of pay policies for our Executive and wider colleagues

For base salary, benefits and pension, the same market-aligned principles are applied to all colleagues. The stated policy is that total pay for good performance should be aligned to an appropriately defined basket of external comparators. That policy will apply to all colleagues.

Our Co-op's long-term ambition is for all colleagues to be eligible to participate in a bonus scheme. However, our primary focus is on making sure pay rates for all our customer-facing colleagues remain competitive.

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

Fees for non-executive directors

Fees for non-executive Board directors are determined by the Non-Executive Fees Committee of Council. Fees are described in the section Annual Report on Remuneration on page 86.

II Annual Report on Remuneration

What did our Executives earn in total during the year?

The table below shows the pay received by our Executives while appointed to our Executive during the 2018 financial year.

It is important to note that this financial year ran from 7 January 2018 to 5 January 2019 meaning it was a week shorter than 2017. This explains why, for example, the basic salary and benefits shown for Steve Murrells are lower in 2018 than 2017, even though there has been no change to either pay element.

Table 1a – 2018 pay for our Executives in post at 5 January 2019

Name of executive	Date appointed to Executive (Note 1)	Date stepped down from Executive (Note 1)	Period	Basic salary £000	Taxable benefits (Note 3) £000	BP (Note 4) £000	LTIP (Note 5) £000	Pension benefits (Note 6) £000	Other (Note 7,8) £000	Total £000
Steve Murrells	16 Jul 2012	–	**2018**	**750**	**44**	**696**	**330**	**75**	**-**	**1,895**
			2017	764	43	645	518	76	-	2,046
Pippa Wicks (Note 7)	1 Apr 2016	–	**2018**	**700**	**15**	**525**	**284**	**70**	**28**	**1,622**
			2017	700	15	588	-	70	46	1,419
Ian Ellis	4 Sep 2015	–	**2018**	**700**	**16**	**436**	**308**	**70**	**-**	**1,530**
			2017	713	16	381	376	71	34	1,591
Jo Whitfield (Note 7)	1 Mar 2017	–	**2018**	**550**	**15**	**306**	**68**	**48**	**72**	**1,059**
			2017	422	11	142	-	42	76	693
Matt Atkinson (Notes 7 and 8)	16 Oct 2017	–	**2018**	**443**	**14**	**227**	**-**	**44**	**144**	**872**
			2017	35	1	-	-	3	-	39
Helen Webb	18 Apr 2017	–	**2018**	**350**	**14**	**182**	**65**	**35**	**-**	**646**
			2017	254	11	103	98	25	-	491
Helen Grantham	11 Jan 2016	–	**2018**	**350**	**13**	**182**	**-**	**35**	**-**	**580**
			2017	328	12	38	-	33	73	484

Notes to Table

1. The date of appointment to or stepping down from the Executive may differ from the date service commenced or terminated with our Co-op.
2. The 2018 financial year ran from 7 January 2018 to 5 January 2019, which is a week shorter than the 2017 financial year which ran from 1 January 2017 to 6 January 2018.
3. Taxable benefits include car, fuel, car cash allowance and healthcare (where applicable).
4. BP payments for 2018 relate to payments under our new Co-op Bonus Plan. The amounts shown represent 50% of the earned award which is payable in May 2019. The other 50% is deferred for two years and paid subject to still being employed by our Co-op and not under notice and the rules of the BP.
5. LTIP payments relate to cash payments made under the 2016-18 Long Term Incentive Plan.
6. Pension includes Co-op Defined Contribution pension plan or cash allowance in lieu of pension provision.
7. Other payments in 2018 financial year, which were agreed at the date of appointment, include:
   - Payments were agreed under the relocation policy to assist executives to stay close to their workplace during the working week. During 2018 Pippa Wicks received £27,822 and Matt Atkinson received £44,135.
   - A payment of £71,632 was made to Jo Whitfield as compensation for incentive scheme awards that she forfeited on taking a new position with our Co-op.
8. Matt Atkinson joined our Co-op on 16 October 2017 on a one day a week basis, changing to full-time on 8 January 2018. A payment of £100,000 was made to Matt Atkinson to compensate for additional days worked in our Co-op prior to changing to full-time.

Will our Executive receive a salary increase in 2019?

The Committee has decided that there will be no annual salary increases in 2019.

What LTIP scheme interests do our executives hold?

Awards were made annually under the Long Term Incentive Plan (LTIP), and any payments due are made in cash, subject to the achievement of performance conditions over a three year period. Table 2a shows the maximum potential LTIP awards held by executives in post at 5 January 2019. Table 2b shows the maximum potential award under each plan for those who were executives at the time of leaving.

Lapsed awards include the portion of the award that did not pay out due to not fully meeting the performance conditions.

Table 2a – LTIP awards held by our executives in post at 5 January 2019

Name of executive	Notes	Award	Notes	Maximum award opportunity at start of the year £000	Awards vested in year £000	Awards lapsed in year £000	Maximum award opportunity at the year end £000
Steve Murrells		2017-2019	1	750	-	-	750
		2016-2018	2	750	330	420	-
Pippa Wicks		2017-2019	1, 5	692	-	-	692
		2016-2018	2, 5	646	284	362	646
Ian Ellis		2017-2019	1, 6	700	-	-	700
		2016-2018	2	700	308	392	-
Helen Grantham		2017-2019	1, 4	175	-	-	175
Helen Webb		2017-2019	1, 7	148	-	-	148
		2016-2018	2, 7	148	65	83	-
Jo Whitfield		2017-2019	1,7	155	-	-	155
		2016-2018	2, 7	155	68	87	-

Notes to Table 2a

1. The 2017-2019 LTIP awards are subject to performance conditions and the measures are:
   - Net debt to EBITDA ratio (50% weighting)
   - Membership spend as a percentage of total sales value (25% weighting)
   - Co-op colleague engagement (25% weighting)
2. The 2016-2018 LTIP awards are subject to performance conditions, and the measures are:
   - Net debt to EBITDA ratio (40% weighting)
   - Membership spend as a percentage of total sales value (25% weighting)
   - Co-op colleague engagement (25% weighting)
   - Brand health (10% weighting)
3. A 2017-19 LTIP grant was not made to Matt Atkinson due to starting after the cut-off to join the plan.
4. Helen Grantham held an interim position during 2016 and therefore was not eligible to participate in the 2016-18 LTIP scheme.
5. Adjustment has been made to Pippa Wicks' grant salary due to a change in working hours during the performance period.
6. Ian Ellis will be retiring from our Co-op following the 2019 AGM. The Committee has determined that he is a qualifying leaver from 2017-19 LTIP scheme. His unvested award will be pro-rated to time served as a member of the Executive during the performance period. The award remains subject to the original performance measures and the original performance periods.
7. LTIP grants made while employed in previous roles in our Co-op which were not on our Executive.

Table 2b – LTIP awards for executives who left the Executive

Name of executive	Award	Notes	Maximum award opportunity at start of the year £000	Awards vested in year £000	Awards lapsed in year £000	Maximum award opportunity at the year end £000
Richard Pennycook	2016-2018	1, 2	521	229	292	-
Rod Bulmer	2016-2018	1, 3	361	159	202	-
Alistair Asher	2017-2019	1, 4	550	-	351	199
	2016-2018	1, 4	550	168	382	-

Notes to Table 2b
1. Under the terms of their leaver arrangements the former Executive members in the table who left our Co-op retained parts of their LTIP awards that related to the period they were in employment. These remain subject to the original performance measures and the original performance periods. Payments are due on the vesting of these awards following the end of the performance period.
2. The Committee has determined that Richard Pennycook is a qualifying leaver from 2016-18 LTIP scheme. His unvested awards are pro-rated to time served as a member of the Executive during the performance period for each scheme. These remain subject to the original performance measures and the original performance periods.
3. The Committee has determined that Rod Bulmer is a qualifying leaver from 2016-18 LTIP scheme. His unvested awards are pro-rated to time served during the performance period for each scheme. These remain subject to the original performance measures and the original performance periods. Adjustment has been made to Rod's grant salary due to a change in working hours during the performance period.
4. The Committee has determined that Alistair Asher is a qualifying leaver from both 2016-18 and 2017-19 LTIP schemes. His unvested awards are pro-rated to time served during the performance period for each scheme. These remain subject to the original performance measures and the original performance periods.

What deferred BP awards do our Executives hold?

Awards are made annually under the Bonus Plan (BP), and any payments due are made in cash, 50% of all awards are deferred for two years. Table 3a shows the value of the deferred award held by executives in post at 5 January 2019.

Table 3a – deferred BP awards held by our Executives in post at 5 January 2019

Name of Executive	BP Award Year	Notes	Value of BP Award deferred £000
Steve Murrells	2018	1	696
Pippa Wicks	2018	1	525
Ian Ellis	2018	1, 2	436
Jo Whitfield	2018	1	306
Matt Atkinson	2018	1	227
Helen Webb	2018	1	182
Helen Grantham	2018	1	182

Notes to Table 3a
1. The 2018 BP deferred award is 50% of the total 2018 BP award which is deferred for two years after the 2018 BP awards were made.
2. Ian Ellis will be retiring from our Co-op following the 2019 AGM, so the 2018 deferred BP award will lapse and therefore not be paid.

What pension benefits are our Executives entitled to?

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

Table 4a – Pension entitlements for executives in post at 5 January 2019

Name of Executive	Date appointed to Executive	Years of Group Service	Period	Employer Contributions to Defined Contribution Pension £000	Payment in lieu of pension benefit £000	Total Pensions Benefits £000
Steve Murrells	16 Jul 2012	6	2018	-	**75**	**75**
			2017	-	76	76
Pippa Wicks	1 Apr 2016	2	2018	-	**70**	**70**
			2017	-	70	70
Ian Ellis	4 Sep 2015	3	2018	-	**70**	**70**
			2017	-	71	71
Jo Whitfield	1 Mar 2017	3	2018	7	**48**	**55**
			2017	6	36	42
Matt Atkinson	16 Oct 2017	1	2018	-	**43**	**43**
			2017	-	3	3
Helen Webb	17 Apr 2017	5	2018	-	**35**	**35**
			2017	-	25	25
Helen Grantham	11 Jan 2016	3	2018	-	**35**	**35**
			2017	-	33	33

Notes to Table 4a

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

What arrangements have been agreed for former Executives?

No Executives left during the 2018 financial year.

Non-executive directors' remuneration

This section of the report includes details of the payments made to the non-executive directors (NEDs) in office during 2017.

What are the fees for the NEDs for 2018?

NED Role	Fees
Chair	• The basic fee for the Chair role is £250,000 per annum. There has been no change in annual fee between 2015 and 2018. No additional fees are paid.
Independent Non-Executive Directors (INEDs)	• The basic fee for an INED is £60,000 per annum. • The following additional fees apply: – Senior Independent Director £15,000 – Chair of Risk and Audit Committee £15,000 – Chair of Remuneration Committee £15,000 • There is no additional fee for the Chair of Nominations Committee or for being a member of any committee
Member Nominated Directors (MNDs)	• The basic fee for an MND is £60,000 per annum. • The same additional fees for the INEDs apply to MNDs who are Chairs of a committee. There is no additional fee for being a member of any committee.

Since his appointment date, the Chair has waived his fee of £250,000 per annum. Instead this is paid direct by our Co-op to charity. In 2018, it was paid to The Co-operative Community Investment Foundation (Co-op Foundation). The Chair also has access to a pool car and driver for Co-op business if required. No other benefits will be provided for the Chair or any other NED member of our Board.

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

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

No additional fees will be paid to an executive who sits on our Board or on any of the operating division boards.

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

How long are directors appointed to our Board for?

Appointments to our Board are for the following periods:

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

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

What did the NEDs earn during the year?

The table below shows the fees paid to our NEDs during the 2018 financial year.

Table 5a – Non-executive members of our Board at 5 January 2019

Name of Executive	Notes	Board £000	Risk and Audit Committee Chair £000	Remuneration Committee Chair £000	Senior Independent Director £000	2018 Total £000	2017 Total £000
Allan Leighton (Chair)	1,3	**See note 1**	-	-	-	-	See note 1
Sir Christopher Kelly	2,3	**60**	-	-	**15**	**75**	76
Simon Burke	2,3	**60**	**15**	-	-	**75**	76
Stevie Spring	2,3	**60**	-	**15**	-	**75**	76
Lord Victor Adebowale CBE	3	**60**	-	-	-	**60**	61
Hazel Blears	3	**60**	-	-	-	**60**	61
Margaret Casley-Hayford	3	**60**	-	-	-	**60**	61
Paul Chandler	3	**60**	-	-	-	**60**	61
Gareth Thomas	3	**60**	-	-	-	**60**	38
Rahul Powar	4	**24**	-	-	-	**24**	-

Notes to Table 5a

1. Since his appointment date, the Chair has waived his fee of £250,000 per annum. Instead this is paid direct by our Co-op to charity. In 2018, it was paid to The Co-operative Community Investment Foundation (Co-op Foundation).
2. The Risk and Audit Committee Chair, the Remuneration Committee Chair and the Senior Independent Director each receive an additional fee of £15,000 per annum.
3. The 2018 financial year ran from 7 January 2018 to 5 January 2019, which is a week shorter than the 2017 financial year which ran from 1 January 2017 to 6 January 2018.
4. Rahul Powar was appointed as an Independent Non-Executive Director on 23 July 2018.
5. No additional fee is paid to the Chair of the Nominations Committee.

Table 5b – Former non-executive members of our Board who left during 2018 financial year

Name of Executive	Notes	Board £000	Risk and Audit Committee Chair £000	Remuneration Committee Chair £000	Senior Independent Director £000	2018 Total £000	2017 Total £000
Peter Plumb	1,2	**23**	-	-	-	**23**	61

Notes to Table 5b
1. The 2018 financial year ran from 7 January 2018 to 5 January 2019, which is a week shorter than the 2017 financial year which ran from 1 January 2017 to 6 January 2018.
2. Peter Plumb stepped down from our Board on 19 May 2018.

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

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

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

Members of the Committee
Details of the Committee members and their attendance at meetings during 2018 are provided on page 60.

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

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

Independent advice
In carrying out its responsibilities, the Committee has access to independent advice as required. During 2018 the Committee retained Deloitte as its independent remuneration adviser. The fees paid to Deloitte during this period totalled £45,000 excluding VAT.

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

The Committee takes legal advice from our Co-op's internal legal team and also from external legal advisers where appropriate. No external lawyers were used during 2018.

Report of the Nominations Committee

Introduction from the Committee Chair, Allan Leighton

This report sets out the Committee's work throughout 2018. I reported last year that there was stability and continuity within our Board, with the Directors collectively developing into a strong team, and I'm delighted to say the good progress has continued this year.

We also explained in last year's report what the main outputs from the 2017 external Board Effectiveness Review were and that the main focus for the Committee in 2018 would be:

- Continuing work on Board succession planning
- Doing an internal Board evaluation, which would include the action taken in response to the 2017 external review and its impact (as well as covering any areas required by our Rules)
- Continuing with the search for an extra Independent Non-Executive Director (INED) with strong digital and technology skills
- Finding a suitable replacement for Peter Plumb

The progress our Board has made against the 2017 outputs and what our Committee has done in respect of each of these focus areas is in this Committee Report.

Our Committee had meetings in January, April, June and November. There were two director changes during the year as Peter Plumb stood down from our Board at the AGM in May 2018, to focus on his new appointment as CEO of JUST EAT PLC and Rahul Powar was appointed as an additional INED. I'd like to thank Peter for his valuable insight and contribution to our Board during his time in office. We know there are likely to be two Board changes in 2019 as the search continues for an INED to replace Peter Plumb and Ian Ellis will be retiring as CFO at the AGM in May 2019. The Committee has been considering both appointments and will report further when appointments are made.

Our Committee dealt with all of its 'routine business', such as checking the eligibility and membership criteria for Directors, reviewing and updating terms of reference and approving statements for INEDs due for re-election at the AGM.

We also reviewed our Board Diversity Policy. I mentioned last year that our Board strongly believes that diversity brings improved decision making. When recruiting, we always seek the best candidate for the role regardless of gender, ethnicity or any other specific characteristics.

Succession planning will come back into focus for 2019 as the Committee reviews the impact of Rule changes to Director terms of office voted for by the members and I'm looking forward to leading the Committee in ensuring our Board continues to have a good balance of skills and experience to function well.

Allan Leighton
Chair of the Nominations Committee

What does our Nominations Committee do?

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

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

The Committee's Terms of Reference were reviewed in June 2018 and are available on our website: https://www.co-operative.coop/investors/rules

2018 Focus areas

Board Succession Planning
There is a Board Succession Plan in place for key roles (i.e. Chair, Senior Independent Director, Chairs' for the Risk and Audit, Remuneration and Nominations Committees and the Chief Executive and Chief Finance Officer).

The Chief Executive, with the support of the Chief People Officer, leads on succession planning for the Executive with review by our Board.

Following the governance reforms in 2014/2015 maximum terms of office were six years from initial election for MNDs and six years from the AGM following the date of their initial appointment for INEDs. Given a number of the Directors had been appointed / elected in 2015 / 2016 this meant that the maximum term of office for a large proportion of our Board would have been in close proximity to one another.

As maximum terms of office for both INEDs and MNDs were extended to nine years at the May 2018 AGM, the Committee reviewed the position during the second half of 2018 and took the view the existing plan for key roles remained appropriate. They also agreed to revisit the wider aspects of succession planning once the balance of skills and experience on our Board was settled following the appointment of Rahul Powar and replacements for Peter Plumb and Ian Ellis.

Internal Board Evaluation
2017 saw an external Board Evaluation process facilitated by Independent Audit Limited. This process was led by the Senior Independent Director, Sir Christopher Kelly, at the request of the Chair, who discussed the outputs from the report with the Council's Governance Committee. Those outputs formed the basis of an action plan for 2018 and were fully discussed in last year's report.

At the request of the Chair, Sir Christopher facilitated an internal Board Evaluation for 2018, which focussed on the actions arising from the external 2017 process.

The process was based on a questionnaire and Board members were asked to rate their degree of satisfaction with different aspects of performance on a five point scale. The results were discussed by the Directors, in the absence of the Chair and Chief Executive and separately with the Chair and Chief Executive to cross-check the results from an Executive perspective. The Council President and the Group Secretary were also consulted. Sir Christopher is also scheduled to discuss the outputs with the Council's Governance Committee.

The general conclusion from the review was that our Board has continued to work effectively. There was a good amount of both challenge and support by our Board of the Executive and relationships were felt to be underpinned by mutual respect and openness.

A summary of key areas for action from our 2017 review is below:

- Increasing the focus on Board succession planning, using the existing skills matrix to help inform this discussion, and increasing transparency to our Board on executive succession planning
- Encouraging management to focus on further development of the HR processes
- Ensuring that our Board's role is distinct relative to the responsibilities of the Executive and the Council
- Continued focus on the medium and long-term direction of our Co-op and its future beyond turnaround, balancing commerciality and co-operability
- Continuing to develop the risk management approach, consolidating the improvements in this area that have already taken place

Good progress is being made in all areas identified by the 2017 external evaluation.

For 2018, in common with all Boards, further opportunities were identified to increase Board effectiveness and these will form the basis of the internal evaluation for 2019.

- Continued focus on effective meeting management
- Continued focus on medium and long-term vision and checking that the culture of the organisation supports it appropriately
- Continued focus on maximising the opportunities and effectiveness of working with Council
- Ensuring the level of visibility and feedback between our Board and its committees is appropriate
- Executing the plan of greater visibility of Executive succession planning
- Consideration of whether performance monitoring across all areas of the business is appropriately balanced
- Consideration of how to maximise Board engagement in emerging thinking about future strategic decisions.

Appointment of Directors

During the year, working with recruitment consultants The MBS Group, the Committee oversaw the process leading to the appointment of Rahul Powar as an additional INED. This process took into account the required balance of skills, experience and diversity of our Board as a whole, Rahul's commitment to Co-operative Values and Principles and also the need to meet the eligibility and membership requirements to be appointed to our Co-op's Board.

The MNDJC was responsible for the MND election process which saw Hazel Blears and Margaret Casely-Hayford being re-elected for additional terms as MNDs.

Diversity
Our Board comprises:
- Men: (9) 75%
- Women: (3) 25%
- Black, Asian and Minority Ethnic (BAME): (3) 25%

During the year, our Committee reviewed our Board Diversity Policy, which they felt continued to align to our colleague Diversity and Inclusion Policy, which can be found at: https://www.co-operative.coop/investors/rules

Our Co-op has a strong commitment to diversity and inclusion, making sure that directors of the highest calibre meet all the requirements of our Board Composition Charter. This means that all Directors have the necessary skills and experience to understand a business of the scale and complexity of our Co-op while bringing diversity of thought to debate on issues our Board has to consider. An example of this is the appointment of Rahul Powar during 2018 who brought a wealth of knowledge and experience from the digital and technology sector, which had been identified as an area where our Board would benefit from additional experience.

Review of INEDs' and Executive Directors' qualification and commercial experience (including Membership Criteria and Eligibility Criteria)
Following 1-2-1's between the Chair and each of the Directors as part of his year end assessment and having reviewed the qualifying and commercial experience for INEDs and Executive Directors throughout the year (including the Membership Criteria and Eligibility Criteria) our Committee can confirm that the INEDs and the Executive Directors have all met the requirements and shown continued strong commitment to Co-operative Values and Principles.

Recommendation to the Non-Executive Directors' Fees Committee
During the year the Committee considered benchmarking data in relation to fees for the Chair, Chairs of committees, Senior Independent Director, INEDs and MNDs and recommended that no change should be made to the level of these fees.

Committee Membership and Attendance
Details of the Committee members and their attendance at meetings held during 2018 are found on page 60.

Look back at 2018

Last year we reported the Committee's focus for 2018 would be on:
- Continuing work on Board succession planning (which has happened and is ongoing)
- Doing an internal Board evaluation, which will include the action taken in response to the 2017 external review and its impact (as well as covering any areas required by our Rules) (which has been done)
- Continuing with the search for an extra INED with strong digital and technology skills (which led to the appointment of Rahul Powar)
- Finding a suitable replacement for Peter Plumb (which is ongoing)
- Following Ian Ellis' decision that he would be retiring at the 2019 AGM, the Committee has also been working with the Chief Executive and Chief People Officer on finding a replacement (which is ongoing)

Focus for 2019

For 2019 the primary focus for the Committee will be:

- Helping our Board conclude the appointment of an INED to replace Peter Plumb
- Helping our Board conclude the appointment of a replacement for Ian Ellis as CFO
- Continuing work on our Board Succession Plan
- Conducting an internal Board evaluation, to cover any areas required by our Rules and focussing on development areas agreed by our Board arising from the 2018 evaluation.

Directors' report

The directors present their report, together with the audited financial statements for the period ended 5 January 2019.

Results and distributions

The profit before taxation from continuing operations was £93 million (2017: Profit £73 million restated). No interim dividend has been paid for 2018 and the members are not being asked to approve any distribution of profits for the year.

Going concern

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

In assessing the appropriateness of the going concern basis of preparation, the directors have considered the going concern position and outlook of the Group.

In making their assessment the directors have considered a wide range of information relating to present and future conditions, including future forecasts of profitability, cash flow and covenant compliance, and available capital resources. Further information relevant to the directors' assessment is provided within the General Accounting Policies section of the financial statements on page 195.

A £450m tranche of our Eurobond expires in July 2020, our intention was to partially re-finance this bond but the on-going uncertainties around Brexit has meant we have not been able to access the capital markets to issue a bond at a pricing level we would be comfortable with. As an alternative approach we have reached an agreement with our banks to provide a £180m liquidity facility to provide us with additional headroom. We will continue to monitor the markets and will look to issue a bond depending on market conditions.

Longer term viability

The directors have assessed whether we will have enough money to continue in business over the longer term. In making that assessment the directors have considered the Group's current position and the potential impact of our principal risks as set out on page 41.

We believe that a three-year period to 31 December 2021 is an appropriate period over which to provide this longer term viability statement given the dynamic nature of the retail sector. This is in line with the period reviewed by the Group board in the strategic planning process.

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

We are due to pay back £450m of bonds in July 2020. We have reached an agreement with our banks to provide a £180m liquidity facility while the capital markets remain unpredictable due to Brexit. However, in carrying out this longer-term viability review, the directors have assumed in the longer term markets become more liquid and that the £450m bond facility will be replaced in full by December 2020. Furthermore, the

£355m Revolving Credit Facility matures in February 2021.
The directors are confident that both of these facilities can be replaced and are not aware of any reason why this will not be achieved.

Following their review, the directors have therefore concluded that they have a reasonable expectation that the Group will have enough money to continue in business over the period to 31 December 2021.

Post balance sheet events

In January 2019 we announced Co-op had exchanged contracts for the sale of its insurance underwriting business, CIS General Insurance Limited, to Markerstudy, whilst also confirming a 13 year agreement with Markerstudy to distribute motor and home insurance products. The deal is subject to regulatory approval, and is expected to complete during 2019.

In February 2019 we announced internally that we were closing Co-op Electrical. Our decision reflects the small scale of our online electrical offer which accounts for less than 1% of annual Co-op turnover. Our review showed that significant capital investment would be needed to expand the business in a market which is facing significant challenge and uncertainty.

In March 2019 we reached an agreement with our banks to provide a £180m liquidity facility to provide us with additional headroom. More details are given in the Finance Review.

In March 2019 the CMA has announced it's decision to launch and in-depth market investigation into the funeral sector.

Further information is provided in note 37 of the notes to the financial statements on page 186.

Corporate governance report

The corporate governance report is on page 49. This includes information on the appointment and retirement of directors, directors' conflicts of interest and directors' indemnities.

Employees and employment of people with disabilities

Information on our approach to the employment, development and engagement of colleagues can be found in the supporting our colleagues section on page 20.

Community, campaigns and sustainability

Information on our community and campaigns can be found on page 24 and on sustainability on page 17. More information can also be found in our Co-op Way Report which has been published alongside this report.

Greenhouse gas emissions

Since 2016, our total direct greenhouse gas (GHG) emissions have reduced by 33% as detailed in the table below. Total direct GHG emissions decreased by 20% in 2018. This is due to using less energy, a significant decrease in emissions from fugitive refrigerant gases and the UK grid electricity mix being much less carbon intensive in 2018.

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

Last year we hit our long term target to halve our greenhouse gas emissions from 2006 to 2020, and so this year we are setting a new target: to halve our GHG emissions again by 2025, in line with the reductions needed to keep global warming to well below 2°C, a threshold for some of the most dangerous impacts of climate change.

Direct greenhouse gas emissions since 2006 – location based

2006	2016 new baseline	2017 (location based)	2018 (location based)
1,204,760	652,689	542,480	**435,980**

Direct greenhouse gas emissions since 2006 – market based

2006	2016 new baseline	2017 (market based)	2018 (market based)
1,204,760	338,209	296,714	**247,417**

Scope 1 and 2 GHG emissions by source – location based

	tCO2e
Scope 1 – Refrigeration	104,343
Scope 1 – Transport	116,053
Scope 1 – Heating / Generation	27,021
Scope 2 – Electricity	188,563
Total	**435,980**

Scope 1 and 2 GHG emissions by source – market based

	tCO2e
Scope 1 – Refrigeration	104,343
Scope 1 – Transport	116,053
Scope 1 – Heating / Generation	27,021
Scope 2 – Electricity	-
Total	**247,417**

Carbon intensity

	2016	2017	2018
Tonnes CO_2 – equivalent per £m gross income	**63.5**	**52.8**	**42.7**

Energy efficiency

To reduce our energy consumption we have an ongoing strategy to invest in new technologies, monitor in detail where our opportunities for improvement are, and target upgrades where they're most needed. This has included a new technology system to remotely monitor thousands of different energy consuming assets.

Political donations

Like many other businesses of a comparable size, our Co-op engages with a wide range of political opinion formers and decision makers, designed to protect, promote and enhance our corporate reputation and to deliver our campaigning ambitions.

On issues of relevance to our business, we are also an active participant in the work of business trade associations.

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

We made donations totaling £625,600 (2017: £625,600) to The Co-operative Party, which is our financial subscription to the Party for 2018, in line with our members' approval at the Annual General Meeting in 2017. The Co-operative Party reports donations to the Electoral Commission in accordance with its reporting obligations as a registered political party under the Political Parties, Elections and Referendums Act 2000.

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

A motion will be put to our members at the 2019 Annual General Meeting regarding future political donations, including subscriptions.

Compliance with Groceries Supply Code of Practice

The Groceries Code Adjudicator's (the GCA) investigation report in March 2019 found that we had breached the Groceries Supply Code of Practice (GSCOP) on two counts. We failed to provide reasonable notice to suppliers of decisions to de-list products and varied supply agreements unilaterally and without reasonable notice in the way we applied two specific charges. We recognise the importance that the role of the GCA provides in regulating relationships between retailers and their suppliers and we:

- co-operated fully with the adjudicator and her investigation;
- compensated and apologised to affected suppliers; and
- fundamentally changed how we engage with suppliers and address reasons for non-compliance.

In 2018 we created a new Supplier Engagement team led by a senior food commercial director to transform how we work with our suppliers and to manage our Code related compliance risks. A programme of work has been stood up that is changing our supplier communications, policies, training and processes. At the heart of all the changes we've introduced is a new supplier charter that is based on our Co-op values and that sets out the behaviours that are expected of all colleagues who interact with suppliers.

We are presently working with the GCA on her recommendations and how these will be effectively implemented.

Outside of the investigation and report we continue to value the positive engagement with the GCA with our Co-op. The GCA has identified delays in payments and promotions and forecasting as top issues for retailers to monitor and this focus has been helpful. Our Code Compliance Officer has visibly and regularly encouraged suppliers to share their experiences of dealing with the Co-op and to report any potential breaches of the Code to him. He reports regularly to the Risk & Audit Committee and actively takes part in relevant governance fora.

In 2018, we revamped our GSCOP training approach and material. We identified colleagues across buying, finance, supply chain and other functions as having high supplier engagement or low supplier engagement and trained over 1,000 colleagues as appropriate.

In 2018, 24 suppliers formally raised Code related complaints with us. This includes four issues raised by suppliers where information was requested by Co-op but nothing further was provided and we have therefore considered this as withdrawn by the supplier. We resolved the concerns through discussion with the buying team and the relevant supplier, sometimes with the involvement of the CCO. Three issues were still under review at the reporting date.

Suppliers are encouraged to contact our CCO (Co-op.Code.Compliance.Officer@coop.co.uk) if they want more information.

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

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

Co-operative and Community Benefit Society law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU ('IFRSs as adopted by the EU').

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

In preparing the Group financial statements, the directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

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

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

Each of the directors listed on pages 45 - 47 confirms that, to the best of their knowledge:
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report and Governance Report contained in the Annual Report and financial statements include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

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

Financial statements

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

Auditors

A resolution to re-appoint Ernst & Young LLP as auditors of the Group and to determine their remuneration for the forthcoming year will be proposed at the 2019 Annual General Meeting.

By Order of the Board

Helen Grantham
Group Secretary and General Counsel
4 April 2019

Your Council's annual statement for 2018

The National Members' Council is elected by you, our members. In 2018 we have been focusing on the influence which Council members have in championing Co-operative Values and Principles within our Co-op. Here we'll report on the progress we have made in 2018 and highlight where we intend to develop our activity further in 2019 to add value to our Co-op.

Co-op Compass

The Council has a role in reporting to members on the performance of our Co-op Board. The Co-op Compass is the framework created by the Council to hold the Board to account for the decisions it makes and has four 'lenses'

- Member Value
- Member Voice
- Ethical and Sustainable Leadership
- Co-operative Leadership

Under each of these lenses the Board reports to the Council half-yearly on a number of key performance indicators (KPIs) with supporting information. These KPIs are the focus for our discussion with directors and senior management which go on throughout the year. Through these debates and interactions Council members have the potential to influence our Co-op and ensure that the views of members are taken into consideration.

This is in addition to Council's formal governance role, such as providing advice and guidance to the Board, and jointly agreeing certain policies and decisions, such as our Co-op's campaigns, community plans and the decision not to hold a Half Yearly Meeting in 2018 and instead focus on more local member events.

Member Value

The markets in which we trade, in particular food retail, are changing with increased competitive pressure. Despite the testing economic environment it's important that your Co-op remains commercially strong and the Council is pleased by what has been achieved in 2018. The Council has challenged the directors on financial performance and is pleased to see a reduction in the cost of supporting functions. This is an area which the Council has championed as part of its commitment to ensure that more value can be returned back to members and communities.

Goal: Create sustain and develop Member Value

Member Value Lens

The Council's Member Value and Business Performance Committee has been established to review our Co-op's financial performance. The Chief Finance Officer regularly attends its meetings so it can understand how targets are being met. The Council robustly challenges the Board to ensure that investment in the business is seeing the greatest benefits for members.

We've monitored the benefits returned to individual members through the 5% membership reward which is boosting own brand food sales. Our members have also been really positive about the £19 million raised for local causes, building our member links within communities and strengthening understanding of the co-operative model. The success of the membership offer and the long-term financial impact of this scheme is one of our key focus areas and Council will continue to monitor this.

Goal: Members contribute positively and proactively to their society – both economically and democratically

Member Voice Lens

Member Voice

The Member Voice Committee of Council is pleased to see the establishment of emails, blogs, newsletters, social media content and constituency email addresses that have provided greater opportunities for Council members to interact with members, and has been working to establish more opportunities for member engagement.
The Committee has been working with the Member Participation team on the Join-In platform to solicit the views of members, finding out what members wanted to see at our Join in Live events, and to start conversations about Community safety. How we can work more closely to protect our colleagues is a priority area for Council.

Our Join in Live events are a key channel for Council to meet people at a local level and fulfil its role in representing the views of members. Council members hosted 24 events in communities across the UK in autumn 2018 and heard feedback from 1,395 members on key local and national issues. The events provided updates on our business performance, our Future of Food 2030 plans and our work in communities.

There is always more work to be done on communications and Council will continue to explore and promote multi-channel member engagement, in particular the establishment of channels that allow a two-way dialogue with members.

Goal: Demonstrate leadership in ethical and sustainable performance

Ethical and Sustainable Leadership Lens

Ethical and Sustainable Leadership

The Ethical and Sustainable Leadership Committee examines our Co-op's ethical and sustainable business practices, policies and performance. The Committee was involved in the development and launch of our Co-op Future of Food 2030 plan; attending stakeholder workshops in 2017, providing input and feedback into the developing plan throughout 2018, and sharing the plan with members at our Join in Live member events in autumn 2018. The Committee will be using members' feedback from these events to shape its priorities over the next year and engaging with the Board, and informally with wider colleagues, to influence in this area.

The Committee also reviews and comments on our Co-op Way Sustainability Report, on behalf of Council. In 2018 the Committee suggested over 100 changes or amendments to the draft Report and was subsequently very pleased to see our Co-op Way Report win the 2018 edie Award for Sustainability Reporting. The Committee will continue to work with the business to ensure our Co-op maintains and develops its leadership position regarding sustainability reporting.

Goal: Demonstrate leadership in the UK and international co-operative movement

Co-operative Leadership Lens

Co-operative Leadership

As champions of the co-operative business model we really want to see your Co-op being more visible as a co-operative leader in the UK and internationally. During the year John Coombs, Chair of Federal Retail Trading Services (FRTS), the joint buying group for some of the UK's largest retail co-operatives, spoke to Council about the work FRTS do to put Principle 6: Co-operation amongst co-operatives into action.

The Council President represented your Co-op at the ICA General Assembly in Buenos Aires and Council sent delegations to Co-op Congress, Co-op Retail Conference, Co-op Party Conference and the UK Society of Co-operative Studies Conference.

Reviewing the Board – key areas of scrutiny

Council members and Directors have developed constructive relationships that allow for open and robust challenge. The Council holds members' interests at the heart of the work that it does. In 2018 this has continued on the following key areas.

Colleagues
We believe our colleagues are doing a brilliant job every day in serving and supporting our members and customers in all our businesses. The rights and conditions of colleagues is championed in the work we do – whether in the discussions on executive reward, the gender pay gap, protecting the pensions of colleagues, or seeking reassurance that the welfare of colleagues is prioritised in all decisions regarding the sale or closure of stores and businesses.

Retail Crime
At our December meeting, Council unanimously voted for 'Safer Colleagues, Safer Communities' to be our Co-op's next campaign. The campaign will see Co-op leading the fight against retail crime and violence in 2019, by investing in strong partnerships across the retail sector and lobbying for government to keep shop workers and their communities safe.

While we're hoping our campaign makes a difference to the way all retail businesses protect their employees and customers, we've also been investing a lot into the welfare of our own colleagues to set the standard, prevent serious incidents, and offer better support to people in our stores.

Work around this campaign has been a key priority for Council throughout 2018 and Council will be closely monitoring the progress of this campaign in 2019.

Co-op Insurance
At its September 2018 meeting, Council put forward a number of matters upon which it wished to influence the Board, should a decision be taken to sell the insurance underwriting business, with a focus on colleagues, brand and membership.

Whilst the sale of a business is never an easy decision, we were pleased to see that the deal with Markerstudy took into account Council concerns. In particular that a large number of Insurance colleagues will retain jobs and that our Co-op would continue to sell insurance products with the potential to increase the range of products available to meet the needs of Co-op members. Council will continue to monitor the progress of this transaction championing colleagues, brand and membership.

Community strategy and engaging members
Development of our Co-op Community strategy with a clear member focus has been a key area on which Council has worked with Board and Management during the last 12 months. Work to progress the roll out of Member Pioneers, although at a slower pace than Council anticipated, has allowed us to test and learn what works well and update the Member Pioneer model so that this can be scaled to meet the needs of the 1,500 communities which we serve. Council will continue to monitor this area as a priority in 2019 and continue to develop opportunities for local member and community participation, including through creating Co-op Local Forums and other types of local member structures in those areas that members want them.

Reporting on Council activities

Holding the Board to account involves constructive challenge and requires effective communication and dialogue between Council, the Board and Management.

Working collaboratively with Board members and with senior managers, Council members are developing positive relationships for the exchange of views and opinions and members of the Executive and directors attended every Council meeting.

Many opportunities have been arranged and encouraged both formally because they form part of our governance arrangements, but also on a more informal basis. These opportunities are very much welcomed by Council members.

Throughout 2018, Council members have been working informally with some of our senior managers in advisory teams, to provide input and feedback about our Co-op's future ambitions, in areas including membership, community and new opportunities and we're looking forward to influencing these informal discussions through 2019 and beyond.

Council Effectiveness

Over the last 18 months Council established a Rules Review Working Group to consider our Co-op's Rules, Regulations and internal governance structures; their effectiveness and how they could best be developed. This resulted in specific changes to the Rules (2018 AGM) and Regulations plus a constructive dialogue within and between Board and Council. There have been a number of developments including a programme to improve Board and Council effectiveness and establishing a Council Governance Committee.

The Council's Governance Committee has proposed amendments to Regulations and is reviewing Council effectiveness, including soliciting the views of members on how Council can be more effective, in addition to the Board and Council itself providing input to the process.

Council has also commenced research into Member Co-operative Education, Training and Information working with The Co-operative College, Co-operatives UK and The Co-operative Press, as well as asking members to share how they access training and information so we can understand the best ways to deliver this in a way that meets member needs.

We will provide further updates to members on these areas in 2019 and our progress in providing greater opportunities for member engagement and helping the wider world to learn more about the benefits of co-operation and the co-operative business model.

We continue to focus on our AGM, voting in elections and member motions as a key opportunity for democratic member participation in our Co-op. Council is keen to encourage as many members as possible to participate in our AGM and elections and to ensure this is as simple and engaging as possible.

Looking forward to 2019

The Council is working hard to be effective in carrying out its roles and to passionately promote our collective belief that co-operation is a better way of doing business for our members and society at large. We continue to monitor the Board's actions against our Co-op's Rules.

We thank the directors, executive and management for their time and willingness to work together to secure your Co-op's future success. Council recognises that it must continue to strive to become more effective and closer to members and make it easier to solicit and represent our members' views. We thank all our colleagues for their hard work bringing this vision to life and members for your engagement with and support of your Co-op.

Report of the Scrutiny Committee

Our review of Board appointments and elections in 2018

After any non-executive director is appointed or elected, our Co-op has an extra level of checking so members can be sure we've done everything fairly and openly in line with our Values and Principles.

This checking is done by the Scrutiny Committee of the Members' Council and we're pleased to present our report to members for 2018.

Assurances were received that all directors met our Co-op's trading requirement of 1,000 points. Also we've accepted that all directors, other than Executive directors, are 'independent' for the purposes of our Rules.

How directors are appointed

All our directors need to show their commitment to Co-op difference.

There are two types of directors who don't work day-to-day as Executives for our Co-op.

There are those chosen specifically for their skills and experience, and to add diversity and balance to the Board. In 2018 Rahul Powar was appointed in this way. More detail is added below about the process of his appointment.

Lord Victor Adebowale, Simon Burke and Stevie Spring were re-appointed in 2018 for a second term of three years. These re-appointments were approved at the Annual General Meeting in May. The re-appointment of Ian Ellis, as Executive Director was also approved at our 2018 AGM.

Our Co-op also has directors directly elected by members. These individuals need to have the necessary skills and experience of a substantial organisation and awareness of the strategic and operational challenges of a business of the size and complexity of our Co-op. They also need to show very clearly their commitment to bringing the voice of members to the boardroom.

The Scrutiny Committee checks:
- that the selection process for the ballot is fair, open and objective
- the background information gathered on the candidates is satisfactory

Our findings on the 2017/2018 Member Nominated Director candidate ballot selection process

We carefully reviewed information and interviewed the Chair of the Member Nominated Directors Joint Selection and Approval Committee which has the primary responsibility for the selection process of candidates. This committee is made up of both members of the Members' Council and directors. As a result, we believe that the selection process in the 2018 election was fair and that proper background checks were made.

We're pleased there was a contested election of Member Nominated Directors and hope that a greater number of suitable candidates will come forward in future and be accepted on to the ballot.

Appointment of Independent Non-Executive Director – Rahul Powar

The Scrutiny committee reviews the adequacy of background checks and information from standard recruitment searches carried out on potential candidates before their appointment as an independent non-executive director.

We also check the decision made by the Nominations Committee to ensure that all the criteria which must apply to the candidate have been met (such as skills and experience, and commitment to Co-operative Values and Principles). It's important that any appointment is fair, transparent and objective so we look into this on behalf of our members to give that extra level of assurance. In this regard the committee accepted the assurances of the Senior Independent Director on behalf of the Nominations Committee that Rahul Powar met the criteria of eligibility both in terms of his affinity with Co-operative Values and Principles and his relevant skills and experience.

We considered all information on the appointment of Rahul Powar, and interviewed the Senior Independent Director and were satisfied that appropriate due diligence was conducted by reference to the Board Composition Charter and necessary background checks completed.

Financial statements

Contents

Financial statements

Consolidated income statement

for the period ended 5 January 2019

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

Continuing Operations	Notes	2018 £m	2017 (restated*) £m
Revenue	2	**10,162**	8,943
Operating expenses	3	**(10,072)**	(8,839)
Other income	5	**10**	14
Operating profit	1	**100**	118
Finance income	6	**78**	44
Finance costs	7	**(85)**	(97)
Share of profits of associates and joint ventures	26	**-**	8
Profit before tax from continuing operations	1	**93**	73
Taxation	8	**(19)**	(2)
Profit from continuing operations		**74**	71
Discontinued Operation			
Loss on discontinued operation, net of tax	9	**(230)**	(17)
(Loss) / profit for the period (all attributable to members of the Society)		**(156)**	54

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. The second table below shows our underlying profit after taking out our member rewards.

Continuing Operations	Notes	2018 £m	2017 (restated*) £m
Operating profit (as above)		**100**	118
Add back losses / (deduct gains):			
One-off items	1	**(9)**	-
Property, business disposals and closures	1	**54**	4
Change in value of investment properties	25	**(38)**	(15)
Less underlying interest payable	7	**(64)**	(64)
Underlying profit before tax		**43**	43
Add back: member rewards	36	**60**	61
Underlying profit before tax and member rewards		**103**	104

*For more details on the restatement, refer to the general accounting policies section on page 192.
**Refer to note 1 for a definition of underlying profit before tax.

Consolidated statement of comprehensive income

for the period ended 5 January 2019

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

	Notes	2018 £m	2017 (restated*) £m
(Loss) / profit for the period		**(156)**	54
Other comprehensive income:			
Items that will never be reclassified to the income statement:			
Remeasurement gains on employee pension schemes	27	**178**	112
Refinement of the derecognition of pension surplus attributable to The Co-operative Bank	27	**31**	(374)
Related tax on items	8	**(36)**	44
		173	(218)
Items that are or may be reclassified to the income statement:			
Gains less losses on fair value of insurance assets**		**(8)**	(4)
Fair value gains on insurance assets transferred to the income statement**		**(1)**	(3)
Related tax on items	8	**1**	1
		(8)	(6)
Other comprehensive income / (losses) for the period net of tax		**165**	(224)
Total comprehensive income / (losses) for the period (all attributable to members of the Society)		**9**	(170)

*For more details on the restatement, refer to the general accounting policies section on page 192.

**Our Insurance business has been classified as a discontinued operation in the Consolidated income statement with assets and liabilities transferred to held for sale in the Consolidated balance sheet.

Consolidated balance sheet

as at 5 January 2019

What does this show? Our balance sheet is a snapshot of our financial position as at 5 January 2019. It shows the assets we have and the amounts we owe.

	Notes	2018 £m	2017 (restated*) £m
Non-current assets			
Property, plant and equipment	11	**2,046**	2,014
Goodwill and intangible assets	12	**1,071**	897
Investment properties	25	**42**	68
Investments in associates and joint ventures	26	**3**	3
Other investments	13	**1,223**	1,538
Reinsurance contracts	28	**-**	44
Derivatives	30	**27**	38
Pension assets	27	**1,984**	1,746
Trade and other receivables	16	**81**	32
Contract assets (funeral plans)	17	**47**	41
Deferred tax assets	14	**234**	245
Reclaim Fund assets	35	**209**	234
Total non-current assets		**6,967**	6,900
Current assets			
Inventories	15	**458**	389
Trade and other receivables	16	**537**	634
Contract assets (funeral plans)	17	**4**	3
Cash and cash equivalents	19	**282**	403
Assets held for sale	18	**1,113**	6
Other investments	13	**-**	415
Reinsurance contracts	28	**-**	14
Reclaim Fund assets	35	**410**	439
Total current assets		**2,804**	2,303
Total assets		**9,771**	9,203
Non-current liabilities			
Interest-bearing loans and borrowings	20	**1,004**	1,138
Trade and other payables	21	**214**	75
Contract liabilities (funeral plans)	22	**1,353**	1,168
Provisions	23	**215**	220
Pension liabilities	27	**125**	193
Deferred tax liabilities	14	**459**	400
Insurance contracts	28	**-**	289
Reclaim Fund liabilities	35	**473**	446
Total non-current liabilities		**3,843**	3,929
Current liabilities			
Overdrafts	19	**-**	6
Interest-bearing loans and borrowings	20	**70**	34
Income tax payable		**8**	-
Trade and other payables	21	**1,449**	1,400
Contract liabilities (funeral plans)	22	**132**	115
Provisions	23	**82**	90
Liabilities held for sale	18	**1,045**	-
Insurance contracts	28	**-**	461
Reclaim Fund liabilities	35	**73**	153
Total current liabilities		**2,859**	2,259
Total liabilities		**6,702**	6,188
Equity			
Members' share capital	24	**73**	73
Retained earnings	24	**2,910**	2,841
Other reserves	24	**86**	101
Total equity		**3,069**	3,015
Total equity and liabilities		**9,771**	9,203

*For more details on the restatement, refer to the general accounting policies section on page 192.

Board's certification

The financial statements on pages 107 to 195 are hereby signed on behalf of the Board pursuant to Section 80 (1) (a) of the Co-operative and Community Benefit Societies Act.

Allan Leighton - Chair
4 April 2019

Steve Murrells - Chief Executive

Helen Grantham - Group Secretary

Consolidated statement of changes in equity

for the period ended 5 January 2019

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

	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 6 January 2018 (as originally reported)		73	2,914	101	3,088
Impact of fully retrospective adoption of IFRS 15*		-	(73)	-	(73)
Balance at 6 January 2018 (restated for IFRS 15)		73	2,841	101	3,015
Impact of adoption of IFRS 9 on liabilities as at 6 January 2018*		-	55	-	55
Tax on impact of IFRS 9 on liabilities as at 6 January 2018*		-	(10)	-	(10)
Balance at 6 January 2018 (restated and after effects of IFRS 9)		73	2,886	101	3,060
Loss for the period		-	(156)	-	(156)
Other comprehensive income:					
Remeasurement gains on employee pension schemes	27	-	178	-	178
Refinement of derecognition of pension surplus attributable to The Co-operative Bank	27	-	31	-	31
Gains less losses on fair value of insurance assets		-	-	(8)	(8)
Fair value gains on insurance assets transferred to the income statement		-	-	(1)	(1)
Tax on items taken directly to other comprehensive income	8	-	(36)	1	(35)
Total other comprehensive income		-	173	(8)	165
Revaluation reserve recycled to retained earnings	24	-	7	(7)	-
Contributions by and distributions to members:					
Shares issued less shares withdrawn	24	-	-	-	-
Contributions by and distributions to members		-	-	-	-
Balance at 5 January 2019		73	2,910	86	3,069

See note 24 for further details of Share Capital and Reserves.

For the 53 weeks ended 6 January 2018 (audited & restated*)	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 31 December 2016 (as originally reported)		72	3,062	107	3,241
Impact of fully retrospective adoption of IFRS 15		-	(57)	-	(57)
Balance at 31 December 2016 (restated for IFRS 15)		72	3,005	107	3,184
Profit for the period (as originally reported)		-	70	-	70
Impact of fully retrospective adoption of IFRS 15		-	(16)	-	(16)
Profit for the period (restated for IFRS 15)		-	54	-	54
Other comprehensive income:					
Remeasurement gains on employee pension schemes	27	-	112	-	112
Derecognition of pension surplus attributable to The Co-operative Bank		-	(374)	-	(374)
Gains less losses on fair value of insurance assets		-	-	(4)	(4)
Fair value gains on insurance assets transferred to the income statement		-	-	(3)	(3)
Tax on items taken directly to other comprehensive income	8	-	44	1	45
Total other comprehensive income		-	(218)	(6)	(224)
Contributions by and distributions to members:					
Shares issued less shares withdrawn	24	1	-	-	1
Contributions by and distributions to members:		1	-	-	1
Balance at 6 January 2018 (restated for IFRS 15)		73	2,841	101	3,015

*For more details on the restatement, refer to the general accounting policies section on page 192.

Consolidated statement of cash flows

for the period ended 5 January 2019

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	2018 £m	2017 £m
Net cash from operating activities	10	**313**	363
Cash flows from investing activities			
Purchase of property, plant and equipment		**(335)**	(427)
Proceeds from sale of property, plant and equipment		**81**	186
Purchase of intangible assets		**(50)**	(4)
Acquisition of businesses, net of cash acquired	34	**(29)**	(10)
Proceeds from sale of investments		**-**	55
Dividends received from investments	26	**-**	33
Net cash used in investing activities		**(333)**	(167)
Cash flows from financing activities			
Interest paid on borrowings		**(63)**	(75)
Interest received on deposits		**1**	-
Repayment of corporate investor shares	20	**(2)**	(8)
Repayment of borrowings, net of derivatives	20	**(34)**	(1)
Finance leases	20	**(5)**	8
Net cash used in financing activities		**(103)**	(76)
Net (decrease) / increase in cash and cash equivalents		**(123)**	120
Net cash and overdraft balances transferred to held for sale	9	**8**	-
Cash and cash equivalents at beginning of period		**397**	277
Cash and cash equivalents at end of period		**282**	397
Analysis of cash and cash equivalents			
Overdrafts (per balance sheet)	20	**-**	(6)
Cash and cash equivalents (per balance sheet)	20	**282**	403
		282	397

Included in the above are cash flows from discontinued operations. An analysis of these can be found in note 9. Refer to note 19 for details of the Cash and Cash Equivalent accounting policy.

Group Net Debt	Notes	2018 £m	2017 £m
Interest-bearing loans and borrowings:			
- current		**(70)**	(34)
- non-current		**(1,004)**	(1,138)
Total Debt		**(1,074)**	(1,172)
- Group cash		**282**	403
- Overdraft		**-**	(6)
Group Net Debt	20	**(792)**	(775)
Add back fair value / amortised cost adjustment	20	**46**	138
Group Net Debt (pre fair value adjustment)	20	**(746)**	(637)

See note 20 for a full reconciliation of the movement in net debt.

Notes to the financial statements

Section A – where do our profits come from?

1. Operating segments

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

	2018				
	Revenue from external customers (g)	Underlying segment operating profit / (loss) (a)	Operating profit / (loss)	Additions to non-current assets (f, g)	Depreciation and amortisation (f)
	£m	£m	£m	£m	£m
Food	7,274	204	186	326	(214)
Wholesale (e)	983	(11)	(11)	2	(6)
Funeral and Life Planning	317	25	19	41	(23)
Other businesses (c)	56	(4)	(12)	-	-
Federal (h)	1,532	-	-	-	-
Costs from supporting functions	-	(107)	(82)	38	(28)
Total	**10,162**	**107**	**100**	**407**	**(271)**

	2017 (restated - see (d) below)				
	Revenue from external customers (g)	Underlying segment operating profit / (loss) (a)	Operating profit / (loss)	Additions to non-current assets (f, g)	Depreciation and amortisation (f)
	£m	£m	£m	£m	£m
Food	7,103	182	168	357	(215)
Wholesale (e)	-	-	-	-	-
Funeral and Life Planning	320	42	42	51	(22)
Other businesses (c)	59	(3)	(5)	1	-
Federal (h)	1,461	-	-	-	-
Costs from supporting functions	-	(114)	(87)	33	(27)
Total	8,943	107	118	442	(264)

a) Underlying segment operating profit is a non-GAAP measure of segment operating profit before the impact of property and business disposals (including individual store impairments), the change in the value of investment properties, our share of the profits or losses from our associates and joint ventures, 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 business have been classified as discontinued operations following the announcement of the proposed sale of CISGIL and are no longer shown in the tables above. See note 9 (Loss on discontinued operations, net of tax) for further details. The 'Other Businesses' segment includes activities which are not reportable per IFRS 8. 'Other businesses' is mainly Co-op Electrical. Our Financial Services entities which are mainly holding and support companies, and Reclaim Fund Limited are included within costs from supporting functions.

d) In addition to the restatement for discontinued operations (as noted above); the 2017 comparative figures have also been restated following the adoption of IFRS 15 (Revenue from Contracts with Customers). Also, the results from the Property support function (including changes in value of investment properties) are now shown in costs from supporting functions net of some recharges to the business (previously they were included within Food and Funeral and Life Planning). The comparatives for Food, supporting functions and Funeral and Life Planning have been adjusted to effect this. All segments are consistent with the information that is presented to the Board. See general accounting policies section on page 192 for further details of the restatements.

Notes to the financial statements continued

1. Operating segments continued

e) The tables include a new segment for Wholesale. This includes the results for Nisa (following the acquisition on 8 May) as well as other central wholesale costs including transaction costs of the Nisa acquisition. Transactions with independent society members through the joint buying group are included in the Federal segment.

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

g) 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.

h) 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.

i) Transactions between operating segments excluded in the analysis are £3m (2017: £6m) sales of electrical goods by Co-op Electrical to Food and £1m (2017: £1m) sales of legal cover on insurance policies by Funeral and Life Planning to Insurance.

j) As noted in the Accounting Policies section (page 192) the adoption of IFRS 15 (Revenue from Contracts with Customers) has had a significant impact upon the way in which revenue is recorded in Funeral and Life Planning. Refer to note 2 (Revenue) for further details of the impact on this segment.

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

2018	Food £m	Wholesale £m	Funeral and Life Planning £m	Other businesses £m	Costs from supporting functions £m	Total £m
Underlying segment operating profit	**204**	**(11)**	**25**	**(4)**	**(107)**	**107**
One-off items	**-**	**-**	**-**	**-**	**9**	**9**
Property, business disposals and closures	**(18)**	**-**	**(6)**	**(8)**	**(22)**	**(54)**
Change in value of investment properties	**-**	**-**	**-**	**-**	**38**	**38**
Operating profit / (loss)	**186**	**(11)**	**19**	**(12)**	**(82)**	**100**

One-off items of £9m (credit) include £11m of pension items (net credit) less £2m of other non-trading costs. Pension items include a £24m one-off gain arising from a change to expected benefits offset by a £13m charge for the cost of aligning guaranteed minimum pensions following a recent High Court judgement affecting a large number of pension schemes.

2017 (restated*)	Food £m	Wholesale £m	Funeral and Life Planning £m	Other businesses £m	Costs from supporting functions £m	Total £m
Underlying segment operating profit	182	-	42	(3)	(114)	107
One-off items	-	-	-	-	-	-
Property, business disposals and closures	(14)	-	-	(2)	12	(4)
Change in value of investment properties	-	-	-	-	15	15
Operating profit / (loss)	168	-	42	(5)	(87)	118

*See general accounting policies section on page 192 for details of the restatement.

Notes to the financial statements continued

1. Operating segments continued

l) A reconciliation between underlying segment operating profit and profit before tax is provided below:

	Notes	2018 £m	2017 (restated*) £m
Underlying segment operating profit		**107**	107
Underlying interest payable	7	**(64)**	(64)
Underlying profit before tax		**43**	43
One-off items	1	**9**	-
Loss on property, business disposals and closures (see table below)	1	**(54)**	(4)
Change in value of investment properties	25	**38**	15
Finance income	6	**78**	44
Non-cash finance costs	7	**(21)**	(33)
Share of profits of associates and joint ventures	26	**-**	8
Profit before tax		**93**	73

*See general accounting policies section on page 192 for details of the restatement.

Loss from property, business disposals and closures	2018 £m	2018 £m	2017 £m	2017 £m
Sale of NOMA (50% stake in joint venture)				
- proceeds	**-**		35	
- less net book value written off	**-**		(23)	
		-		12
Food store sales to McColls Retail Group				
- proceeds	**-**		121	
- less net book value written off	**-**		(114)	
		-		7
Disposals, closures and onerous leases				
- proceeds	**77**		85	
- less net book value written off	**(77)**		(82)	
- provisions recognised	**(42)**		(19)	
		(42)		(16)
Impairment of property, plant and equipment and goodwill		**(12)**		(7)
Loss on disposal		**(54)**		(4)

*See general accounting policies section on page 192 for details of the restatement.

Notes to the financial statements continued

2. Revenue

What does this show? This note shows our gross sales, which include VAT, and net revenue across our different businesses.

	2018 £m	2017 (restated*) £m
Sale of goods	**7,384**	7,213
Member reward (5%) earned on sale of goods	**(54)**	(51)
Provision of services	**323**	330
Member reward (5%) earned on provision of services	**(6)**	(10)
Wholesale sales	**983**	-
Federal sales	**1,532**	1,461
Net revenue (as shown in the consolidated income statement)	**10,162**	8,943
Value Added Tax	**793**	741
Gross sales	**10,955**	9,684

*The comparative figures have been restated to reflect the impact of IFRS 15 (Revenue from Contracts with Customers) and the transfer of our Insurance business to discontinued operations. Further details of the impact of these items is shown in the general accounting policies section on page 192.

Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	2018 £m	2017 (restated*) £m
Trade receivables - note 16	**338**	499
Contract assets (funeral plans) - note 17	**51**	44
Contract liabilities (funeral plans) - note 22	**1,485**	1,283

The table below shows the impact on the income statement of movements in contract balances:

	2018 £m	2017 (restated*) £m
Contract Liabilities (note 22):		
Revenue recognised from contract liabilities (funeral plans)**	**85**	79
Contract Assets (note 17):		
Deferred costs recognised from contract assets (funeral plans)	**2**	2

*For more details on the restatement, refer to the general accounting policies section on page 192.
**Interest and bonus payments received on funeral plan investments are treated as deferred income and held in the consolidated balance sheet as a contract liability until the funeral is performed at which point the revenue is recognised (see note 30 for further details of the accounting policy for funeral plans).

Notes to the financial statements continued

2. Revenue continued

Impact of IFRS 15

The impact of adopting IFRS 15 on the income statement is detailed in the general accounting policies note on page 192. There was no impact on the consolidated statement of other comprehensive income or the consolidated cash flow statement.

Accounting policies

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

Gross sales
A non-GAAP measure representing the amounts receivable by the Group for goods and services supplied to customers, net of discounts but including VAT.

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

Provision of services
Provision of services relates to activities in Funeral and Life Planning. Revenue is recognised when separate performance obligations are delivered to the customer. For funeral sales ('at need') and funeral plan sales ('pre need') the only separable performance obligation is the funeral itself and therefore revenue is only recognised when the funeral is performed (or the plan is redeemed and the funeral is performed). See note 30 (Financial Instruments) for further details of the accounting policies relating to prepaid funeral plans, funeral benefit options (FBO's) and low cost instalment plans (LCIP's). Revenue from legal services is recognised as distinct performance obligations are delivered to the customer.

Contract Liabilities
A contract liability is presented in the balance sheet where a customer has paid an amount of consideration prior to us undertaking the service for the customer. Amounts received from customers in respect of funeral plans are invested in individual whole-of-life policies, trusts or life assurance products. These are held as investments on the balance sheet and attract interest and bonus payments throughout the year dependent upon market conditions. The corresponding obligation to deliver the funeral is shown in the consolidated balance sheet as a contract liability until the funeral is performed (at which point the revenue is recognised). See note 22 (Contract Liabilities) for further details.

Contract Assets
A contract asset is recognised when our right to consideration is conditional on something other than the passage of time. For funeral plans, fulfilment costs (which are costs relating directly to the plan sale which otherwise wouldn't have been incurred) are deferred and shown in the consolidated balance sheet as a contract asset. The costs are then recognised in the consolidated income statement at the point that the funeral is performed and in line with when the revenue is recognised. See note 17 (Contract Assets) for further details.

Member rewards
The 5% member rewards earned as part of the membership offer are recognised as a reduction in sales at the point they are earned with a corresponding liability being held on the balance sheet. The liability is reduced and the sale recognised when the rewards are redeemed. The 1% community reward is recognised as an operating expense in the income statement when it is earned.

Gross earned premiums
Following the announcement to sell CISGIL the results of the Insurance business have been classified within discontinued operations (note 9).

The accounting for insurance contracts is outside the scope of IFRS 15.

Gross earned premium (whether paid in advance or by instalments) is earned evenly over the period of the contract (usually twelve months). Outward reinsurance premiums are treated as earned in accordance with the profile of the reinsured contracts.

Gross earned premiums:
- are stated gross of commission and exclude any taxes or levies based on premiums; and
- include an estimate of the premiums receivable on those contracts which incepted prior to the year end but which have not been notified by the balance sheet date ('pipeline premium'). When calculating pipeline premiums it is assumed, where appropriate, that options to renew contracts automatically will be exercised.

Notes to the financial statements continued

3. Operating expenses

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

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

	2018 £m	2017 (restated*) £m
Cost of sales		
- Trading activities	**(7,094)**	(6,185)
Employee benefits expense (see below)	**(1,399)**	(1,421)
Distribution costs	**(439)**	(349)
Loss on property, business disposals and closures (net of impairments)	**(54)**	(4)
Net gain on other plant and equipment disposals	**2**	-
Change in value of investment properties	**38**	15
Operating lease rentals	**(164)**	(158)
Depreciation	**(256)**	(256)
Amortisation	**(15)**	(8)
Subscriptions and donations	**(4)**	(4)
Community reward (1%) earned	**(12)**	(13)

*The comparative figures have been restated to reflect the impact of IFRS 15 (Revenue from Contracts with Customers) and the transfer of our Insurance business to discontinued operations. Further details of the impact of these items is shown in the general accounting policies section on page 192.

Employee benefits expense

	2018 £m	2017 £m
Wages and salaries	**(1,280)**	(1,306)
Social security costs	**(67)**	(68)
Pension costs - defined benefit schemes	**(5)**	(3)
Pension costs - defined contribution schemes	**(47)**	(44)
	(1,399)	(1,421)

Employee benefits expense includes discontinued operations.

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

	2018 Number	2017 Number
Full-time	21,430	22,308
Part-time	41,356	43,579
	62,786	65,887

Remuneration of key management

For details regarding remuneration of the Board and the Executive refer to pages 70 to 87.

Notes to the financial statements continued

3. Operating expenses continued

Auditor remuneration and expenses	2018 £m	2017 £m
Audit of these financial statements	0.7	0.6
Amounts receivable by the Society's auditor in respect of:		
- Audit of financial statements of subsidiaries in respect of the Society	0.6	0.5
Services relating to:		
- Audit related assurance services	0.1	0.1
- All other services	0.3	0.2
Total	1.7	1.4

Accounting policies

Operating expenses

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

4. Supplier income

What does this show?

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

Supplier Income	2018 £m	2017 £m
Food - Long-term agreements	142	149
Food - Bonus income	142	142
Food - Promotional income	325	337
Sub-total Food supplier income	609	628
Sub-total Wholesale supplier income	45	-
Total supplier income**	654	628
Percentage of Food's Cost of Sales before deducting Supplier Income	%	% (restated*)
Long-term agreements	2.5%	2.7%
Bonus income	2.5%	2.5%
Promotional income	5.7%	6.0%
Sub-total Food supplier income percentage	10.7%	11.2%
Sub-total Wholesale supplier income percentage of Cost of Sales	4.9%	-

* The comparative percentage figures have been restated as a result of the change in accounting treatment of rebates on Federal sales following the adoption of IFRS 15. See general accounting policies section on page 192. All figures exclude any income or purchases made as part of the Federal joint buying group.

** The Wholesale numbers are only for part of the 2018 year (post acquisition of Nisa) so no combined Food and Wholesale percentages have been provided.

Supplier income recognised in Wholesale in the period following the acquisition of Nisa on 8 May 2018 is £45m. This represents 4.9% of cost of sales before deducting supplier income. The Wholesale segment in 2018 wholly relates to Nisa, so no comparative has been provided for 2017.

Notes to the financial statements continued

4. Supplier income continued

Accounting policies

Supplier income
Supplier income is recognised as a deduction from cost of sales on an accruals basis, based on the expected entitlement that has been earned up to the balance sheet date for each relevant supplier contract. The accrued incentives, rebates and discounts receivable at year end are included within trade and other receivables (note 16). Where amounts received are in the expectation of future business, these are recognised in the income statement in line with that future business. There are three main types of income:

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

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

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

5. Other income

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

	2018 £m	2017 (restated*) £m
Rental income from non-investment property	8	12
Rental income from investment property	2	2
Total other income	**10**	14

*The comparative figures have been restated to reflect the transfer of our Insurance business to discontinued operations. Refer to the general accounting policies section on page 192 for further details.

Accounting policies

Rental income from investment and non-investment properties
Rental income arising from operating leases on both investment and non-investment properties is accounted for on a straight-line basis over the lease term. For accounting policies relating to investment property, refer to note 25.

Notes to the financial statements continued

6. Finance income

What does this show?

Finance income arises from the interest earned on our pension scheme, interest from debtors we may have discounted in the past and the net interest on our funeral plan investments and 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 gains. If they are losses, they are included in Finance Costs (see note 7).

	2018 £m	2017 £m
Net pension finance income	**41**	42
Fair value movement on quoted Group debt (see note 20)	**37**	-
Discount unwind from trade receivables	**-**	2
Net interest on funeral plan investments and liabilities (see below)	**-**	-
Total finance income	**78**	44

Interest and bonus payments of £92m (2017: £103m) received in the year on funeral plan investments are treated as deferred income and reflected in the consolidated balance sheet as an increase in contract liabilities until the funeral is performed at which point the revenue is recognised. The net impact on the consolidated income statement is £nil (2017: £nil). See note 30 for further details of the accounting policy for funeral plans.

7. Finance costs

What does this show?

Our main finance cost is the interest that we've paid during the year on the bank borrowings that help fund the business. Other finance costs include the non-cash charge we incur each year on long-term provisions as the payout moves one year closer (the discount unwind). We also include the movement in the fair value of some elements of our debt and our interest rate swap positions (which are used to manage risks from interest rate movements) if these are losses. If they are gains, they are included in Finance Income (see note 6).

	2018 £m	2017 (restated*) £m
Loans repayable within five years	**(28)**	(27)
Loans repayable wholly or in part after five years	**(36)**	(37)
Underlying interest payable	**(64)**	(64)
Fair value movement on quoted Group debt (see note 20)	**-**	(11)
Fair value movement on interest rate swaps (see note 30)	**(11)**	(12)
Non-underlying finance interest	**(10)**	(10)
Other finance costs	**(21)**	(33)
Total finance costs	**(85)**	(97)

*The comparative figures have been restated to reflect the transfer of our Insurance business to discontinued operations. Refer to the general accounting policies section on page 192 for further details.

Non-underlying finance interest includes the impact of discount unwind on payables and provisions (see note 23) and the impact of IFRS 9 adjustments in relation to interest and fees on bonds carried at amortised cost.

Fair value movements on forward currency transactions were immaterial in the current and prior period.

Total interest expense on financial liabilities that are not at fair value through the income statement was £38m (2017: £7m).

Notes to the financial statements continued

8. Taxation

What does this show?

Our tax charge is made up of current and deferred tax – this note explains how those items arise. Additional explanatory footnotes are included to explain the key items. We were re-accredited with the Fair Tax Mark during 2018 and the additional disclosures we provide are in line with best practice guidance.

	Footnote	2018 £m	2017 (restated*) £m
Current tax charge - current year	(i)	**(5)**	(3)
Current tax credit - adjustment to group relief payable owed to The Co-operative Bank	(ii)	**4**	3
Current tax credit / (charge) – adjustment in respect of prior years	(iii)	**2**	(1)
Net current tax credit / (charge)		**1**	(1)
Deferred tax charge – current year	(iv)	**(26)**	(5)
Deferred tax credit – adjustments in respect of prior years	(v)	**6**	4
Net deferred tax charge		**(20)**	(1)
Total tax charge - in respect of continuing operations		**(19)**	(2)

The tax on the Group's net loss before tax differs from the theoretical amount that would arise using the standard applicable rate of corporation tax of 19% (2017: 19.25%) as follows:

	Footnote	2018 £m	2017 (restated*) £m
Profit before tax from continuing operations		**93**	73
Loss before tax from discontinued operation		**(236)**	(21)
Total (loss) / profit before tax		**(143)**	52
Tax credit / (charge) at 19% (2017: 19.25%)		**27**	(10)
Deferred tax reconciliation:	(iv)		
Expenses not deductible for tax (including one-off costs)	(vi)	**(4)**	(4)
Depreciation and amortisation on non-qualifying assets	(vii)	**(3)**	(4)
Non-taxable (losses) / profits arising on business disposals	(viii)	**(39)**	2
Associated company profits	(ix)	**-**	1
Capital (gains) / losses arising on property disposals	(x)	**(4)**	10
Adjustment in respect of previous periods	(v)	**6**	4
Restatement of deferred tax to blended rate (2017: 17.1%)	(xi)	**(2)**	1
Subtotal of deferred tax reconciling items		**(46)**	10
Current tax reconciliation:			
Adjustment in respect of previous periods	(iii)	**2**	(1)
Adjustment to group relief payable	(ii)	**4**	3
Subtotal of current tax reconciling items		**6**	2
Tax (charge) / credit at the effective rate of -9% (2017: -4%)		**(13)**	2
Tax charge reported in the income statement		**(19)**	(2)
Tax credit attributable to a discontinued operation		**6**	4
Total tax (charge) / credit		**(13)**	2

*See general accounting policies section on page 192 for details of the restatement.

The net tax charge of £13m on a loss before tax of £143m gives an effective tax rate of -9% compared to the standard rate of 19%. The effective tax rate is negative as normally a loss before tax would lead to a tax credit rather than a tax charge. The main reason for this difference between the effective rate and the standard rate is the remeasurement adjustments recognised in arriving at the fair value of our insurance underwriting business following the decision to sell the business. The remeasurement adjustments are not a deductible expense for tax purposes. Further information is provided about the remeasurement in note 9 (Loss on discontinued operations, net of tax).

Notes to the financial statements continued

8. Taxation continued

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

	2018 £m	2017 £m
Actuarial gains and losses on employee pension scheme	(36)	44
Insurance assets held at fair value through other comprehensive income	1	1
	(35)	45

Of the tax taken directly to the consolidated statement of comprehensive income, £36m charge (2017: £44m credit) arises on the actuarial movement on employee pension schemes. There is also a £1m credit representing the movement in deferred taxation on insurance assets held at fair value through other comprehensive income (2017: £1m credit). See note 14 for more details on deferred tax. A further £10m charge (2017: £nil) has been recognised in the consolidated statement of changes in equity arising from the impact of the adoption of IFRS 9 on liabilities.

The Finance Act 2016 will reduce the main rate of corporation tax to 17% from 1 April 2020. This will reduce our future current tax charge accordingly. Each deferred tax balance has been measured individually based on the tax rate at which it is expected to unwind (either 17% or 19%). This results in a blended deferred tax rate of 17.1% at the balance sheet date.

Tax policy

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

Footnotes to taxation note 8:

i) The Group is not tax-paying in the UK in respect of 2018 due to the fact it has a number of brought forward capital allowances (£170m gross claimed in 2018) and tax losses (£5m gross utilised in 2018) that are in excess of its taxable profit for the period. These allowances and losses are explained in more detail in note 14. An amount of current tax of £218k (2017: £265k) is in respect of a wholly-owned Isle of Man resident subsidiary, Manx Co-operative Society, a convenience retailing business in the Isle of Man. This is the Group's only non-UK resident entity for tax purposes, which employs 265 out of our total Group headcount figure. All other colleagues are employed in the UK. The unaudited 2018 revenue of Manx Co-operative Society is £35m and all other revenue reflected in the consolidated income statement is generated by UK trading activities. The unaudited 2018 profit before tax of Manx Co-operative Society is £2m and all other income in the consolidated income statement is generated by UK trading activities. The unaudited net assets of Manx Co-operative Society at 5 January 2019 were £23m, compared to net assets of the consolidated Group of £3,069m. 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 resulted in this additional tax charge of £218k. If these activities had been carried out in the UK, any taxable profits would have been reduced to nil due 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 dormant company is UK resident for tax purposes as it is managed and controlled entirely within the UK. All tax obligations in respect of this company are therefore reported in the UK.

ii) The Group holds a creditor balance in relation to group relief claimed from The Co-operative Bank ('the Bank') (see note 21). 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. The timing of the total group relief payable has further extended into periods when the tax rate will be 17% and a credit is required to be booked in the income statement in respect of this item.

iii) A payment for historic group relief has been received from The Co-operative Bank which reduces the tax charge by £2m as we did not have a debtor for this amount.

Notes to the financial statements continued

8. Taxation continued

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 our pension assets and the tax consequences of adopting IFRS 15 (Revenue from Contracts with Customers). More information on IFRS 15 can be found in the general accounting policies section on page 192. Note 14 explains how each deferred tax balance has moved in the year. As the Group is not tax-paying in respect of 2018, the reconciling items between the tax credit at the standard rate and the actual tax charge mostly affect deferred tax as they will result in us having more capital allowances or losses to offset against future profits.

v) Adjustments to tax charges in earlier years arise because 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. Provisions for uncertain tax positions booked in previous years of £6m have been released in the year as a result of increased certainty gained through correspondence with HMRC during 2018.

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 2017 the Group disposed of its shareholdings in Gilsland Spa Ltd, White Mill Windfarm Ltd, Biggleswade Windfarm Ltd, TCCT UK Holdings Ltd and The Co-operative Bank. No tax arose on the accounting profit due to the availability of the Substantial Shareholding Exemption. This is a legislative exemption from capital gains for corporate entities who sell more than 10% of their shares in a trading entity.

In 2018, remeasurement adjustments have been recognised in arriving at the fair value of our insurance underwriting business following the decision to sell the business. We are not permitted to deduct the remeasurement adjustments when calculating our profits for tax purposes. Further information is provided about the remeasurement in note 9 (Loss on discontinued operations, net of tax).

ix) This represents the share of post-tax profits from associated companies that are not included in the Group's tax charge, as tax is already included in the accounts of the associate.

x) During the year a number of assets were sold, where the taxable profit is in excess of the accounting profit.

xi) It is a requirement to measure deferred tax balances at the substantively enacted corporation tax rate at which they are expected to unwind. This figure represents the change in the tax rate at which these deferred tax balances are expected to unwind.

Accounting policies

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

Notes to the financial statements continued

9. 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 - Insurance

Co-op Insurance has been classified as a discontinued operation in 2018 as the sale of the business was highly probable at the year end date. The assets and liabilities have been remeasured at fair value less costs to sell and are shown separately in the balance sheet. The result for Co-op Insurance is shown in a separate line at the bottom of the consolidated income statement under Discontinued Operations and includes the charge resulting from remeasuring the assets and liabilities of the business to fair value less costs to sell.

On 18 January 2019 the Co-op announced it had exchanged contracts for the sale of its insurance underwriting business (CIS General Insurance Limited) to Markerstudy. The deal includes a 13 year agreement with Markerstudy to distribute motor and home insurance products. The deal is subject to regulatory approval, and is expected to complete during 2019. After the sale the Co-op will focus on marketing and distributing insurance products instead of underwriting them and the performance will be reported as a separate operating segment. Markerstudy have committed to paying £150m of cash at point of disposal and £35m of deferred consideration over 3 years and 6 months. Of the £185m of income expected from Markerstudy at the point of disposal, £101m will be allocated against assets and liabilities of the disposal group and included in arriving at the remeasurement charge of £207m. The remaining £84m will be included as deferred income (as required by IFRS 3 paragraph 52) because the Co-op group will be being remunerated for future services. Post sale the Co-op group will provide marketing and distribution services for Markerstudy.

The calculation of assets held for sale includes incremental costs to sell. After selling the group (providing regulatory approval is received) further costs may be incurred in a transitional period of migration and co-operation with Markerstudy.

Results of discontinued operation - Insurance	2018 £m	2017 £m
Revenue	**323**	331
Operating Expenses	**(410)**	(417)
Other income	**67**	74
Remeasurement adjustments recognised in arriving at fair value less costs to sell	**(207)**	-
Operating loss from discontinued operation	**(227)**	(12)
Finance costs	**(9)**	(9)
Loss before tax from results of discontinued operation	**(236)**	(21)
Tax - relating to the pre-tax loss on discontinued operation	**6**	4
Loss for the period from discontinued operation	**(230)**	(17)

Relevant accounting policies covering the results of discontinued operations can be found in the 2017 Annual Report: Revenue (note 2), Operating expenses (note 3), Other income (note 5) and Finance costs (note 7).

Segmental analysis - Insurance

	Revenue from external customers £m	Underlying segment operating (loss) / profit £m	Operating loss £m	Additions to non-current assets £m	Depreciation and amortisation £m
52 weeks ended 5 January 2019	**323**	**(1)**	**(227)**	**60**	**(61)**
53 weeks ended 6 January 2018	331	11	(12)	61	(61)

Co-op Insurance has been classified as a disposal group that is held for sale at the balance sheet date. The assets and liabilities of Insurance are recorded at fair value less costs to sell. Any remeasurements that have been identified have been attributed to relevant assets and liabilities (as shown in the table over the page) in accordance with IFRS 5.

Notes to the financial statements continued

9. Loss on discontinued operation, net of tax continued

	Before remeasurement to fair value less costs to sell £m	Remeasurement to fair value at cost to sell £m	Disposal group at fair value less cost to sell £m
Non-current assets			
Intangible assets (WIP)	2	(2)	-
Intangible assets (deferred acquisition costs)	29	(29)	-
Other investments (Insurance assets)	449	-	449
Reinsurance assets	34	-	34
Current assets			
Trade and other receivables	207	(1)	206
Other investments (Insurance assets)	382	-	382
Reinsurance assets	20	-	20
Current tax assets	8	-	8
Total Insurance assets classified as held for sale	1,131	(32)	1,099
Non-current liabilities			
Interest-bearing loans and borrowings	68	-	68
Insurance contract liabilities	362	-	362
Deferred tax liabilities	3	-	3
Current liabilities			
Insurance contract liabilities	373	-	373
Other payables and provisions	54	175	229
Overdrafts	8	-	8
Total Insurance liabilities classified as held for sale	868	175	1,043
Net assets of disposal group classified as held for sale	263	(207)	56

IFRS 5 exempts certain assets and liabilities from the requirement for re-measurement and this includes the Insurance assets noted in the table above in Other investments. The intangible assets in scope under IFRS 5 have been remeasured to fair value and IFRS 9 expected losses provisioning has been applied to trade receivables. The remaining re-measurement adjustment of £175m that is required to write down the disposal group to its overall fair value less costs to sell has been reflected as a provision in the other payables and provisions line. The closing carrying value of the net assets of the disposal group is therefore recorded at fair value less costs to sell of £56m in the above table. This £56m fair value is comprised of £101m of expected sales proceeds from the sale of Co-op insurance less costs to sell of £43m and the impact on discounting deferred consideration of £2m. The costs to sell of £43m include legal and professional costs and necessary IT migration costs.

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

	2018 £m	2017 £m
Cash flows (used in) / from discontinued operations:		
Net cash (used in) / from operating activities	**(6)**	23
Net cash used in financing activities	**(8)**	(8)
Net cash (used in) / from discontinued operations	**(14)**	15

During the period that the Co-op owned the insurance division, £62m was recognised in other comprehensive losses and accumulated retained trading losses in relation to Co-op insurance.

Cash flows from investing activities were not significant for the discontinued operation in 2018 or 2017.

Overdrafts of £8m relating to discontinued operations are disclosed in the table above.

Notes to the financial statements continued

9. Loss on discontinued operation, net of tax continued

Accounting policies

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Discontinued operations are those operations that can be clearly distinguished from the rest of the Group, both operationally and for financial reporting purposes, that have either been disposed of or classified as held for sale and which represent a separate major line of business. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the balance sheet. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

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

Notes to the financial statements continued

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

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

	2018 £m	2017 (restated*) £m
Operating profit (note 1)	**100**	118
Depreciation and amortisation charges (excluding deferred acquisition costs)	**271**	264
Non-current asset impairments	**12**	9
Loss / (profit) on closure and disposal of businesses and non-current assets	**40**	(4)
Change in value of investment properties	**(38)**	(15)
Non-cash gain in relation to past service pension costs	**(11)**	-
Retirement benefit obligations	**(46)**	(45)
(Increase) / decrease in inventories	**(20)**	50
Increase in receivables	**(194)**	(128)
Increase in contract assets (funeral plans)	**(7)**	(9)
Increase in contract liabilities (funeral plans)	**206**	154
Increase / (decrease) in payables and provisions	**6**	(46)
Net cash flow from operating activities before net cash operating flow from discontinued activities	**319**	348
Operating loss from discontinued activities	**(230)**	(12)
Impairment of assets held for sale	**207**	-
Fair value through income statement movement	**51**	14
Fair value through other comprehensive income movement	**(12)**	18
Movement in deferred acquisition costs	**1**	1
Reinsurance assets	**5**	(5)
Loan receivables at amortised cost	**-**	9
Insurance and other receivables	**-**	(23)
Insurance and participation contract provisions	**(17)**	24
Insurance and other payables	**(11)**	(11)
Net cash flow from operating activities relating to discontinued operations	**(6)**	15
Net cash from operating activities	**313**	363

*The comparative figures have been restated to reflect the impact of IFRS 15 (Revenue from Contracts with Customers) and the transfer of our Insurance business to discontinued operations. Further details of the impact of these items are shown in the general accounting policies section on page 192.

Accounting policies

Refer to note 19 for details of the accounting policy for Cash and Cash Equivalents.

Notes to the financial statements continued

Section B – what are our major assets?

This section of the accounts (notes 11 - 19) outlines the key assets that we hold at the balance sheet date.

11. Property, plant and equipment

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

For the period ended 5 January 2019	Property £m	Plant and equipment £m	Total £m
Cost or valuation:			
At 6 January 2018	1,452	2,147	3,599
Additions	16	327	343
Acquisition of subsidiaries (note 34)	25	1	26
Reclassified as assets held for sale (see note 18)	(7)	(1)	(8)
Transfer to intangible assets	-	(50)	(50)
Disposals	(14)	(51)	(65)
At 5 January 2019	**1,472**	**2,373**	**3,845**
Depreciation:			
At 6 January 2018	560	1,025	1,585
Charge for the period	24	232	256
Impairment	2	8	10
Reclassified as assets held for sale (see note 18)	(2)	(1)	(3)
Disposals	(6)	(43)	(49)
At 5 January 2019	**578**	**1,221**	**1,799**
Net book value:			
At 5 January 2019	**894**	**1,152**	**2,046**
At 6 January 2018	892	1,122	2,014
Capital work in progress included above	29	75	104

The impairment charge of £10m (2017: £6m) relates to loss-making stores in Food.

Management have reconsidered the classification of £50m of assets previously included within tangible fixed assets, as certain projects progress. These assets , which were not depreciated prior to reclassification, have been reclassified to intangible assets (see note 12 for details).

Significant items reclassified as held for sale relate to properties and plant and equipment within Food and Funerals. See note 18 (b).

The net book value of property, plant and equipment that was transferred to assets held for sale for our Insurance business was less than £1m.

Notes to the financial statements continued

11. Property, plant and equipment continued

For the period ended 6 January 2018	Property £m	Plant and equipment £m	Total £m
Cost or valuation:			
At 31 December 2016	1,479	2,216	3,695
Additions	34	351	385
Reclassified as assets held for sale (see note 18)	(6)	(1)	(7)
Disposals	(55)	(50)	(105)
Fully written-down assets	-	(369)	(369)
At 6 January 2018	1,452	2,147	3,599
Depreciation:			
At 31 December 2016	549	1,203	1,752
Charge for the period	24	232	256
Transfer to intangible assets (see note 12)	-	(2)	(2)
Impairment	2	4	6
Reclassified as assets held for sale (see note 18)	(1)	-	(1)
Disposals	(14)	(43)	(57)
Fully written-down assets	-	(369)	(369)
At 6 January 2018	560	1,025	1,585
Net book value:			
At 6 January 2018	892	1,122	2,014
At 31 December 2016	930	1,013	1,943
Capital work in progress included above	29	66	95

Plant and equipment includes assets held under finance leases as follows:

	2018 £m	2017 £m
Cost	**120**	46
Accumulated depreciation	**(87)**	(32)
Net book value	**33**	14

No other assets of the Group are held under a finance lease.

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. More information on the definition of cash-generating units is provided in note 12.

The recoverable amount is the greater of the fair value less costs to sell and value in use. The value in use of an asset is estimated by projecting future cashflows into perpetuity and discounting the cash flows associated with that asset at a post tax rate of between 8-10% dependent on the business. Cash flows are projected using the relevant business' four-year plan. Cash flow projections beyond four years (and therefore outside of the four-year plan period) use a steady or declining growth rate dependent on the business. Fair value less costs to sell are measured using internal valuations based on the rental yield of the property.

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

Notes to the financial statements continued

11. Property, plant and equipment continued

Accounting policies

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

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

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

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

Leased assets
Leases where the Group takes on substantially all the risks and rewards of ownership are classified as finance leases. Plant and vehicles acquired under finance leases are stated at an amount equal to the lower of fair value and the present value of the minimum lease payments at the start of the lease, less accumulated depreciation and any impairment losses.

Depreciation is provided on the same basis as for owned assets. Minimum finance lease payments are apportioned between the finance charge and the repayment of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Property held under operating leases that would otherwise meet the definition of investment property may be classified as investment property on a property by property basis. Where such leases are treated as investment properties, the assets are held at fair value and the leases are accounted for as finance leases.

Lease payments in respect of operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and the aggregate benefit is recognised as a reduction of rental expense over the lease term on a straight-line basis.

For any leases where the Group is the landlord, the aggregate cost of incentives is recognised as a reduction of rental income over the lease term on a straight-line basis.

Sale and leaseback
A sale and leaseback transaction is one where an asset is sold but the seller immediately reacquires the use of that asset by entering into a lease with the buyer. The accounting treatment of the sale and leaseback depends upon the substance of the transaction and whether or not the sale was made at the asset's fair value. For sale and finance leasebacks, any apparent profit or loss from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, generally the assets are sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the income statement. Following initial recognition, the lease treatment is consistent with the principles described above.

Notes to the financial statements continued

12. 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 year.

For period ended 5 January 2019	Goodwill £m	Computer software £m	Acquired Customer Relationships and Other Intangibles £m	Assets in course of construction £m	Total £m
Cost:					
At 6 January 2018	1,204	105	-	2	1,311
Additions	-	50	-	-	50
Acquisition of subsidiaries (note 34)	81	6	43	-	130
Transfer from property, plant and equipment	-	50	-	-	50
Transfer to assets held for sale (note 9)	-	-	-	(2)	(2)
Disposals	(6)	-	-	-	(6)
At 5 January 2019	**1,279**	**211**	**43**	**-**	**1,533**
Accumulated amortisation and impairment:					
At 6 January 2018	374	71	-	-	445
Charge for the period	-	3	12	-	15
Transfer from property, plant and equipment	-	-	-	-	-
Impairment	2	-	-	-	2
At 5 January 2019	**376**	**74**	**12**	**-**	**462**
Net book value:					
At 5 January 2019	**903**	**137**	**31**	**-**	**1,071**
Deferred acquisition costs (see overleaf)					-
At 5 January 2019					**1,071**

On acquisition of Nisa, goodwill of £75m (see note 34) has been recognised in the Group's balance sheet as well as other intangibles assets of £47m. These include £43m in respect of the customer relationship with Nisa members and £4m of computer software assets. The balance of goodwill and other intangibles relates to other smaller acquisitions undertaken in the period, none of which are individually significant.

£50m of assets previously included within tangible fixed assets have been reclassified to intangible assets. As projects have progressed, management have considered classification and concluded certain costs, which have not been depreciated, should be presented as intangible assets. A further £49m of development spend is included within additions in 2018.

Notes to the financial statements continued

12. Goodwill and intangible assets continued

For period ended 6 January 2018	Goodwill £m	Computer software £m	Acquired Customer Relationships and Other Intangibles £m	Assets in course of construction £m	Total £m
Cost:					
At 31 December 2016	1,210	92	-	11	1,313
Additions	-	-	-	4	4
Transfers	-	13	-	(13)	-
Disposals	(6)	-	-	-	(6)
At 6 January 2018	1,204	105	-	2	1,311
Accumulated amortisation and impairment:					
At 31 December 2016	372	61	-	-	433
Charge for the period	-	8	-	-	8
Transfer from property, plant and equipment	-	2	-	-	2
Impairment	3	-	-	-	3
Disposals	(1)	-	-	-	(1)
At 6 January 2018	374	71	-	-	445
Net book value:					
At 6 January 2018	830	34	-	2	866
Deferred acquisition costs (see overleaf)					31
At 6 January 2018					897

Deferred acquisition costs

	2018 £m	2017 £m
At the beginning of the financial year	**31**	31
Deferred acquisition costs	**59**	61
Amortisation	**(61)**	(61)
Transfer to assets held for sale (see note 18)	**(29)**	-
At the end of the financial year	**-**	31

Goodwill

The components of goodwill are as follows:

	2018 £m	2017 £m
Food	**797**	803
Other businesses	**106**	27
	903	830

Food goodwill includes £554m (2017: £560m) that is allocated to the group of cash-generating units that is Food as a whole, £70m (2017: £70m) allocated to stores acquired with the Alldays group and £173m (2017: £173m) assessed against other specific components of the Food business, none of which is individually significant. During the year £75m of goodwill has been recognised in relation to the Nisa acquisition reflecting expected synergies from co-operation and trading with the pre-existing Food business. See note 34 (Acquisition of Subsidiary) for further details.

The goodwill within other businesses principally relates to the goodwill recognised on the acquisition of Nisa (see note 34) and the Funeral and Life Planning business.

Notes to the financial statements continued
12. Goodwill and intangible assets continued

Critical accounting estimates and judgements
Goodwill
A cash generating unit (CGU) is the smallest identifiable group of assets that generates cash inflows which are largely independent of the cash inflows from other assets of the Group. Goodwill is allocated to CGUs or groups of CGUs based on relative values as explained in the policy below.

In the Food business, the CGUs' recoverable amounts are based on value in use estimates, using projections of performance based on the four-year plans approved by the Board. The discount rate is based on the post tax cost of capital of the business of 7.9% (2017: 7.9%). Business-specific growth rates are used to predict cash flows beyond the four-year plan. The cash flows are adjusted to reflect risk relevant to their industry. Some central support function costs have been allocated as appropriate to each CGU.

The goodwill that arose on the acquisition of Somerfield is allocated to Food as a whole to reflect the synergies (principally buying benefits) that benefit the whole business. Accordingly, impairment testing is carried out using all the food stores as the group of CGUs. The key assumption used in the review for potential impairment of this goodwill is cash flows from operation of stores (projecting growth at 3-4% (2017: 1-3%) 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 rate of 7.9% (2017: 7.9%). In each of the current and comparative years, sensitivity analysis has been performed on this assumption, testing for a 1% increase in discount rate and a decrease in growth to 1%; within both these sensitivities the cash flows remain well in excess of the current carrying value.

For other Food individual stores or smaller groups such as Alldays, annual cashflows have been inflated for growth by between 3-4% (2017: 1-3%) per annum (dependent on the size of the acquisition group and in line with the four-year plan) taken into perpetuity and discounted to present value also using a 7.9% (2017: 7.9%) discount rate and after allocating central costs.

For Funerals, 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 five-year plan and into perpetuity from year five and discounted back to present value using a discount rate of 7.9% (2017: 7.9%). Sensitivity analysis has been performed with both the growth rate and discount rate adjusted by +/- 1%, and under these sensitivities significant headroom is maintained.

Accounting policies

Goodwill
Goodwill represents amounts arising on business combinations. In respect of business acquisitions that have occurred since 11 January 2004, 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.

For transfers of engagements on or after 3 January 2010, considerations transferred have been valued by reference to the fair value of the Group's interest in the acquiree using a valuation technique. The technique involves assessing the future net profit of the acquiree and then discounting to perpetuity using a discount rate that reflects current market assessment of the time value of money and risks specific to the acquiree.

Acquisition costs since 3 January 2010 are now expensed to the income statement when incurred.

Notes to the financial statements continued

12. Goodwill and intangible assets continued

Computer software

Computer software is stated at cost less cumulative 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. The costs associated with the implementation of the Insurance transformation programme are charged to the income statement as incurred, with recognition of assets where they meet the relevant accounting requirements.

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 expensed 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
- Insurance deferred acquisition cost assets: Up to 1 year
- Other intangible assets: 1 - 10 years

Impairment

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount (the greater of the fair value less costs to sell and value in use). 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 goodwill allocated to cash-generating units, and then to reduce the carrying value of other fixed assets.

The carrying amounts of the Group's intangibles are reviewed at each balance sheet date and whenever there is any indication of impairment. For goodwill, and for assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. If any such indication of impairment exists, the assets' recoverable amount is estimated.

For the purpose of impairment testing of goodwill, the Group is regarded as several cash-generating units. Components of goodwill range from individual cash-generating units, where stores were acquired individually, to groups of cash-generating units, where groups of stores or branches were acquired as part of one transaction. Impairment testing is carried out at the level at which management monitors these components of goodwill.

Deferred acquisition costs

Costs directly associated with the acquisition of new business in the Insurance business, including commission, are capitalised as intangible assets on the balance sheet and amortised in accordance with the rate at which the gross written premiums associated with the underlying contract are earned.

Notes to the financial statements continued

13. Other investments

What does this show?

Our Funerals and Insurance businesses hold some investments as part of their business activities. This note provides information on these investments and how they are accounted for.

Other investments as per the balance sheet:

	2018 £m	2017 £m
Current	-	415
Non-current	1,223	1,538
Total Other investments	**1,223**	1,953

Other investments held by the Group are as follows:

	2018 £m	2017 £m
Fair value through the income statement:		
Funeral plan investments (see below)	1,223	1,076
Deposits with credit institutions (Insurance)*	-	212
Fair value through other comprehensive income:		
Listed debt securities (Insurance)*	-	665
Total Other Investments	**1,223**	1,953

*All insurance investments have been transferred to held for sale. See note 9 (Loss on discontinued operations, net of tax) for further details.

Funeral plan investments:

	2018 £m	2017 £m
At start of period	1,076	872
New plan purchases	126	160
Plans redeemed or cancelled	(71)	(59)
Interest and bonus applied	92	103
At end of period	**1,223**	1,076

The expected maturity profile of funeral plan liabilities is shown in note 29.

The Group holds investments on the balance sheet in respect of funeral plan policies which are invested in either individual whole-of-life policies, trusts or life assurance products. 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 2018 and the headroom achieved is shown in the table below.

Funeral Plan Investments Actuarial Valuation	30th September 2018 £m	30th September 2017 £m
Total Assets	1,156	1,013
Liabilities:		
Present value (wholesale basis)	1,036	871
Total Liabilities	1,036	871
Headroom	120	142
Headroom as a % of liabilities	12%	16%

Notes to the financial statements continued

13. Other investments continued

As expected, during the period plan sales significantly exceeded plan redemptions, giving an increase in both total assets and liabilities. The overall surplus has reduced, primarily as a result of lower expected post-tax-and-fees investment returns and an increase to the wholesale cost of providing a funeral.

Key assumption	30th September 2018	30th September 2017
Average total wholesale costs per plan funeral	**£2,705**	£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 £16m (2017: £12m).

The "wholesale" actuarial valuation is based upon the Group's estimate of the direct cost for a third party funeral director to perform the promised services and the payment of associated disbursements (crematoria, clergy fees etc) as if the Group were not in a position to carry out these funerals. No incremental overheads are included because it's assumed that the provider could absorb these funerals into existing infrastructures. As the Group fully intends to perform these funerals and undertake the professional funeral services itself the actual cost would in reality be lower and subsequent marginal cost surplus would be higher than the wholesale cost surplus.

Accounting policies

See note 30 Financial Instruments for the accounting policies relating to other investments.

14. Deferred taxation

What does this show?

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

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 17.1% (2017: 17.1%). Temporary differences arise because sometimes accounting and tax requirements mean that transactions are treated as happening at a different time for accounting purposes than they are for tax purposes.

		2018	2017 (restated*)
Net deferred tax in the balance sheet comprises:		**£m**	£m
Deferred tax asset - continuing operations		**234**	245
Deferred tax liability - continuing operations		**(459)**	(400)
Deferred tax liability - discontinued operation		**(3)**	-
Deferred tax liability - other assets held for sale		**(2)**	-
Net deferred tax liability		**(230)**	(155)
Comprised of:	Footnote:		
Other temporary differences	(i)	**(12)**	27
Retirement benefit obligations	(ii)	**(316)**	(264)
Capital allowances on fixed assets	(iii)	**208**	207
Unrealised gains on investment properties, rolled-over gains and historic business combinations	(iv)	**(121)**	(125)
Claims equalisation reserve and available for sale assets	(v)	**(4)**	(6)
Tax losses	(vi)	**15**	6
		(230)	(155)

Notes to the financial statements continued

14. Deferred taxation continued

The movements in the net deferred tax liability during the year are set out below:

		2018 £m	2017 (restated*) £m
At beginning of the year		**(155)**	(195)
Income statement charge/(credit):			
Group (see note 8)	(vii)	**(20)**	(1)
Adjustment in respect of deferred tax classified as assets held for sale		**1**	(4)
Transferred to assets held for sale		**5**	-
Deferred taxes acquired	(viii)	**(11)**	-
Charged to equity:			
Retirement benefit obligations (see note 8)	(ii)	**(36)**	44
Available for sale assets - Insurance (see note 8)		**1**	-
Impact of adoption of IFRS 9 on liabilities* (see note 8)	(ix)	**(10)**	1
At end of the year (continuing operations)		**(225)**	(155)

The Finance Act 2016 will reduce the main rate of corporation tax to 17% from 1 April 2020. This will reduce the company's future current tax charge accordingly. Each deferred tax balance has been measured individually based on the tax rate at which it is expected to unwind (either 17% or 19%) by reference to forecast taxable profits for the Group. This results in a blended deferred tax rate of 17.1% at the balance sheet date, as the majority of the deferred tax assets and liabilities will be required and utilised in periods after April 2020.

*See general accounting policies section on page 192 for details of the restatement.

Footnotes:

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

ii) This amount represents the theoretical amount of tax that would be payable by the Group on the wind up of the pension scheme. A £52m charge has been recognised during 2018. £36m of this charge has been recognised in other comprehensive income, with a further charge of £16m taken to the income statement.

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

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

v) This value arises from the claims equalisation reserve that is required by statute to be taxed in CIS General Insurance Limited, but no accounts value is required to be recognised for accounting purposes. From 1 January 2016 this balance no longer had to be held, and is being released evenly over a six year period. It also includes the amount of tax that is expected to be due on assets available for sale that are currently held on the balance sheet.

Notes to the financial statements continued

14. Deferred taxation continued

vi) The Group has incurred trading losses and interest losses that were in excess of taxable profits in the past. These losses can be used to reduce future trading profits and capital gains which are included in future tax forecasts for the Group. A provision of £2m included in this balance is in respect of uncertain tax positions, which is in respect of enquiries HMRC have opened in respect of March 1982 valuations used for capital gains purposes. In the event of an adjustment to the valuations used, an offset would arise in losses held by the Group.

vii) This movement is made up of current year movements as explained in footnotes (i) to (vi) above and a prior year adjustment. The net effect of the prior year adjustments in each of the above items is a credit of £6m, comprising a £1m charge on provisions, a £4m charge on capital allowances and a £11m credit on losses.

viii) This represents deferred tax arising on the acquisition of Nisa Retail Limited.

ix) This represents deferred tax arising from the impact of adoption of IFRS 9 on liabilities. More information regarding the adoption of IFRS 9 is provided in note 20 (Interest-bearing loans and borrowings).

Accounting policies

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

Notes to the financial statements continued
15. Inventories

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

Inventories include the following:

	2018 £m	2017 £m
Raw materials, consumables and work in progress	**4**	4
Finished goods and goods for resale	**454**	385
	458	389

The period end inventory provision is £20m (2017: £20m) and a net charge of £nil (2017: £4m charge) has been made within operating expenses in the income statement, mainly relating to the Food business. Inventory held at fair value less cost to sell is not material in either period. There was no inventory pledged as security for liabilities in the current or prior period.

Accounting policies

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

16. Trade and other receivables

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

	2018 £m	2017 (restated*) £m
Non-current	**81**	32
Current	**537**	634
	618	666

	2018 £m	2017 (restated*) £m
Trade receivables	**338**	499
Prepayments and accrued income	**100**	72
Other receivables	**190**	105
	628	676
Allowance for expected credit losses	**(10)**	(10)
	618	666

*The comparative figures have been restated to reflect the impact of IFRS 15 (Revenue from Contracts with Customers) see general accounting policies section on page 192 for further details.

Notes to the financial statements continued

16. Trade and other receivables continued

The trade receivables balances for Co-op Insurance for 2018 have been reclassified to assets held for sale. In accordance with IFRS 5, the prior year comparatives have not been restated.

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

The £81m of non-current debt relates to pre-paid funeral plan instalments where customers have been invoiced before the funeral has occurred. £31m of current debt also relates to pre-paid funeral plan instalments which are £112m in total.

Within trade receivables is £122m (2017: £90m) of supplier income that is due from Food suppliers. Prepayments and accrued income includes £79m (2017: £94m) in relation to supplier income that has been recognised but not yet billed. As at 5 April 2019, £119m (2017: £87m) of the trade receivables balance had been invoiced and settled and £71m (2017: £70m) of the accrued income balance has been invoiced and settled.

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

	2018 £m	2017 £m
Opening allowance for expected credit losses	**10**	8
Charge to the income statement	**11**	8
Credit to the income statement	**(11)**	(6)
Closing allowance for expected credit losses	**10**	10

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

		Days past due date			
	Current	1-3 months	Over 3 months	Over 12 months	Total
Expected credit loss rate (weighted average)	0.07%	8%	74%	91%	
Estimated gross total carrying amount (£m)	298	31	5	4	338
Expected credit loss (£m)	-	(2)	(4)	(4)	(10)

Unprovided debts in the over 3 months old and 12 months old categories are often being paid in regular instalments. The expected credit loss provision in respect of current debt is less than £1m.

Accounting policies

Refer to note 30 Financial Instruments for the accounting policies relating to trade receivables and allowances for expected credit losses.

Notes to the financial statements continued

17. Contract assets

What does this show?

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

	2018 £m	2017 (restated*) £m
Current	**4**	3
Non-current	**47**	41
Total	**51**	44

	2018 £m	2017 (restated*) £m
Opening contract assets	**44**	33
Fulfilment costs - incurred on new funeral plan sales	**10**	14
Fulfilment costs - transferred to the income statement on funeral plan redemptions	**(2)**	(2)
Fulfilment costs - transferred to the income statement on funeral plan cancellations	**(1)**	(1)
Closing contract assets	**51**	44

*For more details on the restatement, refer to the general accounting policies section on page 192.

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

Accounting policies

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

18. 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 year 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.

	2018 £m	2017 £m	2018 £m	2017 £m
	Assets held for sale		Liabilities held for sale	
(a) Discontinued operation - Insurance (see note 9)	**1,099**	-	**1,043**	-
(b) Other assets and liabilities held for sale (see below)	**14**	6	**2**	-
Total	**1,113**	6	**1,045**	-

Notes to the financial statements continued

18. Assets and liabilities held for sale continued

(a) Discontinued operation - Insurance

Co-op Insurance has been classified as a discontinued operation in 2018 as the sale of the business was highly probable at the year end date. The assets and liabilities have been remeasured at fair value less costs to sell and are shown separately in the balance sheet. Further detail is given in note 9 (Loss on discontinued operations, net of tax) including a line-by-line balance sheet detailing the impact of the remeasurement adjustments to fair value less costs to sell and the carrying value of all insurance assets and liabilities held for sale.

b) Other assets and liabilities classified as held for sale

	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
	Assets held for sale		Liabilities held for sale	
Investment property	**9**	-	**2**	-
Property, plant and equipment	**5**	6	**-**	-
	14	6	**2**	-

Investment properties with a fair value of £9m were transferred to assets held for sale during the year.

£5m net book value of property was transferred, and plant and equipment with a cost of £1m but net book value of £nil was also transferred during the year from tangible fixed assets.

Accounting policies

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

Notes to the financial statements continued

19. Cash and cash equivalents

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

Cash and cash equivalents	2018 £m	2017 £m
Cash in hand	**86**	85
Cash at banks	**196**	318
Cash and cash equivalents	**282**	403
Cash and cash equivalents (as above)	**282**	403
Bank overdrafts	**-**	(6)
Net cash and cash equivalents	**282**	397

Cash at bank includes amounts receivable from banks for credit card and debit card transactions of £30m (2017: £36m) which clear the bank shortly after the transaction takes place.

Accounting policies

Cash and cash equivalents in the consolidated balance sheet comprise cash in hand, cash at bank and short-term deposits with banks with a maturity of three months or less, which are subject to an insignificant risk of changes in value. Cash and cash equivalents includes debit and credit card payments made by customers which are receivable from banks and clear the bank within 3 days of the transaction date.

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

The cash held in the Reclaim Fund of £338m (2017: £394m) is not available for use by the Group and is not classed as a cash or cash equivalent. Amounts held in trustee-administered bank accounts of the Group of £34m (2017: £38m), which can only be utilised to meet liabilities in respect of funeral plans are classed as funeral plan investments (see note 13) and not cash and cash equivalents.

Notes to the financial statements continued

Section C – what are our major liabilities?

This section of the accounts (notes 20 - 23) outlines the key liabilities that we have at the balance sheet date.

20. 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 finance 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:	Ref	2018 £m	2017 £m
£285m 6.875% Eurobond Notes due 2020 – (fair value)	(a)	**296**	502
£165m 6.875% Eurobond Notes due 2020 (amortised cost)	(a)	**169**	-
£105m 7.5% Eurobond Notes due 2026 (fair value)	(a)	**115**	436
£245m 7.5% Eurobond Notes due 2026 (amortised cost)	(a)	**264**	-
£109m 11% Final repayment subordinated notes due 2025		**109**	109
£16m Instalment repayment notes (final payment 2025)		**14**	15
£10m 2.57% Nisa bank term loan (facility expires 2021)		**9**	-
Non-current portion of finance lease liabilities		**28**	8
Trading Group interest-bearing loans and borrowings		**1,004**	1,070
£70m 12% Financial Services Callable Dated Deferrable Tier Two Notes due 2025*		**-**	68
Total Group interest-bearing loans and borrowings		**1,004**	1,138

*Debt relating to CISGIL has been transferred to held for sale (see note 18).

Current liabilities:	Ref	2018 £m	2017 £m
£165m 6.875% Eurobond Notes due 2020 (amortised cost) - interest accrued	(b)	**5**	-
£245m 7.5% Eurobond Notes due 2026 (amortised cost) - interest accrued	(b)	**8**	-
£21m 8.875% First Mortgage Debenture Stock 2018	(a)	**-**	21
£16m Instalment repayment notes (final payment 2025)		**1**	1
£110m Nisa asset backed invoice discounting facility	(c)	**31**	-
£355m Syndicate revolving credit facility drawdown		**15**	-
Corporate investor shares		**6**	8
Current portion of finance lease liabilities		**4**	2
Other unsecured loans		**-**	2
		70	34

Notes to the financial statements continued

20. Interest-bearing loans and borrowings continued

(a) When they started, these drawn-down loan commitments were designated as financial liabilities at fair value through the income statement. The Group has adopted IFRS 9 (Financial Instruments) from 7 January 2018 and subsequently only £285m of the original par value of £450m 2020 notes and £105m of the original par value of £350m 2026 notes are designated as financial liabilities at fair value through the income statement. Upon adoption of IFRS 9, the unhedged proportion of the Eurobonds were restated to amortised cost, resulting in a reduction in the carrying value of £55m and a corresponding credit to reserves (as shown in the consolidated statement of changes in equity). See general accounting policies section on page 192 for details of the impact of the new standard. All of the other liabilities, except the finance lease liability, are classified as loans and receivables in accordance with IAS 39 (Financial Instruments: Recognition and Measurement).

(b) Included within current liabilities is £5m of accrued interest in relation to the £165m 6.875% Eurobond Notes due 2020 held at amortised cost (within non-current liabilities) and £8m of accrued interest in relation to the £245m 7.5% Eurobond Notes due 2026 held at amortised cost (within non-current liabilities).

(c) Balance relates to a funds in use invoice discounting facility taken on following the acquisition of Nisa. This arrangement has been treated as a current borrowing with a balance of £31m as at 5 January 2019. The balance on acquisition of Nisa on 8 May 2018 was £57m (see note 34).

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

Reconciliation of movement in net debt

Net debt is a measure that shows the amount we owe to banks and other external financial institutions less the cash that we have and any short-term deposits. Some of our Eurobonds and First Mortgage Debenture Stock 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. The total cumulative fair value movement on these liabilities is also shown at the bottom of each table.

	For period ended 5 January 2019					
	Start of period £m	Acquisition of Subsidiary £m	Non-cash movements* £m	Cash flow £m	Movement in corporate investor shares £m	End of period £m
Interest-bearing loans and borrowings:						
- current	(34)	(57)	(14)	33	2	(70)
- non-current	(1,138)	(9)	142	1	-	(1,004)
Total Debt	(1,172)	(66)	128	34	2	(1,074)
Group cash:						
- Cash	403	1	-	(122)	-	282
- Overdraft	(6)	-	8	(2)	-	-
Group Net Debt	(775)	(65)	136	(90)	2	(792)
Comprised of:						
Trading Group debt	(1,104)	(66)	60	34	2	(1,074)
Trading Group cash	314	1	-	(101)	-	214
Trading Group Net Debt	(790)	(65)	60	(67)	2	(860)
CISGIL debt and overdrafts	(74)	-	76	(2)	-	-
Co-operative Banking Group cash and overdrafts	89	-	-	(21)	-	68
Group Net Debt	(775)	(65)	136	(90)	2	(792)
Less impact of adopting IFRS 9**	55	-	(55)	-	-	-
Less fair value / amortised cost adjustment	83	-	(37)	-	-	46
Group Net Debt before fair value / amortised cost adjustment	(637)	(65)	44	(90)	2	(746)

*The non-cash movement in CISGIL debt and overdrafts of £76m relates to the transfer of CISGIL balances to liabilities held for sale comprising: (i) £68m 12% Tier Two loan notes in non-current interest bearing loans and borrowings and (ii) £8m overdraft in CISGIL debt and overdrafts.
**See general accounting policies section on page 192 for details of the impact of the new standard.

Notes to the financial statements continued

20. Interest-bearing loans and borrowings continued

For period ended 6 January 2018	Start of period £m	Acquisition of Subsidiary £m	Non-cash movements £m	Cash flow £m	Movement in corporate investor shares £m	End of period £m
Interest-bearing loans and borrowings:						
- current	(21)	-	(21)	-	8	(34)
- non-current	(1,141)	-	10	(7)	-	(1,138)
Total Debt	(1,162)	-	(11)	(7)	8	(1,172)
Group cash:						
- Cash	283	-	-	120	-	403
- Overdraft	(6)	-	-	-	-	(6)
Group Net Debt	(885)	-	(11)	113	8	(775)
Comprised of:						
Trading Group debt	(1,095)	-	(11)	(6)	8	(1,104)
Trading Group cash	208	-	-	106	-	314
Trading Group Net Debt	(887)	-	(11)	100	8	(790)
CISGIL debt and overdrafts	(73)	-	-	(1)	-	(74)
Co-operative Banking Group cash and overdraft	75	-	-	14	-	89
Group Net Debt	(885)	-	(11)	113	8	(775)
Less fair value adjustment	127	-	11			138
Group Net Debt before fair value adjustment	(758)	-	-	113	8	(637)

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

Terms and repayment schedule

The 6.875% (inclusive of 1.25% coupon step up) Eurobond Issue 2020 has an original value of £450m (carrying amount of £465m) and the 7.5% (inclusive of 1.25% coupon step up) Eurobond Issue 2026 has an original value of £350m (carrying amount of £379m). These bonds have each been paying an additional 1.25% coupon since 8 July 2013 following the downgrade of the Group's credit rating to sub-investment grade. Both these bonds are to be paid to holders on maturity at par value.

In December 2013 the Group issued two subordinated debt instruments – £109m 11% final repayments notes due 2025 and £20m instalment repayment notes, final payment 2025. As at 6 January 2018 the amounts outstanding are final repayment notes of £109m and the instalment repayment notes of £14m.

The Groups's £355m Revolving Credit Facility expires in February 2021.

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.

Notes to the financial statements continued

20. Interest-bearing loans and borrowings continued

Finance lease liabilities

Finance leases have the following maturities in the Trading Group:

	2018 £m	2017 £m
Less than one year	**4**	2
Greater than one year but less than five years	**14**	4
Greater than five years	**14**	4
	32	10

The increase in finance leases primarily relates to vehicles in our Food business.

No contingent rents are payable under the terms of the lease agreements and the difference between the total future minimum lease payments and their present value is immaterial.

Accounting policies

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

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

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

For more general information on accounting policies on financial instruments, refer to note 30.

Notes to the financial statements continued

21. Trade and other payables

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

	2018 £m	2017 £m
Current	**1,449**	1,400
Non-current	**214**	75
	1,663	1,475

	2018 £m	2017 £m
Trade payables	**888**	743
Value Added Tax, PAYE and social security	**19**	28
Accruals and deferred income	**188**	193
Member payments payable	**3**	13
Deferred consideration	**105**	-
Other payables	**460**	494
Other reinsurance liabilities	**-**	4
	1,663	1,475

Further details on the maturity profile of trade and other payables of the Trading Group can be found in note 29.

Deferred consideration includes £102m in respect of the Nisa acquisition with the balance relating to other smaller acquisitions undertaken in the period, none of which are individually significant.

Other payables include an amount owed to The Co-operative Bank of £131m (2017: £130m) in respect of historic group relief. See note 8 for further details.

Other payables also includes £22m (2017: £21m) of rewards earned through our membership offer that have either not been redeemed by members (5%) or have not yet been paid out to local causes (1%). During the year £3m (2017: £6m) of member reward earned (5%) has been written back to the income statement in line with a prudent assessment of the likelihood that members won't redeem their rewards.

Accounting policies

Refer to note 30 Financial Instruments for the accounting policies relating to trade payables.

Notes to the financial statements continued

22. Contract liabilities

What does this show?

When a customer buys a funeral plan from us we invest the money they give us and we recognise that we have an obligation to provide a funeral in the future. We include a liability on our balance sheet for this until the funeral is performed, at which point we recognise the revenue in our income statement. This note shows these liabilities and how they have changed during the year.

	2018 £m	2017 (restated*) £m
Contract liabilities - Funeral plans	**1,485**	1,283
Current	**132**	115
Non-current	**1,353**	1,168
	1,485	1,283

Contract liabilities - Funeral plans comprise £1,224m relating to fully paid plans, £116m on instalment plans and £145m of deferred income.

Included in the balances above are Low Cost Instalment Funeral Plans (LCIP) of £69m. This relates to 14,566 live plans. See note 30 for accounting policy for LCIP's.

Contract Liabilities:	2018 £m	2017 (restated*) £m
Opening contract liabilities	**1,283**	1,037
New plan additions (deferred income)	**213**	283
Interest and bonus applied (deferred income)	**92**	64
Plans cancelled or redeemed outside of the society	**(18)**	(22)
Recognised as revenue in the year	**(85)**	(79)
Closing contract liabilities	**1,485**	1,283

*For more details on the restatement, refer to the general accounting policies section on page 192.

23. Provisions

What does this show?

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

	2018 £m	2017 (restated*) £m
Non-current	**215**	220
Current	**82**	90
	297	310

Notes to the financial statements continued

23. Provisions continued

	Uninsured claims £m	Onerous leases £m	Restructuring & integration £m	Regulatory / other £m	2018 Total £m	2017 (restated*) £m
At beginning of the period	59	201	29	21	310	324
Credit to income statement	(10)	(8)	-	(2)	(20)	(24)
Charge to income statement	25	34	8	16	83	51
Transfer from payables	-	-	-	-	-	10
Discounting	-	11	-	-	11	10
Payments	(25)	(34)	(7)	(21)	(87)	(61)
At end of the period	49	204	30	14	297	310

*The comparative figures have been restated to reflect the impact of IFRS 15 (Revenue from Contracts with Customers) see general accounting policies section on page 192 for further details.

Critical accounting estimates and judgements

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

Onerous leases
This provision primarily relates to properties that are no longer used for trading. 44% (2017: 46%) of the provision relates to five onerous properties that are mainly former offices or distribution centres. The remaining percentage is mainly former trading stores all with varying terms and lengths. The provision is estimated on the basis of the minimum amount which could be paid to landlords to exit the lease agreements. This is based on an underlying calculation on a property by property basis with reference to the head lease cost and term and also takes account of property holding costs (such as business rates) and any estimated rental income (from subletting the properties and assuming that rental streams end at the next most likely break point). Prudent assumptions are made when forecasting future cash flows e.g. there is prudence in the assumptions around fixed rental uplifts and expected exit dates. These cashflows are then discounted using a risk adjusted discount rate. Payments under lease commitments, net of amounts receivable under sub-lettings, will be approximately £73m (2017: £72m) payable over the next five years.

Restructuring and integration
Provisions totalling £88m were made in 2013 and 2014 in respect of the expected costs of separating Group IT and other change management systems from The Co-operative Bank. £59m of the provision had been utilised by the start of the period and a further £7m has been used during the year. Provisions totalling £8m have also been recognised in relation to the proposed closure of our Electrical business (see note 37 for further details). Costs for these provisions are expected to be incurred over the next two years.

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

Accounting policies

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

Notes to the financial statements continued

Section D – other notes to the accounts

This section (notes 24 – 36) contains additional notes to the accounts.

24. Members' share capital and reserves

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

	2018 £m	2017 (restated*) £m
Individual shares of £1 and 10p each	**64**	64
Corporate shares of £5 each	**9**	9
Share Capital	**73**	73
Other Reserves	**86**	101
Retained Earnings	**2,910**	2,841
Total Retained Earnings and Other Reserves	**2,996**	2,942
Total Capital Resources	**3,069**	3,015

*For more details on the restatement, refer to the general accounting policies section on page 192.

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

Both classes of share maintain a fixed nominal value with corporate shares attracting a limited rate of interest. Under the Society's current rules, voting for Independent Society Members is in proportion to trade with the Society,with Independent Society Members totalling 21.9% (2017: 21.9%) of the vote at the Annual General Meeting. Each individual member has one vote with individual members totalling 78.1% (2017: 78.1%) of the vote at the Annual General Meeting.

For individual shares, new members are required to contribute a minimum of £1 when they join the Society. Each member has 1 individual share although contributions of up to £100,000 per member are allowed. No interest is currently earned on member capital. Members can withdraw money from their share account upon request (to a minimum of £1) or they can withdraw their £1 when they leave the Society. Share capital increased by £nil (2017: £0.6m) in the period being the net of new member contributions of £0.6m (2017: £1.0m) and withdrawals of £0.6m (2017: £0.4m). There are 15.6m (2017: 15.0m) individual member records on the share register.

Other reserves

	Reclaim Fund £m	Revaluation Reserve £m	Investments held at FVOCI £m	Total £m
Balance at 6 January 2018	**74**	**10**	**17**	**101**
Gains less losses on available for sale assets	**-**	**-**	**(8)**	**(8)**
Fair value gains on insurance assets transferred to the income statement	**-**	**-**	**(1)**	**(1)**
Revaluation reserve transferred to retained earnings	**-**	**(7)**	**-**	**(7)**
Tax on items taken directly to other comprehensive income	**-**	**-**	**1**	**1**
Balance at 5 January 2019	**74**	**3**	**9**	**86**

Notes to the financial statements continued

24. Members' Share capital and Reserves continued

	Reclaim Fund £m	Revaluation Reserve £m	Investments held at FVOCI £m	Total £m
Balance at 31 December 2016	74	10	23	107
Gains less losses on available for sale assets	-	-	(4)	(4)
Fair value gains on insurance assets transferred to the income statement	-	-	(3)	(3)
Revaluation reserve transferred to retained earnings	-	-	-	-
Tax on items taken directly to other comprehensive income	-	-	1	1
Balance at 6 January 2018	74	10	17	101

Reclaim Fund capital reserve

This reserve represents the surplus held within the Reclaim Fund. The surplus has not been transferred to retained earnings because the profits are ultimately payable to the Big Lottery Fund and are therefore not available for distribution by the Group. Further details of the balance sheet items can be found in note 30.

Revaluation reserve – property, plant and equipment

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

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

CISGIL mainly holds debt securities as investments at fair value through other comprehensive income. Subsequent valuation is at fair value with differences between fair value and carrying value recognised in other comprehensive income as they arise.

Distribution of reserves in the event of a winding-up

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

Capital management

The Group defines capital as its share capital and reserves. The Group's policy is to maintain a strong base and to be more prudent than industry 'normal' levels as it is not able to raise equity externally. The Group still recognises the need to maintain a balance between the potential higher returns that might be achieved with greater borrowing levels and the advantages and security coming from a sound capital position. As our Trading Group and Financial Services businesses are very different in nature, the Group manages the capital of these businesses separately.

The Trading Group is not regulated and manages capital to make sure we have the right balance between investing in the future growth of the Group and making member and community payments. Following the launch of the 5% and 1% membership offer in 2016, the Group has made payments to members and communities of £72m in 2018 (2017: £74m). See note 36 for more details. It has also invested in future growth through cash capital expenditure additions of £385m (2017: £431m) and still kept within its net debt limits. Total member funds decreased during the period by £54m (2017: decreased £227m).

Financial Services is mainly the Insurance business, CISGIL, which is a regulated entity. Its submissions to the regulators in the period have shown that this entity's individually regulated operations have complied with all externally imposed solvency requirements throughout the period.

Notes to the financial statements continued

25. Investment properties

What does this show?

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

	2018 £m	2017 £m
Valuation at beginning of period	**68**	74
Disposals	**(55)**	(21)
Transfer to held for sale (note 18)	**(9)**	-
Revaluation gain recognised in income statement	**38**	15
Valuation at end of period	**42**	68

The disposal values and revaulation gains mainly relate to the disposal of 3 individual investment properties during the year.

A transfer from investment properties to assets held for sale has been made during the year (see note 18 b).

Accounting policies

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

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

26. Investments in associates and joint ventures

What does this show?

We sometimes make investments where we jointly control or have significant influence over another entity. This note provides information on those investments.

A breakdown of the investments held and income received is shown below:

	2018		2017	
	Profits / (losses) £m	Investments £m	Profits / (losses) £m	Investments £m
NOMA	-	-	8	-
Other investments (including windfarms)	-	**3**	-	3
Total	-	**3**	8	3

Notes to the financial statements continued

26. Investments in associates and joint ventures continued

The movements in investments in associates and joint ventures are as follows:

	2018 £m	2017 £m
At beginning of period	**3**	52
Additions	**-**	10
Share of profits	**-**	8
Dividends received	**-**	(33)
Disposals	**-**	(34)
At end of period	**3**	3

NOMA

On 22 December 2017 the Group completed the sale of its 50% stake in NOMA to Hermes Real Estate.

Windfarms

The Group sold its investment in Biggleswade and Whitemill windfarms on 20 December 2017 for £12m. The only remaining investment is the 20% interest in Coldham windfarm whose principal place of business is the United Kingdom. There were no contingent liabilities or capital commitments in respect of the windfarm as at 5 January 2019 (6 January 2018: £nil).

Accounting policies

The Group's interests in equity accounted investees comprise its investment in the Coldham windfarm (as at the 5 January 2019) and its investment in NOMA in the prior year. Associates are those entities in which the Group has significant influence, but not control or joint control over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, where the Group has rights to the net assets of the arrangement, rather than rights to the assets and obligations for its liabilities. The Group records its share of the associates' post tax profit or loss within the income statement and its share of the net assets within investments. In accordance with IAS 28 (Investments in Associates and Joint Ventures), the Group's share of any associate and joint venture result is adjusted for any fair value adjustments made on initial recognition.

Notes to the financial statements continued

27. Pensions

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

	2018 £m	2017 £m
Pension schemes in surplus	**1,984**	1,746
Pension schemes in deficit	**(125)**	(193)
Closing net retirement benefit	**1,859**	1,553

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. Colleagues who meet automatic enrolment requirements are currently enrolled into the tier with 2% colleague and 3% employer contributions. With effect from April 2019, the auto-enrolment tier will have a 3% colleague and 5% employer contribution.

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 2018 £m	Net 2017 £m
Schemes in surplus		
The Co-operative Group Pension Scheme (Pace)	**1,821**	1,603
Somerfield Pension Scheme	**163**	143
Total schemes in surplus	**1,984**	1,746
Schemes in deficit		
United Norwest Co-operatives Employees' Pension Fund	**(82)**	(133)
Yorkshire Co-operatives Limited Employees' Superannuation Scheme	**(5)**	(11)
The Plymouth and South West Co-operative Society Limited Employees' Superannuation Fund	**(32)**	(43)
Other unfunded obligations	**(6)**	(6)
Total schemes in deficit	**(125)**	(193)
Total schemes	**1,859**	1,553

Notes to the financial statements continued

27. Pensions continued

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 all of the DB schemes can recoup surplus via a right to refunds and this is reflected in the balance sheet position.

Events arising during the year

Pace sectionalisation

During the year the Group reflected a £31m benefit to the pension surplus as a consequence of refining the previous 2017 year end estimate of the derecognition of the assets and liabilities of the Pace pension scheme that are attributable to The Co-operative Bank ('the Bank').

Prior to the completion of the Bank's Liability Management Exercise (LME) in 2013, Pace was recognised under IAS 19 (Employee Benefits) as a scheme that shared risks between entities under the common control of the Group. Following the Bank's LME in 2013, and the subsequent reduction in the Group's investment in the Bank to a minority shareholding, Pace became a multi-employer scheme in accordance with IAS 19.

Prior to 2017 there was no contractual agreement or stated policy for charging the net DB obligation, or surplus, to participating employers. There was also no contractually agreed share of pension liabilities between the Group and the Bank. As a result, the net DB pension asset was recognised fully by the Group, being the Principal Employer and the most significant participant in the scheme.

During 2017, the Group, the Bank and the Pace scheme Trustee agreed heads of terms to sectionalise the Bank's element of the Pace multi-employer defined benefit pension scheme. As a result of agreeing the heads of terms, sufficient information became available to make a reasonable estimate of the Bank's share of assets and liabilities. The ability to determine an appropriate share of the scheme between the participating entities resulted in a derecognition of £374m of the Pace surplus during 2017 with a corresponding charge through other comprehensive income.

During 2018, experience adjustments have affected the share of the Pace defined benefit scheme assets and liabilities attributable to the Bank. The experience adjustments have been reflected in other comprehensive income. The Trustee of Pace legally sectionalised the Pace DB scheme on 6 August 2018, in line with the heads of terms agreed in 2017. After this date, the Group accounts only for the Co-op section of Pace and no further experience adjustments relating to the Bank's share of the scheme will arise.

GMP

A charge of £13m has been made in respect of aligning guaranteed minimum pensions and this is included within one-off items and is offset by a £24m gain due to a change to expected pension benefits.

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 Pace Complete was carried out as at 5 April 2016, in accordance with the scheme specific funding requirements of the Pensions Act 2004. The results of the valuation showed that Pace Complete had a surplus of £251m. The Group agreed on completion of the actuarial valuation in November 2017 that contributions to Pace Complete would cease with effect from 1 December 2017.

Pace - multi-employer provisions following sectionalisation

As noted above, Pace remains a multi-employer scheme but it is now possible to identify the Bank's share of the scheme so the Group accounts only for the Co-op section of Pace.

Notes to the financial statements continued

27. Pensions continued

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 removes 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.

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 Trustee is 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 Trustee consults with the Group in developing investment strategy and delegates the responsibility for implementing and monitoring the strategy to an Investment Committee.

Each Trustee board has at least one professional Trustee and there is also a requirement for the boards to have some member representation. As an example, the Trustee board for Pace has ten Trustee Directors - three Co-op appointed professional independent Trustee Directors, one Bank appointed professional independent Trustee Director, three Co-op appointed Trustee Directors, and three Member Nominated Directors elected by scheme members. The Chair of Trustees 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.

Despite contributions to Pace ceasing (see above), the expected deficit recovery contributions to all pension schemes over the 2019 financial year is £50m. The average duration of the liabilities is 20 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 2016
Somerfield Pension Scheme ('Somerfield Scheme')	31 March 2016
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 2016
Yorkshire Co-operatives Limited Employees' Superannuation Fund ('Yorkshire Fund')	31 January 2017

Notes to the financial statements continued

27. Pensions continued

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 90% 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 90% 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 Q1 2019, the Group reduced its exposure to longevity risk in the Somerfield Pension Scheme via a pensioner annuity transaction.

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

	2018	2017
Discount rate	**3.02%**	2.62%
RPI Inflation rate	**3.46%**	3.44%
Pension increases in payment (RPI capped at 5% p.a.)	**3.35%**	3.25%
Future salary increases	**3.71%**	3.69%

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

Notes to the financial statements continued

27. Pensions continued

Demographic assumptions

The Group has used best estimate base mortality tables which reflect the membership of each scheme. Allowance has been made for future improvements in line with the Continuous Mortality Investigation (CMI) 2016 projections and a long-term future improvement rate of 1.25% p.a. (2017: CMI 2016 1.25% p.a.).

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	2018	2017
Male currently aged 65 years	**21.9**	22.0
Female currently aged 65 years	**23.5**	23.6
Male currently aged 45 years	**23.3**	23.4
Female currently aged 45 years	**25.1**	25.1

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.

	2018	2017
Change in liability from a 0.1% increase in discount rate	**(168)**	(180)
Change in liability from a 0.1% increase in RPI inflation	**128**	134
Change in liability from a 0.25% increase in long-term rate of longevity improvements	**96**	109

Changes in the present value of the defined benefit obligation (DBO)

	2018 £m	2017 £m
Opening defined benefit obligation	**8,985**	11,152
Interest expense on DBO	**231**	275
Remeasurements:		
a. Effect of changes in demographic assumptions	**(50)**	(106)
b. Effect of changes in financial assumptions	**(474)**	223
c. Effect of experience adjustments	**47**	(26)
Benefit payments from plan	**(518)**	(667)
Refinement / (derecognition) of scheme liabilities attributable to The Co-operative Bank	**202**	(1,866)
Past service items	**(11)**	-
Closing defined benefit obligation	**8,412**	8,985

Notes to the financial statements continued

27. Pensions continued

Changes in the fair value of the plan assets

	2018 £m	2017 £m
Opening fair value of plan assets	**10,538**	12,879
Interest income	**272**	317
Return on plan assets (excluding interest income)	**(299)**	203
Administrative expenses paid from plan assets	**(5)**	(3)
Employer contributions	**50**	49
Benefit payments from plan	**(518)**	(667)
Refinement / (derecognition) of plan assets attributable to The Co-operative Bank	**233**	(2,240)
Closing fair value of plan assets	**10,271**	10,538

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.

	2018 Quoted £m	2018 Unquoted £m	2018 Total £m	2017 Quoted £m	2017 Unquoted £m	2017 Total £m
Equity instruments	**206**		**206**	242	-	242
Liability driven investments	**4,895**	**-**	**4,895**	5,709	-	5,709
Real estate	**63**	**-**	**63**	223	-	223
Investment grade credit	**3,376**	**-**	**3,376**	2,810	-	2,810
Diversified growth funds	**-**	**-**	**-**	127	-	127
Illiquid / other credit	**-**	**1,334**	**1,334**	-	731	731
Alternative investments	**-**	**330**	**330**	-	316	316
Cash and cash equivalents	**67**	**-**	**67**	380	-	380
	8,607	**1,664**	**10,271**	9,491	1,047	10,538

Amounts recognised in the balance sheet	2018 £m	2017 £m
Present value of funded obligations	**(8,406)**	(8,979)
Present value of unfunded liabilities	**(6)**	(6)
Fair value of plan assets	**10,271**	10,538
Net retirement benefit asset	**1,859**	1,553

Amounts recognised in the income statement and other comprehensive income	2018 £m	2017 £m
Interest expense on defined benefit obligations	**(231)**	(275)
Interest income on plan assets	**272**	317
Administrative expenses and taxes	**(5)**	(3)
Past service items (note 1)	**11**	-
Total recognised in the income statement	**47**	39
Remeasurement gains on employee pension schemes	**178**	112
Refinement / (derecognition) of pension surplus attributable to The Co-operative Bank	**31**	(374)
Total recognised in other comprehensive income	**209**	(262)
Total	**256**	(223)

Past service items of £11m are included within one-off gains of £9m in note 1.

Notes to the financial statements continued

27. Pensions continued

Accounting policies

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

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

The gain arising during the period in relation to the sectionalisation of the Pace pension scheme is included within other comprehensive income because it arises from a change in the estimate of the Bank's share of pension assets and liabilities.

Notes to the financial statements continued

28. Insurance contracts liabilities and reinsurance assets

What does this show? This note provides information about the liabilities of our Insurance business and the key assumptions that have been made in assessing those liabilities. It also provides information on reinsurance of the liabilities.

	2018		2017	
	Gross insurance liability	Reinsurance asset	Gross insurance liability	Reinsurance asset
	£m	£m	£m	£m
At the beginning of the year	**750**	**(58)**	724	(54)
Claims paid during the year	**(408)**	**84**	(371)	52
Increase / (decrease) arising from current year claims	**421**	**(108)**	384	(98)
Increase / (decrease) arising from prior year claims	**(30)**	**11**	6	(7)
Quota share*	**-**	**17**	-	49
Increase / (decrease) in unearned premiums	**2**	**-**	7	-
Transfer to assets held for sale / disposal group (see note 9)	**(735)**	**54**	-	-
	-	**-**	750	(58)
Comprising:				
- Claims reported	**404**	**(107)**	413	(87)
- Claims incurred but not reported	**75**	**(13)**	84	(20)
- Claims settlement expenses	**12**	**-**	12	-
- Provision for unearned premiums	**244**	**-**	241	-
- Quota share*	**-**	**66**	-	49
Transfer to assets held for sale / disposal group (see note 9)	**(735)**	**54**	-	-
	-	**-**	750	(58)
Non-current	**362**	**20**	289	(44)
Current	**373**	**34**	461	(14)
Transfer to assets held for sale / disposal group (see note 9)	**(735)**	**(54)**	-	-
	-	**-**	750	(58)

*Amounts recoverable from reinsurers in relation to the quota share agreement are not recorded as gross reinsurance assets in the balance sheet. This is because they are offset against amounts payable under the quota share agreement.

i) Basis of assessing liabilities

CISGIL uses a combination of recognised actuarial and statistical techniques to assess the ultimate cost of claims. These include:

- Projecting historic claims payment and recoveries data;
- Projecting numbers of claims;
- Deriving average costs per claim to apply to claim numbers; and
- Projecting historic claims paid and incurred data (payment plus estimates) – statistical actuarial techniques including chain ladder, Bornhuetter Ferguson and Cape Cod.

The work is undertaken and supervised by suitably qualified personnel. Claims provisions are separately computed for each claim type such as bodily injury, accidental damage, storm, flood and subsidence. All provisions are calculated with explicit allowance for reinsurance and subrogation recoveries. Provisions are not discounted for investment return other than any required additional provision for unexpired risks, periodic payment settlements and provisions relating to exposure within the electric industry.

Discounted reserves in respect of periodic payment settlements are £24m net (2017: £24m net) and historic liability claims from the electric industry discounted reserve amounts to £3m (2017: £3m). Further details around expected settlement patterns for claims arising on these reserves are disclosed within the insurance risk section in note 29.

The historic liability claims from the electric industry reserve was based on a report produced for the industry at the end of 2015 by Towers Watson, an actuarial consultancy. This gave Towers Watson's estimate of both the undiscounted and discounted incurred but not reported (IBNR) reserves as at the end of June 2015. This was the most recent report available when CISGIL calculated its year end 2018 reserves.

Notes to the financial statements continued

28. Insurance contracts liabilities and reinsurance assets continued

i) Basis of assessing liabilities continued

As outlined within the risk management section, there is significant uncertainty in the assessment of liabilities, and provisions are set to be adequate to cover the anticipated eventual cost. A management margin is added to the 'actuarial best estimate' so that no adverse run-off deviations are envisaged. Sensitivity analysis is performed to assist the selection of key parameters and, therefore, the provisions adopted. Provisions are subject to detailed review regarding the appropriateness of key assumptions and the level of the provisions established.

The overall objective of CISGIL's reserving policy is to produce reliable and accurate reserves. Assumptions underlying the reserving calculations are agreed by the Quarterly Reserving Committee (QRC). Methodologies are peer reviewed throughout the calculation process. Provisions are approved and signed off by the Chief Actuary in consultation with the QRC, and any margin above the actuarial best estimate reserve is set by the Chief Financial Officer (CISGIL).

Periodic reports are produced by the actuarial team and presented to the Periodic Reserving Committee in order to advise management of the performance of the business. More detailed reports are produced on a quarterly basis providing information on the performance of the business against plan. These reports are presented to and form the basis of reporting the performance to the CISGIL Board.

ii) Sensitivity analysis

There is greater uncertainty over motor claims provisions than other provisions as they often involve claims for bodily injury and associated legal costs which typically have a longer period to settlement. Motor provisions represent the most significant proportion of the total general insurance outstanding claims liabilities (gross of salvage and subrogation). Sensitivity information is given for motor claims provisions together with limited information for all other classes. The following table indicates the effect on gross claims provisions (gross of reinsurance and salvage and subrogation) of changes in key assumptions. The impact of the increased uncertainty on the income statement risk is mitigated through holding management margin on the best estimate reserves that is proportional to the level of uncertainty.

Assumptions

	Changes in parameter	2018* Effect on gross provision £m	2018* % Effect	2017 Effect on gross provision £m	2017 % Effect
Motor					
Average cost of claims for last three years – bodily injury and legal	10%	36	10.1%	35	9.0%
Mean term to settlement – bodily injury and legal	+1/2 year	8	2.2%	8	2.2%
Rate of future inflation – bodily injury and legal	1%	11	3.0%	11	2.9%
Ogden discount rate – bodily injury	-3/4%	13	3.5%	13	3.3%
Other classes					
Mean term to settlement (liability)	+1/2 year	0	1.9%	-	1.9%
Mean term to settlement (non-liability)	+1/2 year	1	1.6%	1	1.6%
Rate of future inflation (liability)	+1%	1	4.9%	1	4.6%
Rate of future inflation (non-liability)	+1%	1	1.3%	-	1.4%

*The disclosure has been provided for 2018 but assets and liabilities relating to the insurance divsion were transferred to a disposal group during the course of 2018. See note 9.

Notes to the financial statements continued

28. Insurance contracts liabilities and reinsurance assets continued

Insurance accounting policies

Contracts under which CISGIL accepts significant insurance risk from another party (the policyholder), by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. A contract that qualifies as insurance remains an insurance contract until all the risks and obligations are extinguished or expire.

All contracts of general insurance business written by CISGIL are classified as insurance contracts. General insurance business is accounted for on an annual basis.

i) Premiums

Gross written premiums comprise premiums receivable on those contracts which started during the financial year, irrespective of whether they relate in whole or in part to a later accounting period, together with any adjustments in the accounting period relating to premium receivable in respect of business written in prior periods

Gross written premiums:

- are stated gross of commission and exclude any taxes or levies based on premiums;
- include an estimate for cancellations for those renewal contracts which started prior to the year end but which may be cancelled after the balance sheet date; and
- include an estimate of pipeline premium.

Gross written premium (whether paid in advance or by instalments) is earned evenly over the period of the contract.

ii) Unearned premium provision

For general insurance business, the proportion of written premiums relating to periods of risk beyond the year end is carried forward to future accounting periods. The relevant proportion is calculated using the daily pro rata basis. Outward reinsurance premiums are treated as earned in accordance with the profile of the reinsured contracts.

iii) Claims incurred

Insurance claims incurred comprises claims paid during the year, together with related handling costs and the change in the gross liability for claims in the period net of related recoveries including salvage and subrogation.

iv) Claims outstanding

Claims outstanding comprises provisions representing the estimated ultimate cost of settling:

- estimates on claims reported by the balance sheet date ('claims reported'); and
- expected additional cost in excess of claims reported for all claims occurring by the balance sheet date ('claims incurred but not reported').

Aggregate claims provisions, which include attributable claims handling expenses, are set at a level such that no adverse run off deviations are envisaged. Adverse run off deviations, which are material in the context of the business as a whole, would be separately disclosed in the notes to the annual report and accounts.

Anticipated reinsurance recoveries and estimates of salvage and subrogation recoveries are disclosed separately within assets under the headings of 'Reinsurance contracts' and 'Trade Receivables' respectively.

The outstanding reserves are discounted in respect of periodical payments and a portion of liability type claims from the electric industry for which separate assets are held of appropriate term and nature.

v) Unexpired risk provision

Additional provision is made for unexpired risks where the claims and expenses, likely to arise after the end of the financial year in respect of contracts concluded before that date, are expected to exceed the unearned premiums less deferred acquisition costs carried forward for those contracts. Unexpired risk provision is calculated for each category of business. Where categories of business are managed together a combined calculation is performed. Surpluses and deficits within each category are offset within the calculation. The provision is determined after taking account of future investment return arising on investments supporting the unearned premium provision and unexpired risk provision. Such provisions ensure that the carrying amount of unearned premiums provision less

Notes to the financial statements continued

28. Insurance contracts liabilities and reinsurance assets continued

related deferred acquisition costs is sufficient to cover the current estimated future cash flows, including claims handling expenses and therefore meets the requirements of the liability adequacy test as set out in IFRS 4 (Insurance Contracts).

vi) Acquisition costs

Costs directly associated with the acquisition of new business, including commission, are capitalised and amortised in accordance with the rate at which the gross written premiums associated with the underlying contract are earned. See note 12.

vii) Reinsurance

Contracts with reinsurers that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are recognised in the same period as the related claim. Premiums, claims and receivables are presented on a gross basis in the income statement and balance sheet.

Amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet date. If objective evidence of impairment exists, reinsurance assets are reduced to the level at which they are considered to be recoverable and an impairment loss is recognised in the income statement.

Notes to the financial statements continued
29. Financial risk management

What does this show? This note explains the main financial risks we face and how we manage them. These include: credit risk, interest rate risk, foreign currency risk, liquidity risk and insurance risk. Our Insurance business (CISGIL) is separately regulated and funded to the Trading Group and so some disclosures, where material, have been separated out in the CISGIL section.

The main financial risks facing the Group are set out below. Overall Group risks and the strategy used to manage these risks are discussed in the Principal Risks and Uncertainties section on pages 41 to 42. As the Insurance business is separately regulated and funded, a separate section explaining the financial risks facing that business is included below.

Credit risk
Credit risk arises from the possibility of customers and counterparties failing to meet their obligations. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed for all customers requiring credit over a certain amount. The Group does not require security in respect of financial assets. The majority of businesses in the Group have cash-based rather than credit-based sales and so customer credit risk is relatively small.

Investments in the Trading Group are allowed only in liquid securities and only with counterparties that have a credit rating equal to or better than the Trading Group. Transactions involving derivative financial instruments are with counterparties with whom the Trading Group has a signed netting agreement (which is an agreement which governs how transactions between two parties are offset) as well as sound credit ratings. Given the policy on credit ratings, management has no current reason to expect that any counterparty will fail to meet its obligations.

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

At the balance sheet date there were no significant concentrations of credit risk. Information regarding the age profile of trade receivables is shown in note 16. The carrying value of all balances that attract a credit risk within trading group, which represents the maximum exposure, is set out below:

	Carrying amount 2018 £m	Carrying amount 2017 £m
Trade and other receivables (excluding prepayments and accrued income)*	**518**	414
Interest rate swaps	**27**	38
Funeral plan investments	**1,223**	1,076
Cash deposits - Trading Group, Note 20**	**214**	314

*Trade and other receivables includes a provision against credit losses of £10m (2017:£10m). See note 16 for further details of the movement in the year. Note 16 shows the analysis of trade and receivables . The 2017 trade and other receivables of £414m above excludes CISGIL trade receivables which are in assets held for sale in 2018.

**The cash deposits are for the Trading Group only as shown in note 20.

Interest rate risk and hedging
Interest rate risk arises from movements in interest rates that impact on the fair value of the assets and liabilities and related finance flows. The Trading Group adopts a policy of ensuring that 50-90% of its exposure to changes in interest rates on borrowings is on a fixed rate basis. The fixed proportion as at 5 January 2019 was 58% (at 6 January 2018: 58%). Interest rate swaps, denominated exclusively in sterling, have been entered into to achieve an appropriate mix of fixed and floating rate exposure within the Trading Group's policy. The swaps mature over the next eight years following the maturity of the related loans and have fixed swap rates ranging from 5.63% to 6.25% (at 6 January 2018: 5.63% to 6.25%). At 5 January 2019, the Trading Group had interest rate swaps with a notional contract amount of £390m (at 6 January 2018: £390m).

Notes to the financial statements continued

29. Financial risk management continued

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

The net fair value of swaps at 5 January 2019 was a net asset of £27m (2017: net asset £38m) comprising assets of £27m (2017: £38m) and liabilities of £nil (2017: £nil). These amounts are recognised as fair value derivatives.

Foreign currency risk
The Trading Group is exposed to foreign currency risk on purchases that are denominated in a currency other than sterling. The currency giving rise to this is the Euro.

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

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

At 5 January 2019, the Trading Group had forward currency transactions in Euros with a notional contract amount of £23m (2017: £nil).

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

As at 5 January 2019, the Trading Group had available borrowing facilities totalling £1,400m (2017: £1,301m), which was made up of uncommitted facilities of £nil (2017: £nil) and committed facilities of £1,400m (2017: £1,301m). These are detailed below:

Bank facilities as at 5 January 2019

	2018		2017	
	Expiry	£m	Expiry	£m
Syndicate Revolving Credit Facility	Feb 2021	355	Feb 2021	355
		355		355
£21m 8.875% First Mortgage Debenture Stock 2018	-	-	December 2018	21
£450m 6.875% Eurobond Notes due 2020	July 2020	450	July 2020	450
£109m 11% Final repayment subordinated notes due 2025	December 2025	109	December 2025	109
£16m Instalment repayment notes (final payment 2025)	December 2025	16	December 2025	16
£350m 7.5% Eurobond Notes due 2026	July 2026	350	July 2026	350
£10m Nisa term loan maturing 2020	April 2020	10	–	–
£110m Nisa asset backed invoice discounting facility	June 2020	110	–	–
		1,400		1,301

The Group's £355m Syndicated Revolving Credit Facility expires in February 2021.

Notes to the financial statements continued

29. Financial risk management continued

The following are the maturities of financial liabilities as at 5 January 2019:

	Carrying amount £m	Contractual cash flows £m	6 months or less £m	6 - 12 months £m	1 - 2 years £m	2 - 5 years £m	More than 5 years £m
Non-derivative financial liabilities							
£285m 6.875% Eurobond 2020 - (fair value)	**(296)**	**(285)**	**-**	**-**	**(285)**	**-**	**-**
£165m 6.875% Eurobond 2020 (amortised cost)	**(174)**	**(170)**	**(5)**	**-**	**(165)**	**-**	**-**
£105m 7.5% Eurobond 2026 (fair value)	**(115)**	**(105)**	**-**	**-**	**-**	**-**	**(105)**
£245m 7.5% Eurobond 2026 (amortised cost)	**(272)**	**(253)**	**(8)**	**-**	**-**	**-**	**(245)**
£109m 11% Final repayment subordinated notes 2025	**(109)**	**(109)**	**-**	**-**	**-**	**-**	**(109)**
£16m Instalment repayment notes (final payment 2025)	**(15)**	**(15)**	**-**	**(1)**	**(2)**	**(6)**	**(6)**
£10m 2.57% Nisa bank term loan (facility expires 2020)	**(9)**	**(9)**	**-**	**-**	**(9)**	**-**	**-**
£105m Nisa asset backed invoice discounting facility	**(31)**	**(31)**	**(31)**	**-**	**-**	**-**	**-**
£355m Syndicate revolving credit facility	**(15)**	**(15)**	**(15)**	**-**	**-**	**-**	**-**
Finance lease liabilities	**(32)**	**(32)**	**(2)**	**(2)**	**(4)**	**(14)**	**(10)**
Funeral plans	**(1,485)**	**(1,485)**	**(72)**	**(60)**	**(101)**	**(406)**	**(846)**
Trade and other payables	**(1,663)**	**(1,663)**	**(1,341)**	**(74)**	**(49)**	**(74)**	**(125)**

The following are the maturities of financial liabilities as at 6 January 2018:

	Carrying amount £m	Contractual cash flows £m	6 months or less £m	6 - 12 months £m	1 - 2 years £m	2 - 5 years £m	More than 5 years £m
Non-derivative financial liabilities							
£21m 8.875% First Mortgage Debenture Stock 2018	(21)	(21)	-	(21)	-	-	-
£450m 6.875% Eurobond Notes due 2020	(502)	(450)	-	-	-	(450)	-
£350m 7.5% Eurobond Notes due 2026	(436)	(350)	-	-	-	-	(350)
£109m 11% Final repayment subordinated notes due 2025	(109)	(109)	-	-	-	-	(109)
£16m Instalment repayment notes (final payment 2025)	(16)	(16)	-	(1)	(1)	(5)	(9)
Finance lease liabilities	(10)	(10)	(1)	(1)	(2)	(2)	(4)
Funeral plans	(1,283)	(1,283)	(56)	(64)	(127)	(423)	(613)
Trade and other payables	(1,285)	(1,285)	(1,167)	(38)	(23)	(15)	(42)

The amounts above only include the maturities of the principal of the financial liabilities. Due to the terms of some of the Trading Group's debt instruments, the contractual cash flows from interest payments are variable dependent on the Trading Group meeting certain financial credit standing or performance criteria.

Sensitivity analysis

Interest rate risk

The valuations of the Trading Group's quoted debt and interest rate swaps have been determined by discounting expected future cash flows associated with these instruments at the market interest rate yields as at the Group's year end. This is then adjusted by a +1% increase to the interest rate yield curve and a 1% reduction in the interest rate yield curve to show the impact of changes in interest rates on the value of our debt and swaps. At 5 January 2019 if sterling (GBP) market interest rates had been 1% higher / lower with all other variables held constant, the post-tax result for the period would have been GBP £40m (2017: GBP £47m) higher and GBP £42m (2017: GBP £51m) lower respectively, mainly arising from the revaluation of the Group's quoted debt through the consolidated income statement. Profit is generally less sensitive to movements in GBP interest rates due to the level of borrowings held at fixed rates as described on page 166 in the Interest rate risk and hedging section.

Foreign exchange risk

At 5 January 2019 and 6 January 2018, if the Euro, US dollar, Australian dollar and NZ dollar had all strengthened or weakened by 10% against sterling (GBP) with all variables held constant, there would have been no material impact to post-tax profit.

Notes to the financial statements continued
29. Financial risk management continued

Guarantees
In the course of conducting its operations, the Trading Group is required to issue bank guarantees and bonds in favour of various counterparties. These facilities are provided by the Trading Group's banking syndicate and as at 5 January 2019 the total amount of guarantees / bonds outstanding is £34m (2017: £48m).

Insurance risk – CISGIL
Insurance risk comprises the risk of loss resulting from:
• Future claims events other than catastrophes (Premium Risk).
• Adverse change in the value of insurance liabilities (Reserve Risk).
• Natural or man-made catastrophe events (Catastrophe Risk).
• The assumptions underlying expenses are not borne out in practice (Expense Risk).

CISGIL underwrites UK private Motor and Home business, either written directly or through brokers, all of which cover a 12 month duration. Historically, other classes of business were underwritten which are now in run off and mainly comprise employers liability and commercial motor business.

Key risks under Motor policies are bodily injury to third parties, accidental damage to property and theft of or from policyholders' vehicles. The most significant factors affecting the frequency and severity of motor claims are judicial, legislative and inflationary changes and the frequency and severity of large bodily injury claims. Periodic Payment Orders (PPOs) are being used to settle injury claims in the UK, with compensation being paid to claimants at regular intervals, rather than in a single lump sum award. This introduces further risk to the insurer as the term of the payments is dependent upon length of life expectancy and the payments increase with care worker future inflation. Uncertainty in the discount rate used to calculate these claims also increases the risk to insurers.

Key risks under Home policies are damage from storm and flood, fire, escape of water, subsidence, theft of or accidental damage to contents and liability risks.

At the balance sheet date there were no significant concentrations of insurance risk. CISGIL manages insurance risk in accordance with its overall aims to achieve acceptable profits and return on equity. This is achieved by:
• Ensuring that insurance risks are carefully selected in accordance with risk appetite, underwritten in accordance with risk strategy and priced to reflect the underlying risk
• Minimising reserve risk volatility through proactive claims handling, the claims provisioning process and robust reserving and modelling approaches
• Mitigating risk through the use of appropriate reinsurance arrangements

The objective of the underwriting strategy is to ensure that the underwritten risks are diversified in terms of type and amount of risk, industry/demographic profile and geography, and only those risks which conform with underwriting criteria are accepted. Exposure mix and the frequency and average costs of claims are monitored throughout the year and where significant deviations from expectation are identified remedial action is taken.

The overriding objective in claims handling is to ensure all claims are properly scrutinised and paid where they fall within the terms and conditions of the policy. The proper scrutiny of claims is facilitated by the use of various technical aids such as weather validation and fraud databases, and the use of claims specialists.

The nature of insurance contracts is that the obligations of the insurer are uncertain as to the timing or quantum of liabilities arising from contracts. CISGIL takes all reasonable steps to ensure that it has information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. CISGIL manage this risk through the Reserving Committee which supports the Chief Financial Officer (CISGIL) in their responsibility to formally review claims reserves on a quarterly basis.

CISGIL uses reinsurance to manage insurance risk, and in particular to mitigate the cost of catastrophe events such as storms and floods and the cost of large claims arising within its Motor account. The appropriate level of reinsurance is determined by management, using CISGIL's Internal Model to inform decision making.

In 2018, CISGIL had three main reinsurance programmes in place: catastrophe excess of loss cover, motor excess of loss cover and a quota share arrangement of both its Motor and Home business. The quota share reinsurance arrangement,

Notes to the financial statements continued

29. Financial risk management continued

commenced at the beginning of 2017 and which will remain in place for 2019, enhances the Standard Formula capital coverage by reducing exposure to both premium and catastrophe risk in respect of business that is earned through 2018 and 2019.

Credit risk – CISGIL

Credit risk is the risk to earnings and capital arising from a counterparty's failure to meet their legal and contractual obligations. CISGIL does not aim to earn a return from credit risk and so its appetite for credit risk is very low. Potential losses arising from credit risk are minimised by the use of high quality reinsurers and highly rated investments.

CISGIL's principal credit risk exposures are as follows:

- Reinsurance counterparties failing to meet financial obligations or entering into restructuring arrangements that may adversely affect reinsurance recoveries;
- Default or delay of repayment of loans and receivables; and
- Insurance counterparties failing to meet financial obligations.

CISGIL manages credit risks associated with cash and corporate bonds as part of market risk.

Where reinsurance is used to manage insurance risk, there is a risk that the reinsurer fails to meet its obligations in the event of a claim. CISGIL places limits over exposure to a single reinsurance counterparty, or counterparty group, based upon their credit-worthiness. These limits apply when reinsurance is initially placed, usually annually, and then regularly monitored by the Capital, Liquidity, Investment and Pension Committee. Where concern exists over reinsurer credit quality, a review will be undertaken to determine the most appropriate management action.

The quota share reinsurance arrangement operates on a funds withheld basis, which means that only the reinsurer margin is transferred to the reinsurer.

Insurance receivable and other assets are primarily premium debtors due from customers and insurance intermediaries. Exposure to insurance intermediaries is managed in line with CISGIL's credit risk policy.

CISGIL has a credit exposure of up to £60m (2017: £60m) with a trading counterparty that provides administrative services including the collection of premiums. Credit insurance was purchased during 2018 to mitigate against this exposure to within risk appetite.

The table below provides an analysis at the balance sheet date of the credit rating of those assets subject to credit risk. Credit ratings are determined by using the Markit iBoxx Rating methodology.

As at 31 December 2018	AAA £m	AA £m	A £m	BBB and below £m	Not rated £m	Total £m
Financial assets at fair value through income or expense:						
Deposits with approved credit institutions (fixed rate)	-	-	156	-	-	156
Financial assets at fair value through other comprehensive income:						
Listed debt (fixed rate)	67	316	145	-	-	528
Listed debt (variable rate)	51	23	62	5	-	141
Reinsurance assets	-	30	22	-	2	54
Insurance receivables and other assets	1	3	3	-	162	169
Cash and cash equivalents	-	-	5	-	-	5
	119	372	393	5	164	1,053
Salvage and subrogation						38
Other assets						40
Total Insurance assets before remeasurement to fair value less costs to sell (note 9)						1,131
Remeasurement to fair value less cost to sell (note 9)						(32)
Total Insurance assets held for sale (note 9)						**1,099**

Notes to the financial statements continued

29. Financial risk management continued

As at 31 December 2017	AAA £m	AA £m	A £m	BBB and below £m	Not rated £m	Total £m
Financial assets at fair value through the income statement:						
Deposits with approved credit institutions (fixed rate)	-	-	212	-	-	212
Financial assets at fair value through other comprehensive income:						
Listed debt (fixed rate)	109	292	143	-	-	544
Listed debt (variable rate)	28	25	63	5	-	121
Reinsurance assets	-	30	25	-	3	58
Insurance receivables and other assets	2	3	4	-	165	174
Cash and cash equivalents	-	-	15	-	-	15
	139	350	462	5	168	1,124
Salvage and subrogation						33
Other assets						41
						1,198

The maximum exposure to credit risk, before making allowance for security held, is represented by the carrying value of each financial asset in the table. Security, in the form of gilts, of £156m (2017: £148m) is held against short-term deposits which have been placed into a reverse repo transaction of £156m as at 31 December 2018 (2017: £145m). On 31 December 2018, an additional £6m was placed on deposit, this balance was 100% covered by collateral received in the form of gilts. These short-term deposits sit with approved credit institutions within financial investments at fair value through the income statement on the balance sheet.

Liquidity risk – CISGIL

Liquidity risk is the current and prospective risk to earnings or capital arising from an inability to meet obligations when they fall due without incurring unacceptable losses. CISGIL's objective is to meet all policyholder and other funding obligations as they fall due primarily through the use of cash and highly liquid UK government and corporate bonds.

The Board's risk appetite is that liquid assets should be at least equal to 20% of the ultimate cost of a 1-in-100 year UK windstorm loss before reinsurance recoveries. The ultimate cost is calculated based on the catastrophe component of CISGIL's Internal Model.

The latest model assesses the ultimate cost of a 1-in-100 year UK windstorm loss as £126m (2017: £114m), giving a minimum requirement for £25m (2017: £23m) of liquid assets against actual liquid assets of £685m (2017: £739m). These values are gross of all reinsurance.

Liquid assets are considered to be:

Asset type:		Value Included as liquid assets
Gilts		100%
Cash		100%
Corporate bonds:	AAA	85%
	AA	85%
	A	50%
	BBB	50%
All other investments		0%

The actual and projected levels of cash and other assets held are monitored and managed through the Capital, Liquidity, Investment and Pension Committee, with oversight by the BRC and Board. In addition, in between CLIP meetings, monthly monitoring of liquid assets against risk appetite limits is undertaken.

Notes to the financial statements continued

29. Financial risk management continued

2018	Carrying value £m	Gross nominal outflow £m	Up to 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	More than 5 years £m
Insurance contract liabilities	490	574	208	97	61	36	22	152
Financial liabilities at amortised cost:								
Subordinated debt	68	125	8	8	8	8	8	83
Other reinsurance liabilities	3	3	3	-	-	-	-	-
Insurance and other payables	52	52	52	-	-	-	-	-
Cash and cash equivalents	8	8	8	-	-	-	-	-
	621	762	279	105	69	44	30	235
Other liabilities								3
Total recognised liabilities before remeasurement to fair value less costs to sell (note 9)*								624

*Insurance liabilities of £624m, noted in the table above exclude unearned premiums of £244m, which are included within total insurance liabilities held for sale of £868m in note 9.

All Insurance assets and liabilities have been transferred to held for sale (note 18).

2017	Carrying value £m	Gross nominal outflow £m	Up to 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	More than 5 years £m
Insurance contract liabilities	508	592	208	109	63	38	23	151
Financial liabilities at amortised cost:								
Subordinated debt	68	132	8	8	8	8	8	92
Other reinsurance liabilities	4	4	4	-	-	-	-	-
Insurance and other payables	57	57	57	-	-	-	-	-
Cash and cash equivalents	6	6	6	-	-	-	-	-
	643	791	283	117	71	46	31	243
Other liabilities								6
Total recognised liabilities								649

Notes to the financial statements continued

30. 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:

	2018			2017		
	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	390	27	-	390	38	-
Total recognised derivative assets	390	27	-	390	38	-

Valuation of financial assets and 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)

The fair value of financial assets designated at fair value through the income statement, being short-term (less than one month) fixed rate deposits, approximates 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.

Derivatives

Forward exchange contracts, such as the Trading Group's interest rate swaps, are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate. For interest rate swaps, broker quotes are used. Those quotes are back-tested using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market-related data at the balance sheet date. The Group's derivatives are not formally designated as hedging instruments but under IFRS 9 (Financial Instruments) they are used to match against a proportion of the Eurobond liabilities carried at fair value through the income statement, showing as a cost of £11m in 2018 and £12m in 2017 (see note 7).

Fixed rate sterling Eurobonds

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

b) Financial instruments at fair value through other comprehensive income (Insurance)

Fair value of listed debt securities is based on clean bid prices at the balance sheet date without any deduction for transaction costs. Assets are 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 give 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.

Notes to the financial statements continued

30. Financial instruments, derivatives and fair values of financial assets and liabilities continued

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

Financial liabilities	Carrying value 2018 £m	Fair value 2018 £m	Carrying value 2017 £m	Fair value 2017 £m
Interest-bearing loans and borrowings	**631**	**638**	203	215

The Group adopted IFRS 9 on 7 January 2018 and subsequently only £285m of the £450m fixed rate sterling Eurobond 2020 notes and £105m of the £350m 2026 notes are designated as financial liabilities at fair value through the income statement. The remaining Eurobonds are held at amortised cost (£446m as at 5 January 2019) using an effective interest rate. As allowed by IFRS 9 the comparative figures have not been restated.

The table below analyses financial instruments by measurement basis:

2018	Fair value through income statement £m	Fair value through other comprehensive income £m	Other amortised cost £m	Loans and Receivables £m	Total £m
Assets					
Other investments	1,223	-	-	-	1,223
Derivative financial instruments	27	-	-	-	27
Trade and other receivables	-	-	-	516	516
Cash and cash equivalents	-	-	282	-	282
Total financial assets	1,250	-	282	516	2,048
Liabilities					
Interest-bearing loans and borrowings	411	-	631	-	1,042
Trade and other payables	-	-	1,475	-	1,475
Funeral plans	1,485	-	-	-	1,485
Overdrafts	-	-	-	-	-
Total financial liabilities	1,896	-	2,106	-	4,002

The table above excludes any financial assets or liabilities in relation to Reclaim Fund. As explained in note 35 the balance sheet of Reclaim Fund has not been included on a line-by-line basis but instead it is separately disclosed within the Group balance sheet. Reclaim Fund balances include assets and liabilities at both fair value and amortised cost and these have been valued in accordance with IFRS 9.

2017 (restated*)	Fair value through income statement £m	Fair value through other comprehensive income £m	Other amortised cost £m	Loans and Receivables £m	Total £m
Assets					
Other investments	1,288	665	-	-	1,953
Derivative financial instruments	38	-	-	-	38
Trade and other receivables	-	-	-	606	606
Cash and cash equivalents	-	-	403	-	403
Total financial assets	1,326	665	403	606	3,000
Liabilities					
Interest-bearing loans and borrowings	959	-	203	-	1,162
Trade and other payables	-	-	1,282	-	1,282
Funeral plans	1,283	-	-	-	1,283
Overdrafts	-	-	6	-	6
Total financial liabilities	2,242	-	1,491	-	3,733

*Funeral plan liabilities have been restated for IFRS 15. See general accounting policies section on page 192 for details of the restatement.

Notes to the financial statements continued

30. Financial instruments, derivatives and fair values of financial assets and liabilities continued

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).

Based upon guidance issued by The Committee of European Securities Regulators, CISGIL classifies debt securities in Level 1 only if it can be demonstrated on an individual security-by-security basis that these are quoted in an active market, i.e. that the price quotes obtained are representative of actual trades in the market (through obtaining binding quotes or through corroboration to published market prices). Pricing providers cannot guarantee that the prices that they provide are based on actual trades in the market. Therefore all of the corporate bonds are classified as Level 2.

Valuation of financial instruments

2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through income or expense				
- Funeral plan investments	-	-	1,223	1,223
- Derivative financial instruments	-	27	-	27
- Insurance investments*	-	-	-	-
Financial assets at fair value through other comprehensive income				
- Insurance investments*	-	-	-	-
Total financial assets at fair value	-	27	1,223	1,250
Liabilities				
Financial liabilities at fair value through the income statement				
- Fixed-rate sterling Eurobond	-	411	-	411
- First mortgage debenture	-	-	-	-
- Funeral plan liabilities	-	-	1,485	1,485
Total financial liabilities at fair value	-	411	1,485	1,896

*All insurance investments have been transferred to held for sale. See note 9 (Loss on discontinued operations, net of tax) for further details.

The Group adopted IFRS 9 on 7 January 2018 and subsequently only £285m of the £450m fixed rate sterling Eurobond 2020 notes and £105m of the £350m 2026 notes are designated as financial liabilities at fair value through the income statement. See general accounting policies section on page 192 for details of the impact of the new standard. The remaining Eurobonds are held at amortised cost (£446m as at 6 January 2019) using an effective interest rate (see also note 20 for full details of the Group's loans and borrowings).

The values of Eurobonds carried at amortised cost are disclosed in note 20. The equivalent fair value for the unhedged proportion of bonds that are now carried at amortised cost would be £178m for the 2020 Eurobond and £295m 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.

The table above (and the comparative tables over the page) only show those funeral plan assets and liabilities that are "financial assets and liabilities". They don't include funeral plan assets in respect of instalment plans that are shown within debtors. The coverage of our funeral plan assets over plan liabilities as at the last actuarial valuation is shown in the table at the end of note 13 and indicates we have headroom of over 12%.

As at year end, the Group held Low Cost Investment Plans with a contract liability of £69m, representing 14,566 plans.

Notes to the financial statements continued

30. Financial instruments, derivatives and fair values of financial assets and liabilities continued

2017 (restated*)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through the income statement				
- Funeral plan investments	-	-	1,076	1,076
- Derivative financial instruments	-	38	-	38
- Insurance investments	-	212	-	212
Financial assets at fair value through other comprehensive income				
- Insurance investments	-	665	-	665
Total financial assets at fair value	-	915	1,076	1,991
Liabilities				
Financial liabilities at fair value through the income statement				
- Fixed rate sterling Eurobond	-	938	-	938
- First mortgage debenture	-	21	-	21
- Funeral plan liabilities*	-	-	1,283	1,283
Total financial liabilities at fair value	-	959	1,283	2,242

*Funeral plan liabilities have been restated for IFRS 15. See general accounting policies section on page 192 for details of the restatement.

The following table allows comparison of debt securities (other than those classified at fair value through the income statement) on the basis of the current carrying amount, fair value and amortised cost (before impairment).

Investments in debt securities held at fair value through other comprehensive income	2018 £m	2017 £m
Carrying amount	-	665
Fair value	-	665
Amortised cost	-	647

Interest rates used for determining fair value

The Trading Group uses the government yield curve as of the period end plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

	2018	2017
Derivatives	**1.11% - 1.42%**	0.70% - 1.51%
Loans and borrowings	**4.36% - 4.92%**	3.96% - 5.01%

Accounting policies

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

i) Recognition of financial assets

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

Notes to the financial statements continued

30. Financial instruments, derivatives and fair values of financial assets and liabilities continued

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) Financial assets classified as fair value through other comprehensive income
The Group holds some investments which are classified as fair value through other comprehensive income. These investments are held both to collect the contractual cash flows from the invesments and to sell. The investments are revalued to their fair value at each reporting date, with unrealised gains and losses recognised in other comprehensive income. The effective interest rate is recognised in the income statement. The investment portfolio consists of instruments that have clear contractual maturity dates for the principal (equivalent to the face value) to be returned and contractual coupon rates that reflect the length of the investment and the credit risk of the issuer. The portfolio is split between government debt, priced in accordance with the interest markets, and corporate debt, priced in accordance with credit spreads

The Group calculates expected credit losses in line with guidance under IFRS 9. Where there is evidence of impairment, any impairment loss is recognised in the income statement.

iv) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and CISGIL does not intend to sell immediately or in the near term. For CISGIL this includes insurance premium debt receivables but excludes salvage and subrogation. 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.

v) Financial investments and instruments at fair value through the income statement
Insurance
Investments, other than those in debt securities, are designated as financial assets at fair value through the income statement.

For CISGIL, this is where they are managed and their performance is evaluated on a fair value basis in accordance with a documented risk-management or investment strategy, and information is provided internally to key management personnel on that basis. Initial measurement is at fair value, being purchase price upon the date on which CISGIL commits to purchase. Directly attributable transaction costs are expensed immediately on recognition.

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 an equal 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. Under IFRS 15 any income or bonus payments attributable to the plan assets are not treated as finance income (in the income statement) as they do not reflect the completion of the performance obligation to perform the funeral for the customer. Instead these balances are held on the balance sheet as additional deferred income within Contract liabilities until the delivery of the funeral when they are recognised as revenue along with the original plan value.

Notes to the financial statements continued

30. Financial instruments, derivatives and fair values of financial assets and liabilities continued

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 Funeral and Life Planning 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 Funeral and Life Planning 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 owned 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 then Funeralcare account for the LCIPs in the same way as a normal funeral plan (see accounting policy above).

Interest rate swaps in the Trading Group
The Trading 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 Trading 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.

vi) Impairment of financial assets at fair value through the income statement and cash deposits

Assessment
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.

Measurement
The Group calculates expected credit losses in line with guidance under IFRS 9. Where there is evidence of impairment, any impairment loss is recognised in the income statement.

Notes to the financial statements continued

30. Financial instruments, derivatives and fair values of financial assets and liabilities continued

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.

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, invoice discounting facilities, finance leases and hire purchase contracts.

Trade receivables and contract assets

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

The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not insured or subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in trade and other receivables (note 16). The table below shows the weighted-average expected credit loss rates used by the Group as at 5 January 2019.

	Days past due date			
	Current	1-3 months	Over 3 months	Over 12 months
Expected credit loss rate	0.07%	8%	74%	91%

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.

Sale and repurchase agreements

CISGIL participates in reverse sale and repurchase transactions where CISGIL buys gilts but is contractually obliged to sell them at a fixed price on a fixed future date. Cash loaned under reverse repo arrangements are classified as deposits with credit institutions within financial investments at fair value through the income statement on the balance sheet as a result of CISGIL's documented risk management policy.

Notes to the financial statements continued

31. Commitments and contingent liabilities

What does this show? This note shows the value of capital expenditure that we're committed to spending at the end of the year, as well as showing the commitments we have under operating leases (mainly in relation to Food store rents). It also shows potential liabilities which aren't included in our balance sheet as it's only possible, rather than probable, that we'll have to pay them.

a) Capital expenditure not accrued for, but committed by the Group at the year end was £nil (2017: £nil). The prior year figure all related to property, plant and equipment.

b) Commitments under operating leases:

The Group's operating leases include stores, warehouses and vehicles. These have varying terms, restrictions and renewal rights. The commercial terms of the Group's operating leases vary, however they commonly include either a market rent review or an index-linked rent review. The timing of when rent reviews take place differs for each lease. At 5 January 2019, the future minimum lease payments under non-cancellable operating leases were:

	2018		2017	
	Land and buildings	Other	Land & buildings	Other
	£m	£m	£m	£m
Within one year	**192**	**8**	177	7
In two to five years	**675**	**9**	659	9
In over five years	**1,276**	**-**	1,335	-
	2,143	**17**	2,171	16

The total of future minimum sublease payments expected to be received under non-cancellable subleases less than 50 years is £127m (2017: £208m).

Commitments relating to associates and joint ventures are disclosed in note 26.

Notes to the financial statements continued

32. Related party transactions and balances

What does this show? Related parties include people (such as the directors and key management personnel) as well as entities (such as subsidiaries, associates or joint ventures of the Group). The note outlines the nature of the relationship of any related parties and the extent of material transactions and balances with them.

	Relationship	2018 £m	2017 £m
Sales to associated undertakings and joint ventures on normal trading terms	(i)	-	0.2
Subscription to Co-operatives UK Limited	(ii)	**0.7**	0.7

i) Details of the Group's associates and joint ventures are set out in note 26.
ii) The Group is a member of Co-operatives UK Limited.

The Group's Independent Society Members (ISMs) include consumer co-operative societies which, in aggregate, own the majority of the corporate shares with rights attaching as described in note 24. 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 £1,532m (2017: £1,461m) and the amount due from ISMs in respect of such sales was £123m at 5 January 2019 (2017: £122m). No distributions have been made to ISMs based on their trade with the Group in either the current or prior years.

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 arms length. Key management are considered to be members of the Executive and directors of the Group. At the balance sheet date, a number of key management personnel had transacted with our Funeral division. These transactions totalled £20,000 (2017: £25,000). Other than the compensation set out in the Remuneration Report, there were no other transactions greater than £1,000 with the Group's entities (2017: £nil). Total compensation paid to key management personnel is shown below.

Key management personnel compensation	2018 £m	2017 £m
Short-term employee benefits	**7.3**	8.5
Post-employment benefits	**0.4**	0.5
Other long-term benefits	**1.6**	2.6
Termination benefits	**0.0**	0.0
Total	**9.3**	11.6

NOMA

The Group transacted in the prior period with the NOMA joint venture in relation to the head lease of the CIS Tower in Manchester. All transactions were at arms length. NOMA sold its leasehold interest in the CIS Tower, Miller Street to Castlebrook Investments in June 2017 and subsequently paid the Group a dividend of £33m representing its 50% share of the net proceeds. On 22 December 2017 the Group completed the sale of its stake in NOMA to Hermes Real Estate.

Notes to the financial statements continued
33. Principal subsidiary undertakings

What does this show? This note shows the companies and societies we own, what percentage we own and the type of business they are involved in.

All of the principal subsidiary undertakings as at year end are registered in England and Wales and their principal place of business is the UK. See general accounting policies section on page 187 for a Group structure diagram.

	Society holding %	Nature of business
Financial Services:		
Angel Square Investments Ltd	100	Holding society
CIS General Insurance Ltd (CISGIL)*	100	General insurance
CFS Management Services Ltd	100	Service company
Reclaim Fund Ltd	100	Reclaim Fund
Trading:		
Co-operative Group Holdings (2011) Ltd	100	Property management
Co-operative Group Food Ltd	100	Food retailing
Co-operative Foodstores Ltd	100	Food retailing
Nisa Retail Ltd	100	Food wholesaling
Co-operatives E-Store Ltd**	100	Electricals online
Funeral Services Ltd	100	Funeral directors
Co-operative Legal Services Ltd	100	Legal services
Rochpion Properties (4) LLP	100	Holds property

All of the above have been fully consolidated into the Group's accounts. There are no non-controlling interests in any of these entities. For further information on the Group's principal associated undertakings, refer to note 26.

*See note 9 (Loss on discontinued operations, net of tax) for details of exchange of contracts on the sale of CISGIL on 18 January 2019.
**On 5th February 2019, the Group announced their decision to close down the Electrical business during Q1 2019.

Notes
i) All of the principal subsidiaries are audited by EY LLP.
ii) All of the Group's Financial Services subsidiaries have a year end of 31 December as they report on a monthly cycle rather than a periodic Saturday close cycle which is used by the Trading Group businesses. See also general accounting policies section on page 188 for further details on accounting dates.
iii) All transactions between entities are in the usual course of business and are at arms length.

Significant restrictions
CISGIL is a regulated business and as such CISGIL may only recommend the payment of a dividend to the Group if it has sufficient capital to do so having regard to CISGIL's regulatory requirements and the CISGIL Board's risk appetite.

Notes to the financial statements continued
34. Acquisition of Subsidiaries

What does this show? This note gives details of any business acquisitions that have been made during the reporting period. This includes details of what we've bought, how much we paid for it and how this has been reflected in our accounts.

On 8 May 2018, the Group acquired 100% of Nisa Retail Limited (Nisa). This followed approval from Nisa members on 13 November 2017, CMA approval on 23 April 2018 and formal court sanction of the Scheme of Arrangement on 4 May 2018.

Nisa is a brand and buying group of independent retailers and wholesalers in the UK. It is an organisation that was owned by its members prior to the Group's acquisition and operated by using the collective buying power of its shareholders to negotiate with suppliers.

Consideration transferred - Nisa
The following table summarises the fair value, at the acquisition date, of each major class of consideration transferred:

	Note	£m
Cash (initial consideration)	(i)	24
Cash (deferred consideration)	(ii)	74
Cash (rebate consideration)	(iii)	28
Total consideration transferred		**126**

(i) Cash (initial consideration) - initial payment of £22m (equivalent to £20,000 per member) and £2m payment in relation to amounts due to Nisa Trust.

(ii) Cash (deferred consideration) - comprising the discounted present value of significant cash payments to former members of Nisa at the end of April 2019, 2020 and 2021. The gross undiscounted value of these payments is £80m. Of this deferred consideration £2m was paid in October 2018 bringing total payments in 2018 to £26m. The half-year provisional number of £75m for deferred consideration has been adjusted to £74m in the light of renewed forecasts.

(iii) Cash (rebate consideration) - quarterly payments for four years linked to member purchasing volumes after acquisition. The gross undiscounted value of these payments is £30m.

Acquisition related costs - Nisa
The Group also incurred costs related to the acquisition of £5m. These costs have been included within operating expenses as incurred.

Acquisitions - Other
The remainder of cash acquisition expenditure related to healthcare and legal acquisitions in 2018. The fair value of cash consideration transferred on other acquisitions in the reporting period and the value of cash or cash equivalent balances brought on to the balance sheet at acquisition are not material for disclosure.

Identifiable assets acquired and liabilities assumed - Nisa
The following table summarises the recognised amounts recorded at fair value of assets acquired and liabilities taken on at the acquisition date:

	£m
Property, plant and equipment	26
Intangible assets	47
Inventories	49
Trade and other receivables	116
Trade and other payables	(111)
Deferred tax liability	(11)
Borrowings (current) - funds in use invoice discounting facility	(57)
Loans and borrowings (non-current)	(8)
Total identifiable net assets acquired	**51**

Notes to the financial statements continued

34. Acquisition of Subsidiaries continued

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were:

Property, plant & equipment	The main properties have been independently valued in accordance with the RICS Appraisal and Valuation Manual. Fair value is based on current prices in an active market for similar properties in the same location and condition.
Intangible assets	The fair value of the relationship with former Nisa members has been valued using the income approach.
Inventories	The fair value of inventory has been assessed using a market comparison approach and determined based upon the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Deferred tax of £11m has also been provided in relation to these adjustments.

Fair values measured on a provisional basis

All assets acquired and liabilities assumed have been measured on a provisional basis. The accounting for the acquisition will be revised if adjustments are identified as a result of new information being obtained within a year of the acquisition date about facts and circumstances that existed at the acquisition date. The related deferred tax calculations will also be revised if necessary.

Goodwill

The acquisition took place on 8 May 2018 and provisional goodwill arising on the acquisition has been recognised as follows:

	£m
Fair value of consideration transferred	126
Fair value of identifiable net assets	(51)
Goodwill (provisional)	**75**

The goodwill is mainly attributable to the combined buying benefits that are expected to be achieved following the acquisition. None of the goodwill recognised is expected to be deductible for tax purposes.

Revenue, profit and cash flow contribution

The acquired Nisa business generated £983m of revenue, losses of £11m to profit before tax and £28m to operating cash flows. If Nisa had been part of the Group for the full year, it would have generated £1,498m of revenue, losses before tax of £6m (after £5m of acquisition costs) and £21m to operating cash flows.

Other acquisitions

Goodwill of £6m associated with other acquisitions has been recognised in the reporting period. Details of other acquisitions and related fair value accounting are not considered to be material for disclosure.

Notes to the financial statements continued

35. Reclaim Fund assets and liabilities

What does this show?

Reclaim Fund Ltd (RFL) is a not-for-profit organisation which we own that helps money held in dormant bank accounts to be used for charitable purposes. We have to include the assets and liabilites of RFL in our balance sheet as it is a 100% subsidiary but any surplus is held entirely for the benefit of the Big Lottery Fund and we don't gain any financial benefit from RFL. For this reason we don't include RFL's balance sheet in our accounts on a line-by-line basis but instead we show its assets and liabilities separately in our balance sheet. This note provides more information on RFL's assets and liabilities.

	2018 £m	2017 £m
Non-current		
Investment securities	**209**	234
Current		
Cash	**338**	394
Investment securities	**72**	45
	410	439
Reclaim fund assets	**619**	673
Non-current		
Provision for reclaims of dormant account balances	**404**	374
Provision for future distributions to Big Lottery Fund	**69**	72
	473	446
Current		
Trade and other payables	**73**	153
Reclaim Fund liabilities	**546**	599

RFL administers the collection of funds from dormant savings accounts in UK financial institutions and passes them to the Big Lottery Fund (BLF) for distribution. The Group recorded a surplus of £74m upon initial recognition of RFL in 2011 which principally was the net difference between the amount received in respect of dormant accounts and the provisions for distributions to be returned to account holders and/or the BLF. The surplus created is for provision of regulatory capital to the fund and is held in a separate, non-distributable reserve (within other reserves). If the Group were to derecognise RFL as a subsidiary then a loss, equivalent to this surplus, of £74m would be incurred on disposal.

£73m (2017: £153m) has been approved for distribution to BLF and is available for immediate distribution. It is therefore included within trade and other payables rather than provisions.

Although the dormant account balances are repayable on demand, the provision is expected to be utilised over a very long time period. Therefore the amount has been included within non-current liabilities.

Accounting policies

The calculation of the provision for reclaims of dormant account balances is complex, with significant amounts of uncertainty. The Directors of RFL have applied a cautious level of stress within the calculation of the provision which they believe implicitly accounts for the long-term nature of the provision.

The Group also records a provision for future distributions to the BLF. This represents amounts which the RFL intends to pay over to the BLF in future periods of which timing is uncertain. The Dormant Bank and Building Society Accounts Act (2008) dictates that the RFL is obliged to pay over the excess of dormant account monies received, after deduction of running costs, to the BLF for ongoing distribution to the benefit of the community. Distributions to the BLF are recognised in the income statement when a constructive or legal obligation exists for payment.

Investment securities

Investment Securities held within the Reclaim Fund are held at amortised cost as they meet the relevant criteria within IFRS 9 because they are held to collect contractual cash flows such as principal and interest.

Notes to the financial statements continued

36. Membership and community reward

What does this show?

This note shows the number of active members that we have at the end of the period as well as the benefits earned by those members for themselves and their communities during the period. Active members are defined as those members that have traded with one or more of our businesses within the last 12 months.

	2018 (unaudited) m	2017 (unaudited) m
Members		
Active Members	**4.6**	4.6

	2018 £m	2017 £m
Membership and community rewards (within income statement)		
Member reward (5%) earned	**60**	61
Community reward (1%) earned	**12**	13
Total reward	**72**	74

Full details of our overall investment in our Communities can be found on pages 39-40 of the Co-op Way Report.

37. 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.

Sale of Insurance business

On 18 January 2019 the Co-op announced it had exchanged contracts for the sale of its insurance underwriting business (CIS General Insurance Limited) to Markerstudy, whilst also confirming a 13 year agreement with Markerstudy to distribute motor and home insurance products. The deal is subject to regulatory approval and is expected to complete during 2019. After the sale the Co-op will focus on marketing and distributing insurance products instead of underwriting them. The assets and liabilities of the insurance division are classified as held for sale in the Consolidated balance sheet and the performance for both 2018 and 2017 is shown in discontinued operations in the Consolidated income statement. See note 9 for further details.

Closure of E-store business

In February 2019, Co-op announced its intention to close its Electrical business in the first quarter of 2019. The trading loss for 2018 of £4m is included within underlying segment operating profit (within Other businesses). Provisions of £8m have been recognised in relation to the proposed closure with the charge included within operating profit and shown in the 'property, business disposals and closures' line.

Banking facilities

A £450m tranche of our Eurobond debt expires in July 2020 and our intention was to re-finance this bond but the on-going uncertainties around Brexit has meant we have not been able to access the capital markets to issue a bond at a pricing level we would be comfortable with. As an alternative approach we have reached an agreement with our banks to provide a £180m liquidity facility to provide us with additional headroom. We will continue to monitor the markets and will look to issue a bond depending on market conditions.

CMA Investigation

Post year end, the CMA has announced its decision to launch an in-depth market investigation into the funeral sector.

General accounting policies

In plain English – what does this show?

This section outlines the general accounting policies that relate to the financial statements as a whole. Details of other accounting policies are included within the notes to the financial statements to which they relate. This allows readers easy access to the relevant policy. This section also gives details of the impact of any new accounting standards that we've applied for the first time and the expected impact of upcoming standards that will be adopted in future years where that impact is likely to be significant.

General information

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

Basis of preparation

The Group accounts have been prepared in accordance with the Co-operative and Communities Benefit Act 2014 and applicable International Financial Reporting Standards as endorsed by the EU (IFRS) for the 52 week period ended 5 January 2019. As permitted by statute, a separate set of financial statements for the Society are not included.

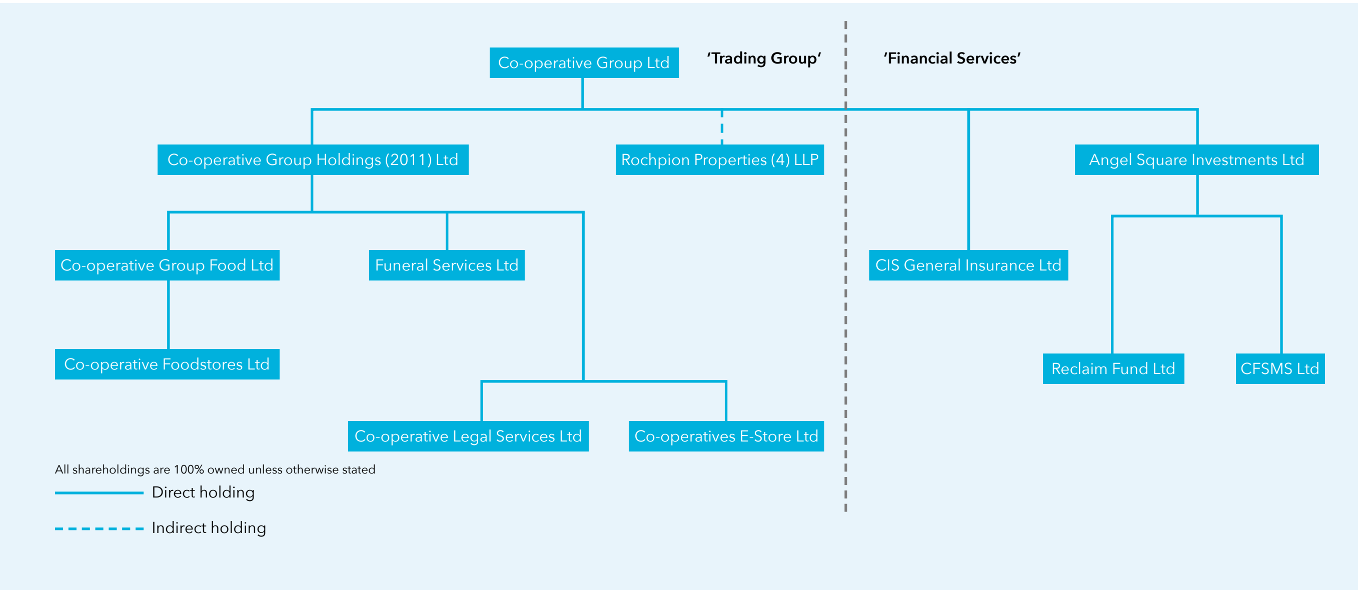
The accounts are presented in pounds sterling and are principally prepared on the basis of historical cost. Areas where other bases are applied are explained in the relevant accounting policy in the notes. Amounts have been rounded to the nearest million.

The accounting policies set out in the notes have been applied consistently to all periods presented in these financial statements, except where stated otherwise.

Basis of consolidation

The financial statements consolidate Co-operative Group Limited, which is the ultimate parent society, and its subsidiary undertakings. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The diagram below shows the composition of the Group and its principal subsidiaries. Further details can be found in note 33. 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/



General accounting policies continued

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total comprehensive income of associates on an equity-accounted basis, from the date that significant influence commences until the date that significant influence ceases.

A joint venture is an arrangement where the Group has joint control and has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Definition of Trading Group and Financial Services
Throughout the financial statements reference is made to the Financial Services activities of the Group to distinguish them from Trading Group activity. The Financial Services entities comprise CIS General Insurance Limited (CISGIL) and other smaller entities (mainly holding, ancillary companies and the Reclaim Fund Limited). This distinction is made as the Trading Group, CISGIL and the rest of Financial Services are separately funded.

Accounting dates
The Group and the Trading Group 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 5 January 2019. Comparative information is presented for the 53 weeks ended 6 January 2018. Since the financial periods are virtually in line with calendar years, the current period figures are headed 2018 and the comparative figures are headed 2017. The comparative amounts are not entirely comparable with the results of 2018, which are based on a shorter period (52 weeks compared to 53 weeks).

The Financial Services subsidiaries of the Group have prepared accounts for the period ended 31 December 2018. This differs from the Group and other Trading Group subsidiaries. For the period ending 5 January 2019, 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, and one-off items are adjusted for.

Offsetting
Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to do so and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Significant accounting judgements, estimates and assumptions
The preparation of financial statements that comply with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

• ***Revenue from contracts with customers: Funeral plans***
IFRS 15 (Revenue from contracts with customers) requires that revenue should be recognised in respect of separate performance obligations delivered to the customer. In applying the new revenue standard to funeral plan sales the Group has concluded that the only separate performance obligation is the funeral itself and therefore revenue can only be recognised at the date the plan is redeemed and the funeral is performed.

General accounting policies continued

• ***Assets held for sale and discontinued operations: Insurance***
On the 18th January 2019 the Group announced its intention to sell its Insurance business (CISGIL) to a third party (Markerstudy). As the Group were actively committed to the sale at the balance sheet date and it is deemed to be highly probable to happen within one year then it is judged that the carrying amount of CISGIL will principally be recovered through a sale transaction rather than though continuing use. As such the assets and liabilities of CISGIL are shown as held for sale in the Group's consolidated balance sheet and the results of CISGIL have been classified as discontinuing operations in the income statement. A key judgement within the classification as held for sale is the valuation of the assets and liabilities of CISGIL which are shown at fair value less costs to sell.

As part of the calculation of the fair value of the business, the expected consideration of circa £185m was taken into account. Of this consideration £84m will be treated as deferred income upon completion of the sale of the insurance group (in line with the requirements of IFRS 3 paragraph 52 b) in respect of remuneration for future marketing and distribution services. The calculation of this deferred income was subject to detailed scrutiny by management. Of the remaining £101m proceeds allocated to assets and liabilities held for sale, this was then reduced by costs to sell and discounting of deferred consideration in arriving at the fair value less cost to sell of £56m. See note 9 for details.

• ***Useful economic lives : Property, plant and equipment***
Our Food business invests around £100m each year to refurbish its existing store portfolio (refits) and a further £100m on new store acquisitions. A key accounting judgement is to determine the period over which to spread the costs of the assets in line with how long we think these assets will last. With reference to the quality of the assets that are bought and the planned refit cycle for the estate portfolio then the current judgment is that 10 years best reflects the likely economic life of these assets. This represents a change to the judgement applied in previous reporting periods (which was 8 years) and reflects the enhanced quality (and hence expected life) of the assets that are bought. The in-year impact of this change in judgement is a decrease in the depreciation charge within the Food business of £6m.

• ***Consolidation of Reclaim Fund***
The Group is required to consolidate Reclaim Fund Limited (RFL) as it is a 100% owned subsidiary of the Group. However, RFL is a not-for-profit organisation whose surplus is held entirely for the benefit of Big Lottery Fund and as the Group derives no financial benefit from RFL nor can it access RFL's reserves. A judgment has therefore been made that it is most appropriate to the user of the accounts to not consolidate the balance sheet of RFL on a line-by-line basis but instead to disclose it as single line items on the Group Balance sheet for current and non-current assets and liabilities.

Estimates and assumptions:
The key assumptions and areas of uncertainty around key assumptions at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Group based its assumptions and estimates on information available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

• **Pensions (note 27) –** the Group's defined benefit pension obligations are determined following actuarial advice and are calculated using the projected unit method. The assumptions used are the best estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice. The most significant assumptions relate to the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, the Group's defined benefit obligation is highly sensitive to changes in these assumptions. Further details of the financial and demographic assumptions that have been used are shown in note 27 along with associated sensitivities to those assumptions.

• **Impairment of non-financial assets (notes 11 and 12) -** the carrying amount of non-financial assets (such as property, plant and equipment or goodwill and intangibles) is 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 exceeds its estimated recoverable amount. For property assets then the fair value less costs to sell are measured using internal valuations based on the rental yield of the property.

General accounting policies continued

The Group estimates the value in use of an asset by projecting future cash flows into perpetuity and discounting the cash flows associated with that asset at a post-tax rate of between 8-10% dependent on the business. Cash flows are projected using the relevant business' four-year plan. Cash flow projections beyond four years (and therefore outside of the four-year plan period) use a steady or declining growth rate dependent on the business. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. For the Group then these estimates are most relevant to goodwill and other intangibles with indefinite useful lives. The key assumptions used to determine the recoverable amount for the different CGUs, and the sensitivity analysis that is undertaken, are disclosed and further explained in notes 11 and 12.

• **Tax and Deferred tax (notes 8 & 14) –** the Group's tax charge is made up of current and deferred tax and is calculated based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Significant management judgement is required to determine the amount of deferred tax assets and liabilities that can be recognised, including estimates as to the likely timing and the level of future taxable profits, together with future tax planning strategies. See disclosures in notes 8 and 14 for details of the key estimates and assumptions that are made.

• **Insurance claims and reserves (note 28) –** CISGIL has access to historical data and trends relating to its general insurance business and uses a combination of recognised actuarial and statistical techniques to estimate the expected cost of claims made under insurance contracts. See note 28 for further details of the methodology, key assumptions and sensitivity analysis that is undertaken.

• **Provisions (note 23) –** 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 onerous leases on properties that are no longer used for trading purposes and significant assumptions and estimates are made in relation to the estimation of future cash flows and the discount rate applied. See note 23 for further details.

New and amended standards and interpretations:
The Group has applied all endorsed IFRSs that are effective on a European basis for the Group's financial statements for the period ended 5 January 2019 and the comparative period.

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the financial statements of the Group. The Group has not early-adopted any standards, interpretations or amendments that have been issued but are not yet effective.

(A) Changes in significant accounting policies
The Group has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 7 January 2018.

The effect of initially applying these standards is mainly attributed to the following:

IFRS 15:
- later recognition of revenue on funeral plan sales so that no revenue is recognised until the plan is redeemed and the funeral performed;
- deferment of fulfilment costs (which are costs directly relating to the plan sale which otherwise wouldn't have been incurred) associated with delivering the funeral until the funeral is delivered;
- treatment of rebates paid to members of a joint buying group operated by Food division as a reduction in revenue and cost of sales; and
- the Group has adopted the standard using the fully retrospective approach which means that the comparative figures have been restated as shown in the tables over the page.

General accounting policies continued

Presentational changes have also been made to the balance sheet following the adoption of IFRS 15:

Contract liabilities; a contract liability is presented in the balance sheet where a customer has paid an amount of consideration prior to us undertaking the service for the customer (such as funeral plans paid for in advance). These liabilities are split between due within one year and over one year and prior years are restated in this respect;

Contract assets: a contract asset is recognised when our right to consideration is conditional on something other than the passage of time, for example, we need to take some action before the customer has to pay us (such as funeral costs incurred before the funeral has taken place); and

Other balance sheet items: Provisions, tax, trade receivables and reserves for prior years have been restated as a consequence of adopting IFRS 15.

IFRS 9:

- that element of the Group's Eurobonds that is unmatched by interest rate swaps reverted to being measured at amortised cost (rather than being measured at fair value through the income statement);
- the comparative income statement and balance sheet figures in relation to our Eurobonds have not been restated and the opening balance sheet value of the bonds which are now carried at amortised cost has been restated with a corresponding pre-tax adjustment of £55m being made to opening reserves as at 6 January 2018 (as permitted by IFRS 9);
- the consolidated statement of changes in equity reflects a £10m deferred tax adjustment in respect of the £55m amortised cost restatement to opening reserves;
- financial assets held by the Funeral and Life Planning business continue to be accounted for as financial assets with movements in fair value taken to the income statement where appropriate;
- the Insurance business has reclassified assets previously classified as available for sale assets to financial assets held at fair value through other comprehensive income. Available for sale assets no longer exists as a category of asset under IFRS 9, but movements in the value of these assets were taken to other comprehensive income previously, so adoption of the standard has had minimal impact in this respect;
- there were no changes to accounting for the Reclaim Fund assets or liabilities upon adoption of IFRS 9; although there were some changes to descriptions of assets and liabilities; and
- as indicated in the 2017 annual report, the Group has changed how it assesses impairment of investments and receivables but this has not had a material impact.

Summary impact of new accounting standards on key metrics:

Impact of IFRS 15:

£m	As at 6 January 2018		
	Originally Reported	Impact of IFRS 15	After impact of IFRS 15*
Underlying profit before tax (non GAAP measure)	**65**	**(20)**	**45**
Profit before tax	**72**	**(20)**	**52**

Impact of IFRS 9 on Group net debt:

£m	As at 6 January 2018		
	Originally Reported	Impact of IFRS 9	After impact of IFRS 9
Group net debt	**(775)**	**55**	**(720)**
Less fair value / amortised cost adjustment	138	(55)	83
Group net debt before fair value / amortised cost adjustment	**(637)**	**-**	**(637)**

General accounting policies continued

Summary impact of adopting new accounting standards on comparative financial statements:
Income statement for 53 weeks ended 6 January 2018:

£m	Originally reported	IFRS 15 Funeral and Life Planning	IFRS 15 Food / FRTS	After impact of IFRS 15*
Revenue	9,470	(23)	(173)	9,274
Operating expenses	(9,432)	3	173	(9,256)
Other income	88	-	-	88
Operating Profit	**126**	**(20)**	**-**	**106**
Finance income	44	-	-	44
Finance costs	(106)	-	-	(106)
Share of profits of associates and joint ventures	8	-	-	8
Profit before Tax	**72**	**(20)**	**-**	**52**
Tax	(2)	4	-	2
Profit after Tax	**70**	**(16)**	**-**	**54**

*Restated balances are shown prior to restatement for treatment of Insurance as a discontinued operation. See restatement section below.

Balance sheet as at 6 January 2018:

£m	Originally reported	IFRS 15 Funeral and Life Planning	Restated
Non-current assets	6,868	32	6,900
Current assets	2,301	2	2,303
Total Assets	**9,169**	**34**	**9,203**
Non-current liabilities	3,937	(8)	3,929
Current liabilities	2,144	115	2,259
Total Liabilities	**6,081**	**107**	**6,188**
Equity & Reserves	3,088	(73)	3,015

Restatements

The comparative figures presented within these financial statements for the financial year ended 6 January 2018 are consistent with the 2017 annual report with the exception of the restatements noted below and the impact of adopting IFRS 15 and IFRS 9 as outlined above:

- following the Group's announcement to sell CISGIL, the results of the Group's Insurance business for the comparative period have been reclassified to discontinued operations and the impact on the Group's consolidated income statement is shown below:

£m	Restated for IFRS 15 (as above)	Discontinued	Restated
Revenue	9,274	(331)	8,943
Other Income	88	(74)	14
Operating profit	**106**	**12**	**118**
Finance Costs	(106)	9	(97)
Tax	2	(4)	(2)
Profit from Continuing Operations	**54**	**17**	**71**

General accounting policies continued

- the results from the Property support function (including changes in value of investment properties) are now shown in costs from supporting functions net of some recharges to the business (previously they were included within Food). The comparatives for Food, supporting functions and Funeral and Life Planning have therefore been adjusted accordingly to effect this and the impact on segmental operating profit is shown in the table below. All segments are consistent with the information that is presented to the Board.

£m	Food	Funerals	Supporting Functions	Other Businesses	Total
Operating Profit (as reported)	**202**	**66**	**(125)**	**(5)**	**143**
Restatements noted above	(34)	(4)	38	-	-
Impact of IFRS 15	-	(20)	-	-	(20)
Operating profit (Restated)	**168**	**42**	**(87)**	**(5)**	**123**

Other new and amended standards adopted by the Group
The Group has applied the following standards and amendments for the first time for reporting periods commencing after 7 January 2018:

• IFRS 2 (amendments) - to clarify the classification and measurement of share-based payment transactions;
• IFRS 4 (amendments) - regarding the interaction of IFRS 4 and IFRS 9;
• IAS 40 (amendments) - to clarify transfers of property to, or from, investment property;
• IFRS 1 and IAS 28 (amendments) – annual improvements to IFRSs 2014 – 2016 Cycle - various standards;
• IFRIC 22 – Foreign currency transactions and advance consideration.

The adoption of these standards and amendments did not have a material impact upon the Group's accounts.

Standards, amendments and interpretations issued but not yet effective
Certain new accounting standards and interpretations have been published that are not mandatory for 5 January 2019 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:

IFRIC 23 – Uncertainty over income tax treatments.*
• IFRS 9 (amendments) – Prepayment features with negative compensation.*
• IFRS 10 & IAS 28 (amendments) – Sale or contribution of assets between an investor and its associate or joint venture.**
• IAS 19 (amendments) – Plan amendment, curtailment or settlement.*
• IAS 28 (amendments) – Long term interests in associates and joint ventures.*
• Annual improvements 2015 – 2017 Cycle (issued December 2017). These improvements cover IFRS 3 (Business combinations), IFRS 11 (Joint arrangements), IAS 12 (Income taxes) and IAS 23 (Borrowing costs).*

* Effective 1 January 2019.
** Deferred indefinitely – the Group will adopt when effective and endorsed by the EU.

General accounting policies continued

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 16 Leases
Nature of the change	IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. The only exceptions are for short-term leases (leases with a term of less than 12 months) and low-value leases (eg. personal computers).
Impact	The Group plans to adopt IFRS 16 using a modified retrospective approach. For the portfolio of directly leased properties, right-of-use assets will be calculated as though IFRS 16 had always applied. For all other leases, the asset value will be equal to the lease liability as at the date of transition. Prior reporting periods presented will not be restated. The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

During 2018, the Group has performed further impact assessments of IFRS 16. The most material impact of the new standard will be that assets and liabilities associated with approximately 3,000 property leases will need to be brought on to the balance sheet and the Group's estimate of the impact of this is noted below:

Property leases: (Estimated impact on the statement of financial position (increase/(decrease)) as at 06 January 2019):

Balance Sheet:	**£m**
Assets	
Property, Plant & Equipment (Right-of-Use Assets)	1,020
Finance Lease Receivables	74
Trade and Other Receivables	(18)
Deferred Tax Asset	33
Liabilities	
Lease liability	1,451
Trade and Other Payables	(26)
Provisions	(162)
Decrease in Opening Reserves	**(154)**

Estimated impact on the consolidated income statement with increases in costs shown as a negative figure and a reduction in costs shown as a positive figure.

Income Statement:	**£m**
Depreciation expense (included in Operating Expenses)	(97)
Operating Lease Rentals (included in Operating Expenses)	156
Operating Profit	**59**
Finance Costs	(91)
Income Tax Expense	(2)
Profit for the year	**(34)**

Due to the adoption of IFRS16, the Group's operating profit will improve, while its interest expense will increase. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17.

General accounting policies continued

Title	IFRS 16 leases continued
Impact (continued)	**Non-property leases:** The Group has assessed which of its other contractual commitments could contain leases in scope for IFRS 16. These could include vehicles, equipment, IT systems and anything else where the Group is paying to use and benefit from an underlying asset as part of a contractual arrangement. The majority of these identified assets relate to vehicles, and the estimated impact of bringing these onto the balance sheet is to increase Right of Use Assets and Lease Liabilities by approximately £9m. There is not anticipated to be a material impact to the Group's profit in relation to these leases.
Date of adoption by the Group	Mandatory for financial years commencing on or after 1 January 2019. The Group intends to adopt the standard using the modified retrospective transition approach. This means comparative information will not be re-stated. Right of use assets relating to property leases will be measured as if IFRS 16 had always been applied, but discounting at an incremental borrowing rate at the date of transition, and for all other leases the asset value will equal the lease liability.

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 2021 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 2021. Not yet endorsed for use in the EU.

Going concern

The Directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position (as set out in the Stronger Co-op section on page 13). The Directors have also assessed the financial risks facing the Group, its liquidity position and available borrowing facilities. These are principally described in Note 20 to the accounts. In addition, Notes 20 and 29 also include details of the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its financial instruments and hedging activities.

In making their assessment the Directors have noted that the consolidated group accounts show a net current liability position. The Group meets its working capital requirements through a number of separate funding arrangements, as set out in detail in note 29, 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 September 2020 (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.

After making all appropriate enquiries, the Directors have a reasonable expectation that the Society and the Group have access to adequate resources to enable them to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group's financial statements.

Independent auditor's report to the members of Co-operative Group Limited

Opinion

In our opinion:

- Co-operative Group Limited's financial statements (the "financial statements") give a true and fair view of the state of Co-operative Group Limited's affairs as at 5 January 2019 and of the Group's loss for the 52-week period then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- The Group financial statements have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014.

We have audited the financial statements of Co-operative Group Limited which comprise:

Group
Consolidated income statement for the 52-week period ended 5 January 2019
Consolidated statement of comprehensive income for the 52-week period ended 5 January 2019
Consolidated balance sheet as at 5 January 2019
Consolidated statement of changes in equity for the 52-week period ended 5 January 2019
Consolidated statement of cash flows for the 52-week period ended 5 January 2019
Related notes 1 to 37 to the financial statements, including a summary of significant accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and in accordance with the Co-operative and Communities Benefit Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

The directors have voluntarily complied with the UK Corporate Governance Code (the "Code") and provided a statement in relation to going concern.

As a result, we have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 41 to 42 that describe the principal risks and explain how they are being managed or mitigated;

- the directors' confirmation set out on page 93 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;

- the directors' statement set out on page 195 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;

- the directors' explanation set out on page 93 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Revenue recognition – cut-off (Group) • Supplier income (Food, Wholesale) • Accounting for the sale of CISGIL (Group)
Audit scope	• We performed an audit of the complete financial information of Food, Wholesale, Funeralcare, Corporate and Insurance components and audit procedures on specific balances for a further three components, Property, Electrical and CFSMS. Further to this, we performed alternative procedures on the Co-operative Banking Group, Legal and Reclaim Fund components. • The components where we performed full or specific audit procedures accounted for 105% of Profit before tax, 99% of Revenue and 94% of Total assets. The profit before tax coverage of 105% represents components having a positive contribution, this is offset by other components having a negative contribution of 5%.
Materiality	• Overall Group materiality of £43m which represents 0.5% of adjusted revenue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition – cut off (2018: £10,162 million; 2017: £8,943 million) The timing of when revenue is recognised is relevant to the reported performance of the Group. There is opportunity through management override or error to misstate the allocation of revenue between periods. This timing of revenue recognised, in particular around year end, is a focus for material Group revenue streams. Our testing has focused upon the following judgemental areas where there is an opportunity to materially overstate revenue: **Funeralcare** • Revenue is recognised when a funeral service is delivered. There is a risk that revenue is overstated through management recording manual top-side journals into revenue which are not supported by underlying invoices in order to manipulate results	**Applicable to all material revenue streams** • We gained an understanding of and documented the processes used to record revenue and tested the design effectiveness of key controls • We performed analytical procedures by comparing revenue balances for the year against expectation and obtaining support for significant variances. In particular, we performed detailed procedures in the month preceding and subsequent to the year-end including review of revenue recorded compared to expectation/periodic averages and reconciliation to journals posted • We performed detailed cut-off testing of revenue transactions during the period either side of the Balance Sheet date with reference to delivery documentation and we also tested sales credit notes issued in the same period	Revenue has been recognised appropriately in the 52-week period ended 5 January 2019 in accordance with IFRS 15 "Revenue from Contracts with Customers"

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Food – Non-polled stores • Store revenue recognised in the Food business is based upon stores sending their sales data via a manually initiated polling process. These submissions occur over a number of days subsequent to the end of each week. When a store does not poll their sales within a short timeframe following the end of the week, a manual adjustment is required in order to recognise those sales. At year end, there is a risk that management may record fictitious revenue transactions or manipulate the recorded revenue results from stores through adjustment to the "non-polled" store data **Accounting Policies (page 187); and note 2 of the Consolidated Financial Statements (page 115)**	• We tested whether the Group's revenue recognition policy is in line with the criteria set out in IFRS 15: Revenue from Contracts with Customers • To address the risk of management override, we examined manual journal entries that were posted to revenue accounts and obtained source documentation to ensure these were appropriately recorded in the general ledger **Funeralcare** • We tested manual revenue journals to address the risk of fraud in revenue recognition identified in our audit strategy. We have evaluated all manual journals posted to revenue during the year and performed substantive testing as appropriate **Food** • We tested in detail the manual journal relating to "non-polled" stores to ensure no duplication of stores within the population or unusual amounts of revenue recognised • We compared these journals on a store by store basis to the data polled in this period and to the average weekly store sales • We investigated variances outside our expectations through obtaining management explanations and agreed back to source documentation • We tested all store sales by agreeing to weekly sales reconciliations. Further testing was performed to validate this reconciliation We performed full and specific scope audit procedures over this risk area, which covered 99% of the risk amount. We also performed specified procedures over the Electrical component, which covered 0.4% of the risk amount	
Supplier Income (2018: £654 million, 2017: £628 million) The Group receives material discounts from suppliers specifically through the Food and Wholesale divisions. There are three streams being Long Term Agreements, Bonus Income and Promotional Income (as described in note 4) in relation to which total income for 2018 was £654 million (2017: £628 million). The terms of agreements with suppliers can be complex or varied and may also include performance conditions. These conditions or promotional periods can span the Group's reporting date. Due to the complexity and judgement required in relation to Bonus Income and LTA income, there is a risk that an error in the calculation of income may occur either accidentally or through management override of controls and this could arise at any time during the year. Additionally at year end there is a risk that supplier income could be accelerated in order to inflate profits Promotional Income arises from short term in store promotions which are less complex in nature and the related income is settled through offset throughout the year, therefore the risk of promotional income being recognised incorrectly throughout the year is minimal, however the risk of overstatement at the year end remains	• We focused our audit procedures on the areas where Management apply judgement, where the processing is either manual or more complex and where the quantum of agreements is high • We performed a walkthrough of the process for recording the three different arrangement types. We were able to take a controls reliance approach in respect of Long Term Agreements and Bonus Income • We performed analytical review procedures of supplier income compared to cost of sales throughout the year in order to identify any unusual and unexpected trends. We tested a sample of items within the income statement for each supplier income type to confirm occurrence and measurement • We selected a sample of suppliers to send confirmations across all deal types to confirm key deal input terms. We recalculated income recognised in the period, for a sample of suppliers, based on agreed arrangement terms and volumes confirmed by the supplier • We selected a sample of year end balances from the trade receivables ledger, and requested third party balance confirmations. We tested the settlement of a sample of supplier arrangements recognised in the income statement, which included settlement in cash or by off-set to amounts payable	Supplier arrangements amounts are appropriately recognised in the Income Statement and Balance Sheet and the disclosures included are appropriate

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Refer to the Audit Committee Report (page 62); Refer to the Accounting Policies (page 187); and note 4 of the Consolidated Financial Statements (page 118)	• Using data extracted from the accounting system, we tested the appropriateness of journal entries and other adjustments to supplier arrangements • We reviewed management's disclosure in respect of supplier arrangement amounts recorded in the Income Statement and Balance Sheet • We verified management's allocation of supplier income earned jointly with other independent societies through the Member buying group has been applied appropriately • We tested a sample of supplier income recognised during December to agreement terms and volume submissions from suppliers in order to ensure that the related income was recognised in the correct period and tested a sample of credit notes received post 5 January 2019 to see if these relate to arrangements in 2018 • We tested provisions in place for queries and disputes by comparing the year end provisions to the proportion of disputes settled in favour of vendors throughout the year and by investigating the post year end outcome of a sample of disputes. We investigated aged unpaid supplier billings to ensure the provisions in place for these amounts are sufficient We performed full and specific scope audit procedures over this risk area in the Food and Wholesale components, which covered 100% of the risk amount	
Accounting for sale of CISGIL – apportionment of consideration (Consideration for CISGIL £101 million) In November 2018, the Board approved the sale of CISGIL for total proceeds of £185 million. As part of the sales arrangement, a distribution agreement was agreed through which CISL (a subsidiary of the Group) will distribute insurance products for CISGIL. This arrangement includes the management of renewals of the in force book for £nil consideration. Management have concluded that c.£84 million of the total £185 million consideration relates to commission income, with the remaining £101 million being consideration for the CISGIL business **There is a risk that the apportionment of the £185 million total proceeds between consideration for the sale of CISGIL and deferred income does not appropriately reflect the fair value of the business and services to be performed**	• We obtained the sale and purchase and distribution agreements. We reviewed the distribution agreement to confirm whether the renewals service met the definition of a contract per the criteria in accordance with IFRS 15 • We obtained the deferred income calculation prepared by management. With support from EY Valuation specialists, we assessed the appropriateness of the valuation methodology applied and benchmarked key assumptions, including the discount rate • We agreed the underlying data in the calculation back to supporting evidence, such as the commission rates per the distribution agreement for similar services and historical renewals uptake	The consideration of the CISGIL business has been appropriately apportioned between consideration for the business and commission income

In the prior year, our auditor's report included the following key audit matters:

- Revenue recognition – cut off: Insurance: Earned Premiums (Insurance)
- Valuation and completeness of Insurance contract liabilities (Insurance)
- Impairment of Property Plant and Equipment and Goodwill (Food, Estates, Funeralcare)

We previously identified a significant risk in the Insurance component in relation to incorrect revenue recognition on earned premiums either through erroneous gross premium or inappropriate earnings patterns being applied to the premium recognised. We also identified a risk around the setting of insurance contract liabilities due to the inherent uncertainty and subjectivity in setting the best estimate on both a gross and net basis and the recognition of a margin which makes the liabilities susceptible to the risk of management over-ride. As the Insurance business is now classified as held for sale, the results and net assets of the component are recognised within discontinued operations in the Income Statement and held for sale assets and liabilities (recognised at fair value less costs to sell) in the Statement of Financial Position. As such, we do not consider a significant risk exists in relation to revenue recognition or general insurance reserving.

In the prior year we had identified a significant risk in relation to the impairment of Property, Plant and Equipment and Goodwill in the Food, Estates and Funeralcare components. This reflected the sensitivity of the impairment assessment and models to the assumptions underlying both discount rates and forecast information applied. Whilst this continues to be an area of audit focus this has not been included as a key audit matter or a significant risk. We do not consider the risk of a material impairment to be likely given both the magnitude of headroom which exists and our assessment of the appropriateness of the methodology and related assumptions within the impairment model.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls and changes in the business environment when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the thirteen reporting components of the Group, we selected eleven components covering entities which represent the principal business units within the Group.

Of the eleven components selected, we performed an audit of the complete financial information of the Food, Wholesale, Funeralcare, Corporate and Insurance components ("full scope components") which were selected based on their size or risk characteristics. For the Property and CFSMS components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. For the Electrical component, we performed audit procedures tailored to the specific risks of material misstatement present at the component. For the remaining three components, Co-operative Banking Group, Legal and Reclaim Fund, ("review scope components"), we performed alternative audit procedures.

When we initially performed our scoping, we included the Insurance division as a full scope component based on its contribution to the Group's total revenue. Subsequent to this exercise, the Insurance division became held for sale and is valued at fair value less costs to sell in the Statement of Financial Position, with the associated impairment loss being recognised in discontinued operations in the Income Statement. We designed and performed audit procedures to allow us to conclude upon the appropriateness of the amounts recorded within the Income Statement and Balance Sheet in relation to the Insurance component.

The reporting components where we performed audit procedures accounted for 105% (2017: 100%) of the Group's Profit before tax, 100% (2017: 100%) of the Group's Revenue and 100% (2017: 100%) of the Group's Total assets. For the current year, the full scope components contributed 91% (2017: 99%) of the Group's Profit before tax, 99% (2017: 99%) of the Group's Revenue and 94% (2017: 55%) of the Group's Total assets. The specific scope components contributed 14% (2017: 1%) of the Group's Profit before tax, 0.1% (2017: 1%) of the Group's Revenue and 0% (2017:44%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining four components that together represent 0.9% of the Group's revenue, none are individually greater than 1% of the Group's revenue. For these components, we performed other procedures, including detailed analytical review to respond to any potential risks of material misstatement to the Group financial statements.

The table below illustrates the coverage obtained from the work performed by our audit teams.

	Number	% Profit before tax	% Revenue	% Total assets
Full scope	5	91%	99%	94%
Specific scope	2	14%	0.1%	0%
Other procedures	4	-5%	0.9%	6%
Total	**11**	**100%**	**100%**	**100%**

Changes from the prior year

Based on the findings of the prior year audits, and accumulated knowledge, and subsequent discussions with the Risk and Audit Committee, we revised our scoping to reduce the Co-operative Banking Group and Reclaim Fund (included within Co-operative Banking Group) from Specific scope to Review Scope in the current year.

We note Corporate is Full Scope in the current year in comparison to Specific Scope in the prior year given the increase in the relative significance of its assets in this financial period.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors operating under our instruction. Of the five full scope components, audit procedures were performed by the component audit teams except for certain central balances audited directly by the primary audit team. Of the two specific scope components, the audit of one component was performed by the primary audit team. For the one specific scope component where work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

At the start of the audit, a Group wide Team Planning Event was held with representatives from all full and specific scope component teams in attendance which involved discussing the audit approach with the component teams. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, discussed issues arising from their work, attended closing meetings with component management, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £43 million (2017: £40 million), which is 0.5% (2017: 0.05%) of adjusted revenue. We considered revenue to be the most appropriate performance metric on which to base our materiality calculation because the nature of underlying trading businesses within the Group means revenue is one of the key financial metrics used by stakeholders as their relevant performance measure. Revenue is a key performance indicator used by management to monitor the Group's performance and profit or loss before tax has historically been volatile.

Adjusted revenue was calculated as total Group revenue less revenue generated by the Federal joint buying group:

Starting basis	• Starting point - £10,162 million total third party revenue
Adjustments	• Remove £1,532 million of revenue generated by Federal joint buying group
Materiality	• Totals £8,630 million • Materiality of £43m (0.5% of adjusted Revenue)

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2017: 50%) of our planning materiality, namely £21.5 million (2017: £20 million). We have set performance materiality at this percentage due to the number of audit adjustments identified in the prior year. Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £4.3 million to £16.3 million (2017: £4 million to £20 million) based on our assessment of audit risk for each entity within the Group in the current period.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Risk and Audit Committee that we would report to them all uncorrected audit differences in excess of £2 million (2017: £2 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you, if in our opinion:

- The Society has not kept proper books of account; or
- The Society has not maintained a satisfactory system of control over its transactions; or
- The financial statements are not in agreement with the accounting records; or
- We have not received all the information and explanations and access to documents we require for our audit.

The directors have instructed us to review their Corporate Governance Statement on page 51 as regards the Society's compliance with provisions 43, 123 – 130 and 135-152 of Co-operatives UK Limited's Corporate Governance Code for Consumer Co-operative Societies issued in November 2013 ('the Code'). We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 195, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Use of our report

This report is made solely to the Society's members, as a body, in accordance with Section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Alistair Denton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
4 April 2019

Notes:

1. The maintenance and integrity of the Co-operative Group Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 below to help you understand some of the difficult phrases accountants like to use. 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. When a word is in bold in the table below that means you can also find the definition of that word in this table.

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.**
Actuarial best estimate	In our Insurance business we have to recognise **liabilities** for the likely cost of claims. As part of the method for calculating these liabilities we use an actuarial best estimate, which is the weighted average of all future claims and cost scenarios. It's calculated using historical data, actuarial methods and judgement. A best estimate will normally be designed to be neither too optimistic or too cautious.
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 during the year and how we've spent it.

Jargon buster continued

CISGIL	This is the society that operates our Insurance business – CIS General Insurance Limited.
Claims incurred	This is the amount of insurance claims we've paid in the year plus any change in our estimate of future claims we may have to pay.
Claims paid	This is the amount of insurance claims we've paid out in the year.
Claims reported	This is the amount on our **balance sheet** where we know what the claim is and how much is going to be paid out.
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.

Jargon buster continued

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.
Debt security	This is a type of investment held by our Insurance business and is a form of loaning money to another organisation.
Deferred acquisition costs	These are amounts which our Insurance 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 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.
Deposits with credit institutions	When customers pay us premiums, we put the money in high-quality corporate bonds so that if an insurance policy needs to pay out, we have the money there. Deposits with credit institutions are the amounts we've invested in these corporate bonds.
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.**

Jargon buster continued

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	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** and our pension schemes. The change in value is called the fair value movement.
Fee and commission income	This is income which our Insurance business receives for distributing products which it doesn't underwrite.
Finance costs	These are usually the interest we pay on our **debt**, but can also be other things such as the f**air value movement** on our debt or the **discount unwind** of **liabilities**.
Finance income	This is mainly the interest on our pension assets, but can also be other things such as the f**air value movement** on our **debt** or the **discount unwind** of **receivables**.
Financial instruments	A collective term for **debt** or **derivatives** that we have.
Financial Services	This is a group of companies within **the Group** that provide financial products such as insurance.
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.

Jargon buster continued

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	A member may not want his or her family to pay a large single sum for a funeral when he or she dies. Therefore, the member 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**

Jargon buster continued

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.
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 (e.g. the Travel JV with Thomas Cook), but are called **associates** for accounting purposes. A joint venture is a company where we own exactly 50%.
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 them selves during the year as part of the 5% 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 which we pay rent on, sometimes we still have to pay rent until the lease runs out. When this happens, we make a **provision** for the amount of the rental payments we will have to pay in future and hold this on the **balance sheet** until we finish the rent payments.

Jargon buster continued

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.**
Provision for unearned premiums	When we sell an insurance policy, some of the premium we receive may not relate to the current financial year if the insurance cover goes beyond the end of the year. We have to put any amounts which relate to later years on the **balance sheet** as a **liability**.
Provisions	This is a **liability**, but one where we're unsure what the final amount we have to pay will be. We use our best estimate of the costs and hold that on the **balance sheet.**
Quota share	Quota share is a type of **reinsurance contract** where we share premiums and losses with a reinsurer based on a fixed percentage and is a way of reducing our risk.
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.**

Jargon buster continued

Reclaim Fund	This is an entity we own that helps money in dormant bank accounts to be used for charitable purposes.
Reinsurance contracts	When we sell an insurance policy, we might want to resell that policy to another insurance company so that we can manage the level of risk we face in case a major claim comes in. When we're owed money from the other insurer then this is shown as an **asset** and if we have we reinsured for another insurer we would show a **liability.**
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.
Repo agreements	This is a type of short-term investment used by our Insurance business.
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.
ROCE	Return on capital employed. This is based on our **underlying profit** we make in the year less any **pension interest** earned divided by the **net operating assets** we have.
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.

Jargon buster continued

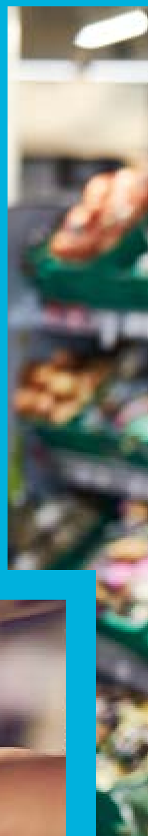
Share capital	This is the amount of money that our members have paid us to become members less any amounts that we've repaid to them when they cancel their membership.
Society	The Co-operative Group Limited is a registered co-operative society. We sometimes refer to our collective whole as 'the Group' or 'the Society' and the terms are broadly interchangeable.
Subrogation	This is an insurer's right to recover the amount it has paid for a loss from the party that caused the loss.
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.
Trading Group	This is **the Group** less any **Financial Services** companies.
Underlying profit	This is an alternative measure of the trading performance of the Group which excludes **one-off items** or large gains or losses we might have made on selling **assets**.
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.

Five year summary (unaudited)

£m	2018	2017 (restated*) (i)	2016 (restated*)	2015 (restated*)	2014 (restated*)
Revenue					
Food	7,274	7,103	7,105	6,997	7,066
Wholesale	983				
Funerals & Life Planning*	317	320	311	307	288
Federal	1,532	1,461	1,343	1,279	1,285
Other	56	59	67	78	81
Total revenue	**10,162**	**8,943**	**8,826**	**8,661**	**8,720**
Underlying profit before tax					
Food	204	182	182	186	181
Wholesale	(11)				
Funerals & Life Planning*	25	42	56	61	47
Other	(111)	(117)	(138)	(79)	(54)
Underlying segment operating profit	107	107	100	168	174
Underlying interest	(64)	(64)	(65)	(77)	(113)
Underlying profit before tax	**43**	**43**	**35**	**91**	**61**
EBITDA (ii)					
Underlying segment operating profit (above)	107	107	100	168	174
Depreciation	256	256	246	256	257
Amortisation	15	8	5	7	9
Underlying segment EBITDA (ii)	**378**	**371**	**351**	**431**	**440**
Insurance (Discontinued 2018)					
Revenue	323	331	439	343	371
Underlying PBT	(1)	11	11	(13)	(1)
Loss on discontinued operation	(230)	(17)	-	-	-
Other performance items					
5% Member reward	(60)	(61)	(16)	-	-
1% Community reward	(12)	(13)	(3)	-	-
Profit / (loss) after tax - continuing operations	74	71	(129)	59	109
Trading Group ROCE (ii)	5.2%	5.1%	5.7%	9.1%	9.4%
Balance sheet items					
Total assets	9,771	9,203	9,225	8,729	8,485
Group net debt	(792)	(775)	(885)	(692)	(808)
Total equity	3,069	3,015	3,241	2,937	2,865
Net debt: EBITDA ratio	2.09	2.09	2.52	1.62	1.80
Total pension assets	10,271	10,538	12,879	10,799	10,921
Total pension liabilities	(8,412)	(8,985)	(11,152)	(9,669)	(9,932)
Total net surplus	**1,859**	1,553	1,727	1,130	989
Business-specific measures					
Total Food like-for-like sales increase	4.4%	3.4%	3.5%	1.6%	0.4%
Number of Food stores	2,582	2,532	2,774	2,803	2,796
Total Food sales area ('000 sq ft) (iii)	8,292	8,307	8,797	9,185	9,606
Number of At-need funerals sold	95,363	99,925	97,607	97,147	92,058
Number of Pre-need funerals sold	55,593	68,969	58,999	34,904	27,771
Number of Funeral homes	1,049	1,079	1,026	986	961

(i) 53 week year
(ii) See Jargon buster on page 204 for definition
(iii) Quoted excluding petrol forecourt area

*Comparative figures have been restated for IFRS 15 (see page 192 for further details). The results for Insurance are shown separately above as it has been classified as a discontinued operation in 2018. See note 9 for further details.



Co-operative Group Limited
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the Co-operative and Community Benefit Societies Act
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Registered number: 525R
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