CIS General Insurance Limited
5 April 2019

2018 Annual Report & Accounts

CIS General Insurance Limited announces the following document has today been submitted to the National Storage Mechanism and will shortly be available for inspection at https://www.morningstar.co.uk/uk/NSM

- Annual Report and Accounts for the year ended 31 December 2018

Co-operative Group Limited ('Co-op'), the parent entity of CIS General Insurance Limited, has today also announced its results for the year ended 5 January 2019. A copy of the Co-op announcement, which includes references to the performance of CIS General Insurance Limited ('Insurance') is provided below.

2018 Solvency and Financial Condition Report

CIS General Insurance Limited also announces that its 2018 Solvency and Financial Condition Report has been published. This will shortly be available to view at: https://www.co-opinsurance.co.uk/about-us/investor-announcements

Media Enquiries:
Russ Brady, Head of Co-op Group Public Relations
0161 692 4295
russ.brady@coop.co.uk

Investor Enquiries:
Damien Duffy, CFO Co-op Insurance
0161 692 6415
damien.duffy@cfs.coop

Annual Results Announcement: 52 Weeks to 5th Jan 2019

Co-op growth and community impact soars

Total revenue up 14%, Food like-for-like sales up 4.4%, Profit before tax up 27%
£79 million returned to Co-op members and their communities

Co-op difference highlights 2018: growing member value and social impact

- We rewarded our members and their communities for trading with us as we returned £79m to them – £60m directly to members and £19m to over 4,000 community projects across the UK.
- We launched our Safer Colleagues, Safer Communities campaign, aimed at ensuring colleague safety in the communities they serve and to help identify the root causes of community crime.
- We introduced the UK's first compostable carrier bags as part of our initiative to tackle plastics which will see the Co-op stop using hard-to-recycle plastics within five years.
- Our pension fund is responding to the UK's social housing crisis, by looking to invest up to £50m within the social and affordable housing market.
- We continued to grow the Co-op's investment for, and in, future generations:
    - Six new Co-op Academy Schools were added in 2018.
    - More than 1,000 apprentices worked within the business in 2018.
- We continued to champion the causes that matter to our members by tackling issues including Modern Slavery and loneliness and driving the ongoing success of Fairtrade.

Financial and operational highlights: delivering a stronger Co-op

- Total revenues grew by 14% to £10.2bn, driven by our acquisition of Nisa and a strong performance from Food.
    - Like-for-like revenues continued to grow in Food (+4.4%) and the Co-op has now enjoyed 5 consecutive years of like-for-like revenue growth.
    - Funeralcare and Life Planning revenue reduced year-on-year (-1.0%), reflecting the change in customer trends within the funeral sector.
- Profitability exceeded expectations, reflecting the growth in overall revenues, whilst still incorporating the £79m of member and community reward.
    - Profit before tax from continuing operations was up 27% to £93m.
    - Underlying profit before tax remained flat at £43m.
- Capital expenditure of £414m ensured that the Co-op is well positioned for future growth:
    - This included £326m within our Food business as we invested in new stores, refits and new infrastructure.
    - To further strengthen our Funeral & Life Planning business, we invested £43m in infrastructure and technology during 2018.
- Net debt rose due to the Nisa acquisition, but remained below our £900m debt ceiling target.
- Surplus on pension schemes increased by £300m to £1.8bn (2017: £1.5bn).

Serving our members by growing our scale and ambition

Our Stronger Co-op, Stronger communities plan has gone from strength to strength in 2018 with the Co-op further aligning our business to our members' needs and significantly broadening the positive impact we can have on society.

- Community Wellbeing Index developed to deepen our understanding of what communities need to help them thrive; three main areas identified where future Co-op Investment can make a significant difference:
    - Physical and mental wellbeing
    - Education and skills

    - Community space
- Our Local Community Fund helped every part of the UK, returning more than £19m to 4,087 local causes, with each receiving on average more than £4,500.
- The relationship between the Co-op and our members continued to strengthen, with growing engagement in our campaigns and Local Community Fund and sales to our members growing to 35% of total sales, in line with our targets.
- Our 300 Member Pioneers are bringing people together around our stores and funeral homes to discuss what matters most to their community and how the Co-op can help improve their wellbeing.
- We partnered with Neyber, a financial wellbeing company, to offer our colleagues financial planning advice and an affordable practical alternative to payday loans.
- In **Food**, we saw our fastest growth in seven years.
    - Like-for-like sales were up 4.4%.
    - We invested £75m into opening more than 100 new food stores, refitted 138 existing stores and created 1,600 new jobs.
    - The successful acquisition of Nisa and expansion of our wholesaling business has significantly grown our footprint and capacity, making Co-op products available to many thousands of new customers.
    - We instigated major changes to supplier governance and processes and introduced a new supplier charter in line with the findings of a report by the Groceries Code Adjudicator into historical supply practices at the Co-op.
    - We strengthened our commitment to UK farming and British produce with 100% of our fresh and frozen meat now coming from British farms.
- In challenging market conditions for **Funerals & Life Planning**, we responded to changing market and member needs with the launch of our direct to cremation service.
    - Efforts to tackle funeral affordability saw the cost of our Simple Funeral reduced in England and Wales by £200 for members and £100 for non-members.
    - Simplify Probate successfully integrated into the business, making Co-op the UK's largest single provider of probate services.
    - We have worked closely with the CMA on their market study into funeral services and inputted into HM Treasury's consultation on funeral plan regulation.
- In **Insurance**, we are clear in terms of our strategic direction and the best means of creating increased value for our members and their communities.
    - The planned sale of our insurance underwriting business for £185m will allow us to focus on our strategy of providing a broader range of insurance products for members, via our distribution business.
    - The sales and profit figures for our insurance business are therefore not included within our Profit Before Tax line, but within discontinued items. The loss of £230m includes the write-down of net assets but does not reflect the anticipated value to be generated from the 13 year distribution agreement included within the sale proceeds.
    - We launched a market-disrupting Travel insurance product that covers people of any age and health condition and was built with input from members.
    - Our 'Guarantee to beat' offer for Co-op members on home insurance renewals has seen a 24% increase in member sales during 2018.
- In New **Ventures**, the acquisition of Dimec, a healthcare technology platform, will provide the Co-op with the building blocks for a digitally enabled healthcare service for our members.
    - The service will connect patients to their GPs so they can order repeat prescriptions online, helping to take pressure off the NHS.

Outlook

- As we enter the 175th anniversary of UK consumer co-operation, we remain focused on the long-term growth of the Co-op and the positive role we can play in communities. Despite a challenging political and consumer backdrop, we are confident that we can continue to drive the Co-op's commercial success and increase our social impact in the process.

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

"Over the past year we have continued to successfully transform the Co-op, leading to a 14% increase in revenues to £10.2bn and the return of £60m directly to our members and £19m to over 4,000 community projects across the UK.

"The acquisition and integration of the Nisa wholesale business has been a game changer in expanding our food footprint and we have also set out the path by which we can offer our members a broader range of compelling Co-op solutions in Insurance and Health.

"We continue to demonstrate that the Co-op is a good business that does good for society as we lead on issues including single use plastics, funeral affordability and social housing. It is this determination to make a positive difference for all of our stakeholders which will ensure that we fulfil our ambition to build a Stronger Co-op and Stronger Communities."

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

"A year into launching our Stronger Co-op, Stronger Communities ambition and we continue to grow both sales and social impact. We have also made significant investments to further align our business with the needs of our members and deepen our understanding of the communities in which they live.

"In these uncertain economic times we have the opportunity to demonstrate that the Co-op Way of doing business has never been more relevant than it is today. With the continued support of our colleagues, members and communities, I have no doubt that we will thrive in the years ahead. I am confident and excited about the path we are following and the greater social impact we can create for our members and their communities."

Ends

Media Enquiries:

The Co-op

Jon Church
Tel: 07545 210812

Russ Brady
Tel: 07880 784442

Tulchan Communications

Jonathan Sibun
Tel: 020 7353 4200

About the Co-op:

The Co-op is one of the world's largest consumer co-operatives with interests across food, funerals, insurance, legal services and health. It has a clear purpose of championing a better way of doing business for you and your communities. Owned by millions of UK consumers, the Co-op operates 2,600 food stores, over 1,000 funeral homes and it provides products to over 5,100 other stores, including those run by independent co-operative societies and through its wholesale business, Nisa Retail Limited. It has more than 63,000 colleagues and an annual revenue of over £10 billion.

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

Co-op 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
- we 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.

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.

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.

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.

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 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

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, 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.

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.

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.

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. 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

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.

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 outdoor-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

Since 2015, we've spent £2.5 billion on British meat, produce and dairy products as part of our 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 a 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.

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.

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

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.

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

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

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 in our 2018 Annual Report.

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.

Strengthening 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

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 in the 2018 Annual Report.

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.

Our Local Community Fund helps every part of the UK

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.

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.

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.

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

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 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.

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 Co-op 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

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, the 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.

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 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 will 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.

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 in the 2018 Annual Report.

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.

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 in our 2018 Annual Report.

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.

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.

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.

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.

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

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 67.

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.

	2018 £m	2017 £m
Impairment of CISGIL net assets:		
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 9).

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 14. 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 5 and in the 2018 Annual Report. 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 in the 2018 Annual Report 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 14 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.

Consolidated income statement
for the period ended 5 January 2019

Continuing Operations	Notes	2018 £m	2017 (restated*) £m
Revenue	1	**10,162**	8,943
Operating expenses		**(10,072)**	(8,839)
Other income		**10**	14
Operating profit	1	**100**	118
Finance income	3	**78**	44
Finance costs	4	**(85)**	(97)
Share of profits of associates and joint ventures		**-**	8
Profit before tax from continuing operations	1	**93**	73
Taxation	5	**(19)**	(2)
Profit from continuing operations		**74**	71

Discontinued Operation			
Loss on discontinued operation, net of tax	6	**(230)**	(17)
(Loss) / profit for the period (all attributable to members of the Society)		**(156)**	54

Non-GAAP measure: underlying profit before tax**

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	1	**(38)**	(15)
Less underlying interest payable	4	**(64)**	(64)
Underlying profit before tax		**43**	43
Add back: member rewards		**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 67.

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

Consolidated statement of comprehensive income
for the period ended 5 January 2019

	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		**178**	112
Refinement of the derecognition of pension surplus attributable to The Co-operative Bank		**31**	(374)
Related tax on items	5	**(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	5	**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 67.

**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

	Notes	**2018** **£m**	2017 (restated*) £m
Non-current assets			
Property, plant and equipment		**2,046**	2,014
Goodwill and intangible assets		**1,071**	897
Investment properties		**42**	68
Investments in associates and joint ventures		**3**	3
Other investments		**1,223**	1,538
Reinsurance contracts		**-**	44
Derivatives	11	**27**	38
Pension assets	10	**1,984**	1,746
Trade and other receivables		**81**	32
Contract assets (funeral plans)		**47**	41
Deferred tax assets		**234**	245
Reclaim Fund assets		**209**	234
Total non-current assets		**6,967**	6,900
Current assets			
Inventories		**458**	389
Trade and other receivables		**537**	634
Contract assets (funeral plans)		**4**	3
Cash and cash equivalents		**282**	403
Assets held for sale	8	**1,113**	6
Other investments		**-**	415
Reinsurance contracts		**-**	14
Reclaim Fund assets		**410**	439
Total current assets		**2,804**	2,303
Total assets		**9,771**	9,203
Non-current liabilities			
Interest-bearing loans and borrowings	9	**1,004**	1,138
Trade and other payables		**214**	75
Contract liabilities (funeral plans)		**1,353**	1,168
Provisions		**215**	220
Pension liabilities	10	**125**	193
Deferred tax liabilities		**459**	400
Insurance contracts		**-**	289
Reclaim Fund liabilities		**473**	446
Total non-current liabilities		**3,843**	3,929
Current liabilities			
Overdrafts		**-**	6
Interest-bearing loans and borrowings	9	**70**	34
Income tax payable		**8**	-
Trade and other payables		**1,449**	1,400
Contract liabilities (funeral plans)		**132**	115
Provisions		**82**	90
Liabilities held for sale	8	**1,045**	-
Insurance contracts		**-**	461
Reclaim Fund liabilities		**73**	153
Total current liabilities		**2,859**	2,259
Total liabilities		**6,702**	6,188
Equity			
Members' share capital		**73**	73
Retained earnings		**2,910**	2,841
Other reserves		**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 67.

Consolidated statement of changes in equity
for the period ended 5 January 2019

	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		**-**	**178**	**-**	**178**
Refinement of derecognition of pension surplus attributable to The Co-operative Bank		**-**	**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	5	**-**	**(36)**	**1**	**(35)**
Total other comprehensive income		**-**	**173**	**(8)**	**165**
Revaluation reserve recycled to retained earnings		**-**	**7**	**(7)**	**-**
Contributions by and distributions to members:					
Shares issued less shares withdrawn		**-**	**-**	**-**	**-**
Contributions by and distributions to members		**-**	**-**	**-**	**-**
Balance at 5 January 2019		**73**	**2,910**	**86**	**3,069**

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		-	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	5	-	44	1	45
Total other comprehensive income		-	(218)	(6)	(224)
Contributions by and distributions to members:					
Shares issued less shares withdrawn		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 67.

Consolidated statement of cash flows
for the period ended 5 January 2019

	Notes	2018 £m	2017 £m
Net cash from operating activities	7	**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	14	**(29)**	(10)
Proceeds from sale of investments		**-**	55
Dividends received from investments		**-**	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	9	**(2)**	(8)
Repayment of borrowings, net of derivatives	9	**(34)**	(1)
Finance leases	9	**(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	6	**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)	9	**-**	(6)
Cash and cash equivalents (per balance sheet)	9	**282**	403
		282	397

Included in the above are cash flows from discontinued operations. An analysis of these can be found in note 6.

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	9	**(792)**	(775)
Add back fair value / amortised cost adjustment	9	**46**	138
Group Net Debt (pre fair value adjustment)	9	**(746)**	(637)

See note 9 for a full reconciliation of the movement in net debt.

Notes to the financial statements

1 Operating segments

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 6 (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 67 for further details of the restatements.

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 67) 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.

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

2018	**Food**	**Wholesale**	**Funeral and Life Planning**	**Other businesses**	**Costs from supporting functions**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£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	Wholesale	Funeral and Life Planning	Other businesses	Costs from supporting functions	Total
	£m	£m	£m	£m	£m	£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 67 for details of the restatement.

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	4	**(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	1	**38**	15
Finance income	3	**78**	44
Non-cash finance costs	4	**(21)**	(33)
Share of profits of associates and joint ventures		**-**	8
		-	-
Profit before tax		**93**	73

*See general accounting policies section on page 67 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)

2 Supplier income

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 67. 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.

3 Finance income

	2018 £m	2017 £m
Net pension finance income	**41**	42
Fair value movement on quoted Group debt (see note 9)	**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 11 for further details of the accounting policy for funeral plans.

4 Finance costs

	2018	2017 (restated*)
	£m	£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 9)	**-**	(11)
Fair value movement on interest rate swaps (see note 11)	**(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 67 for further details.

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

5 Taxation

	Footnote	2018	2017 (restated*)
		£m	£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)

*See general accounting policies section on page 67 for details of the restatement.

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 67 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 6 (Loss on discontinued operations, net of tax).

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

	2018	2017
	£m	£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). 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 5:

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. 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'). 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.

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 67. 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 6. (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 properties 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.

6 Loss on discontinued operation, net of tax

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	Underlying segment operating (loss) / profit	Operating loss	Additions to non-current assets	Depreciation and amortisation
	£m	£m	£m	£m	£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 below) in accordance with IFRS 5.

	Before remeasurement to fair value less costs to sell	Remeasurement to fair value at cost to sell	Disposal group at fair value less cost to sell
	£m	£m	£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 of 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.

7 Reconciliation of operating profit to net cash flow from 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 inflow 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)

	2018 £m	2017 £m
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 67.

8 Assets and liabilities 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 6)	**1,099**	-	**1,043**	-
(b) Other assets and liabilities held for sale (see below)	**14**	6	**2**	-
Total	**1,113**	6	**1,045**	-

(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 6 (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 £m**	2017 £m	**2018 £m**	2017 £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.

9 Interest-bearing loans and borrowings

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 8).

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

(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 67 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 14).

See the Financial risk management note in the 2018 annual report 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**	**Acquisition of Subsidiary**	**Non-cash movements***	**Cash flow**	**Movement in corporate investor shares**	**End of period**
	£m	**£m**	**£m**	**£m**	**£m**	**£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 67 for details of the impact of the new standard.

For period ended 6 January 2018	Start of period	Acquisition of subsidiary	Non-cash movements	Cash flow	Movement in corporate investor shares	End of period
	£m	£m	£m	£m	£m	£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 overdrafts	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)

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.

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.

10 Pensions

	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

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.

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.

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**	2017
	£m	£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 Co-operative Bank	**202**	(1,866)
Past service items (note 1)	**(11)**	-
Closing defined benefit obligation	**8,412**	8,985

Past service items of £11m are included within one off gains of £9m in note 1.

Changes in the fair value of the plan assets	**2018**	2017
	£m	£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

11 Financial instruments, derivatives and valuation of financial assets and liabilities

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)

All insurance investments have been transferred to held for sale. See note 6 (Loss on discontinued operations, net of tax) for further details. In the prior year 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 4).

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)

All insurance investments have been transferred to held for sale. See note 6 (Loss on discontinued operations, net of tax) for further details. In the prior year the 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.

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. 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	Fair value through other comprehensive income	Other amortised cost	Loans and Receivable s	Total
	£m	£m	£m	£m	£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 67 for details of the restatement.

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, in the prior year insurance related debt securities were only classified in Level 1 if it could be demonstrated on an individual security-by-security basis that they were quoted in an active market, i.e. that the price quotes obtained were representative of actual trades in the market (through obtaining binding quotes or through corroboration to published market prices). As pricing providers could not guarantee that the prices that they provided were based on actual trades in the market then all of the corporate bonds were 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 the income statement				
- 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 6 (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 67 for details of the impact of the new standard. The remaining Eurobonds are held at amortised cost using an effective interest rate (see also note 9 for full details of the Group's loans and borrowings).

The values of Eurobonds carried at amortised cost are disclosed in note 9. 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 below) 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 the Other investments note in the 2018 annual report 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.

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 67 for details of the restatement.

The following table allows comparison of insurance investment 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%

12 Commitments and contingent liabilities

a) Capital expenditure not accrued for, but committed by the Group at the year end was £nil (2017: £nil).

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 £m	**Other £m**	Land and buildings £m	Other £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 the Investments in associates and joint ventures note in the 2018 annual report.

13 Related party transactions and balances

	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 the Investments in associates and joint ventures note in the 2018 annual report.

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. 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, Food and Legal divisions. 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 overleaf.

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.

14 Acquisition of Subsidiaries

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**

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.

General accounting policies

Status of financial information
The financial information, which comprises the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated statement of cash flows and related notes, is derived from the full Group financial statements for the 52 weeks to 5 January 2019 and does not contain all information required to be disclosed in the financial statements prepared in accordance with International Financial Reporting Standards.

The Group Annual Report and Financial Statements 2018, on which the auditors have given an unqualified report and which does not contain a statement under part 7, section 87(4) or (7) of the Co-operative and Community Benefit Societies Act 2014, will be submitted to the Financial Conduct Authority following the 2019 Annual General Meeting, and made available to members by no later than 26 April 2019.

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.

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

Basis of consolidation
The financial statements consolidate Co-operative Group Limited, which is the ultimate parent society, and its subsidiary undertakings. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

A diagram setting out the composition of the Group and its principal subsidiaries, joint arrangements and associates can be found in the annual report. 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/

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.

<u>Key judgements:</u>

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

- *Revenue from contracts with customers: Funeral plans*

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.

- *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 6 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 10)* – 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 10 along with associated sensitivities to those assumptions.

• *Impairment of non-financial assets* - 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 (CGU) 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.

The Group estimates the value in use of an asset by projecting future cash flows into perpetuity and discounting the cash flows (DCF) associated with that asset at a 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 the note.

• *Tax and Deferred tax (note 5)* – 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 note for details of the key estimates and assumptions that are made.

• *Insurance claims and reserves* – 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 for further details of the methodology, key assumptions and sensitivity analysis that is undertaken.

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

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 below.

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 (see note 11 for further details of the accounting policy for funeral plans);
- 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		
	As 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)**

*Restated balances are shown prior to restatement for treatment of Insurance as a discontinued operation. See restatement section below.

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		After impact of IFRS 15*
		Funeral and Life Planning	Food / FRTS	
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	Restated
		Funeral and Life Planning	
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	Re-stated
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**

- 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)**	**138**
Restatements noted above	(34)	(4)	38	-	-
Impact of IFRS 15	-	(20)	-	-	(20)
Operating Profit (restated)	**168**	**42**	**(87)**	**(5)**	**118**

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.*

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:

<table>
<tr><td>Title</td><td>IFRS 16 Leases</td></tr>
<tr><td>Nature of the change</td><td>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 (e.g. personal computers).</td></tr>
<tr><td>Impact</td><td>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:

<u>Property leases:</u> (Estimated impact on the statement of financial position (increase/(decrease)) as at 06 January 2019):

<table>
<tr><td><u>Balance Sheet:</u></td><td><u>£m</u></td></tr>
<tr><td>Assets</td><td></td></tr>
<tr><td>Property, Plant & Equipment (Right-of-Use Assets)</td><td>1,020</td></tr>
<tr><td>Finance Lease Receivables</td><td>74</td></tr>
<tr><td>Trade and Other Receivables</td><td>(18)</td></tr>
<tr><td>Deferred Tax Asset</td><td>33</td></tr>
<tr><td>Liabilities</td><td></td></tr>
<tr><td>Lease liability</td><td>1,451</td></tr>
</table>
</td></tr>
</table>

	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. **<u>Income Statement:</u>** **<u>£m</u>** 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. *<u>Non-property leases:</u>* 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 10). The Directors have also assessed the financial risks facing the Group, its liquidity position and available borrowing facilities. These are principally described in note 9 to the accounts. In addition, note 9 to the accounts and note 29 of the 2018 Annual Report 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, 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.