

CIS General Insurance Limited
6 April 2018

2017 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 www.morningstar.co.uk/uk/NSM:

- Annual Report and Accounts for the year ended 31 December 2017

Co-operative Group Limited ('Co-op'), the parent entity of CIS General Insurance Limited, has today also announced its results for the year ended 6 January 2018. A copy of the Co-op announcement, which includes references to the performance of CIS General Insurance Limited ('Insurance') is provided below.

Media Enquiries:
Catherine Turner: Head of Public Relations, Insurance
catherine.turner@coop.co.uk
07834 090 783

6 April 2018

CO-OP PROFITS RISE SHARPLY ON CONTINUED INVESTMENT IN BRAND, BUSINESS AND PEOPLE

AMBITIOUS NEW PLAN UNVEILED TO CREATE THE CO-OP OF THE FUTURE

Co-op difference highlights 2017: delivering for members and their communities

- Significant Co-op member reward of £74m generated – members receive £61m in personal rewards with £13m earned for over 8,000 community projects
- Active membership increased by 15% to 4.6 million; total joining since member relaunch to 1.2 million
- 200 Member Pioneers recruited in new role designed to strengthen communities around Co-op outlets; on track to recruit Member Pioneers for each of our 1,500 communities by 2020
- Co-op's position as UK's largest corporate supporter of Academy schools strengthened with addition of three new academies and creation of plan for significant expansion, more than tripling number of Co-op Academy schools
- 60% increase in apprenticeships year-on-year, recruited 742 new apprentices who receive quality training and pay rates in line with fellow colleagues; target of 1,000 apprentices agreed for 2018

- A campaigning Co-op: leading the way on Modern Slavery and tackling loneliness and one of first retailers to sign up to bottle deposit and return scheme to reduce plastic waste
- Development of the *Stronger Co-op, Stronger Communities* plan, designed to make the Co-op more competitive, relevant, sustainable and innovative. Early 2018 initiatives see further price investment in Food, ground-breaking product innovation in Funeralcare and Insurance and creation of new Ventures programme

Financial and operational highlights:

- Profits in line with plan, reflecting strategy of continued investment in The Co-op and the return of value to members:
 - Profit before tax of £72m (2016: loss £132m), on strong business performance, with 2016 loss reflecting write down of stake in Co-operative Bank
 - Underlying profit before tax of £65m* (2016: £52m), up 25% on improving business performance and further reductions in the cost base
 - Operating profit of £126m (2016: £148m), including £74m of value created for members and communities
- Revenues stable at £9.5bn (2016: £9.5bn), in line with plan
 - Food like-for-like sales** up 3.4%, Core convenience LFL sales up by 4.3%, with four consecutive years of LFL sales growth now delivered. Reported Food sales flat at £7.1bn, reflecting impact of strategy to close larger stores
 - Wholesale sales to independent societies up 7% to £1.7bn, as wider co-op sector benefits from the quality and value of Co-op product range
 - Funeral and Life Planning revenues up 4% to £343m, supported by growth of Simple Funeral offer; sales in will writing and probate rise 16%. Market share of funeral plan sales increased to 33.2% (2016: 28%)
 - Insurance gross written premiums up 3% at £496m; like-for-like net earned premiums growth of 8% but reported revenue of £331m (2016: £439m) down due to a new reinsurance contract
- Debt significantly reduced to £775m (2016: £885m)

New *Stronger Co-op, Stronger Communities* plan:

New plan in place to create the Co-op of the future: driving growth by creating a more commercial Co-op and sharing the greater value created with members and their communities. Underpinning that plan will be:

- An efficient Co-op, with a clearer focus on serving customers and members
- More closely interconnected business areas operating under the strong Co-op brand
- A greater focus on convenience and relevance, with market-leading products and services at competitive prices
- Ventures in new markets with agile, capital-light, digital-first approach to disrupting markets
- In support of this plan, the Co-op will maintain a distinctive voice in society, championing causes that matter to members, while also taking a stance as an employer of difference in its sectors

Under the *Stronger Co-op, Stronger Communities* plan, the Co-op has already taken a number of initiatives in 2018, including:

- In **Food**, initiatives to lower prices and broaden offer underway, including:
 - £50m investment to reduce prices announced in January 2018, with further pricing reductions planned
 - Further expansion of convenience store estate, with 100 new stores planned for 2018
 - “Pay in the aisles” pilot underway to enhance the shopping experience for customers within stores
 - Acquisition of Nisa Retail, the wholesaler and convenience retailer, for up to £137.5m. Deal remains subject to regulatory approval
 - Agreement to become exclusive wholesale supplier to Costcutter Supermarkets Group (CSG) and the 2,200 Costcutter, Mace, Simply Fresh, Supershop and kwiksave convenience stores across its network from spring 2018. Working with independent retailers to grow their businesses through the provision of Co-op own-brand products to their stores and by offering lower wholesale prices through improved buying power
- In **Funeral & Life Planning**, the Co-op will continue to hold funeral prices and help tackle funeral affordability, whilst investing heavily to provide products and services to meet present and future customer needs:
 - Acquisition of Simplify Probate signals commitment to grow the life planning and legal area, both organically and through acquisition, with a primary focus on wills and probate
 - Focus on improving the funeral planning market for consumers via the launch of “The Co-op Commitment”, making Co-op the only plan provider to launch additional protection for customers paying monthly
- In **Insurance**, plans in place to expand product range, working with partners, with the ambition of covering customers’ more detailed insurance needs within next five years:
 - Ground-breaking new Travel insurance product launched in early 2018, based on member input, providing unlimited medical expenses for people with pre-existing conditions
 - 50% of all contact centre new business now comes from Co-op members
- **Ventures**
 - A new Co-op ventures programme has been created; currently looking at initiatives in Health and Money
 - Ventures to be supported and enabled by existing digital and supply chain capabilities, seeing the Co-op creating a digital member platform, with new services and products that create social and commercial value. These will create further synergies for the existing businesses and member value in new areas

Outlook

- The **Food, Funeral and Life Planning** and **Insurance** markets all remain highly competitive against a challenging consumer and economic backdrop. The Co-op will invest further in all its businesses to drive commercial success and value for members and their communities, whilst maintaining a tight control over costs.
- Debt will remain within guidance levels of £900m

- Our focus is on Stronger Co-op, Stronger Communities. With this significant investment in members and our business areas, the Co-op is not expecting any surplus profits being available for distribution during 2018
- Looking forwards the Co-op will continue to consider how best to provide significant and sustainable value to members and the communities in which they live

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

“Today’s results show how much progress we have made. All our businesses have performed well and we have increased profits and reduced debt, while continuing to invest for colleagues, members and customers. The success we are enjoying shows that the Co-op’s difference really resonates today – a different ownership model and a different approach to business, based on returning profits to our members and their communities.

“We’re delighted with our performance, but we’re hungry for more and ready to create the Co-op of the future. Whether it’s in our existing business areas or through new ventures, we want to make the Co-op ever more competitive, relevant and innovative. That is why we are launching the *Stronger Co-op, Stronger Communities* plan. To really succeed as a Co-op we need to be even more successful commercially and our community efforts need to be concentrated on the things that matter to people. We are going to deliver more Co-op products and services to more people throughout the country and that is what will really allow us to spread our difference.

“We know there are challenges ahead, but we are confident that with the support of our colleagues and our members, the strength of our brand and continued investment in our businesses we will achieve our goals.”

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

“With profits up 25%, debt down and membership up by more than 1.2 million since we launched our new scheme, we are stronger than ever before and ready to create a new, modern Co-op that is fit for the future. As we do that, we will remain true to our social purpose and continue to make the right decisions and campaign on the big issues where business really should have a voice.

“It is vital that our Co-op continues to innovate and be relevant to meet the changing needs of our stakeholders. The plans we have in place to do this are rightly challenging. We have much to do, but we are confident in our ability to deliver our ambition and create an even stronger Co-op.”

Media Enquiries:

The Co-op

Jon Church
Tel: 07545 210812

Russ Brady
Tel: 07880 784442

Tulchan Communications

Susanna Voyle
Jonathan Sibun
Tel: 020 7353 4200

Notes to editors

About the Co-op

The Co-op, one of the world's largest consumer co-operatives with interests across food, funerals, insurance, electrical and legal services, 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 2,500 food stores and over 1,000 funeral homes, with more than 63,000 colleagues and an annual revenue of £9.5bn.

* Underlying Profit before Tax excludes one-off items, property and business disposals, change in value of investment properties, finance income and non-cash finance costs, and share of profits and losses from associates and joint ventures. A reconciliation of Operating Profit to Underlying Profit before Tax is provided in the Consolidated Income Statement.

** Like-for-like sales is a measure of year-on-year sales growth for stores that have been open for more than one year.

Chair's introduction – Allan Leighton

Creating shared value

Our businesses performed well in 2017, and you can find out more about how they did on page 13. But business performance is only one measure of the value we're creating as the UK's biggest consumer-owned co-op. There were many more as you can see below:

- We gave £61m to our members through the 5% member reward.
- We put £13m, earned by our members through the 1% member reward, into the Local Community Fund to support local causes.
- We raised the pay of Food store colleagues by 6.1% keeping us ahead of the government's living wage target.
- We recruited 742 apprentices receiving quality training, permanent contracts and good wages in line with other colleagues.
- We sponsored 11 successful Co-op Academy schools, many in some of the most disadvantaged communities in the country, bringing Co-op values into the classroom to improve children's long-term opportunities.
- We recruited 200 dedicated Member Pioneers to work in their local communities and make great things happen. They'll be working across each of our 1,500 communities by 2020.

- We reached £6.5m in our fundraising to tackle loneliness and, through our partnership with British Red Cross, a network of Community Connectors was created to help young and old return to community life.
- We stepped up our campaigning on modern slavery following a vote by our members.
- We renewed our commitment to Fairtrade, and all the cocoa used in our own brand products is now Fairtrade.
- We gave £1.8m from the sale of bottled water to fund clean water projects in some of the poorest parts of the world.
- We supported British farming with a commitment to spend £2.5bn sourcing own brand British meat, produce and dairy products between 2017 and 2019.
- We held our prices to tackle funeral affordability.
- We extended free children's funerals to include 16 and 17 year olds.

These are just some of the highlights of how we've created shared value for our members and their communities in 2017. You can find out more about our ethics and sustainability performance in our Co-op Way Report which is published alongside this report.

Why are we different to other businesses?

The answer is found in our Values and Principles, the way of working for all co-ops agreed by the international co-operative movement. They provide us with an ethical code that informs all we do. So we run our Co-op, not to make profit for a few shareholders, but to create value in lots of ways for our 4.6 million members who shop with us each week and collectively own the business. We sum it up as 'Championing a better way of doing business for you and your communities'.

That 'better way of doing business' includes giving our members a central role in how we're governed and a say in the major decisions we take. All our directors are members and actively trade with us. They are all subject to election by our members with our four Member Nominated Directors (MNDs) directly chosen through contested elections. Our Board ensures the interests and concerns of members are represented in our boardroom, with the MNDs having a particular member focus. Through our elected Members' Council, our Board is held to account. Our directors and Council have a strong focus in making sure our Values and Principles are upheld.

How do we create shared value?

We create shared value by running commercially successful businesses that meet the needs of our members in an unmistakably Co-op way.

We've been working in our main markets – Food, Insurance and Funerals – for more than 150 years. We've built up enormous expertise and we've always had to learn and adapt to make sure we continue to be modern and relevant. In recent years we've added more products and services like life planning and legal where we've seen an opportunity to enter new markets where we can make a Co-op difference.

As our Chief Executive, Steve Murrells, sets out in his introduction, now we're ready to do more. At a time when big businesses and national government have lost the confidence of many people in the UK, we believe our Co-op is uniquely placed to rebuild trust and restore confidence in the strength of communities and businesses.

We want to grow our businesses so we can return more to our members and their communities and continue to look at new markets which can benefit our members.

Our suppliers

We've also had the disappointing news this year that the Groceries Code Adjudicator is investigating some of our practices related to suppliers. We need to live our values in our dealings with suppliers and we know we've fallen short. We've already been taking action and have a dedicated team making sure we have great supplier relationships. This area has great focus from our Board and we'll make sure you can be proud of our practices in the future. When you're a co-op, with values at your heart, you must get these things right. And we will.

Our Board and Executive

I'd like to congratulate Steve on becoming our Co-op Chief Executive. His five years leading our Food business and his commitment to co-operative values made him a uniquely qualified candidate and an excellent appointment.

Steve has been building his top team since taking the role in February 2017. Pippa Wicks is now Deputy Chief Executive with executive responsibility for our non-Food businesses, Jo Whitfield has succeeded Steve at Co-op Food, Helen Webb has become our new Chief People Officer, and Helen Grantham has become our permanent Group Secretary and takes on the role of General Counsel. Matt Atkinson started to work with us in the autumn and joined us full-time as Chief Membership Officer in January 2018. For the first time, we have an Executive with more women than men although we recognise this is no reason for complacency on gender issues and we still have work to do.

On the Board we welcomed Gareth Thomas as our latest Member Nominated Director (MND) and said farewell to Ruth Spellman who had served as an MND for two years and chose not to seek re-election. We benefited considerably from Ruth's contributions in the boardroom, as well as the good counsel she's given to the leaders in our business and I'd like to thank her for her service. I'd also like to add my thanks to Peter Plumb who is standing down at the 2018 Annual General Meeting to concentrate on his new role as Chief

Executive of Just Eat plc. His commercial insight and challenge have been invaluable to the Board.

Chief Executive's introduction – Steve Murrells

Stronger Co-op, Stronger Communities

We've made great progress over the last few years and now we're ready to take a big leap in our ambitions.

Over the last three years we've fixed and repaired many parts of our organisation. We've returned membership to the heart of our thinking, we've undertaken a huge rebrand and we've restored pride in our Co-op for our colleagues and our members. While there is still work to do, we've reached the point where we can look confidently to the future and plan for growth.

To make our business plans a success we need to be a forward-looking Co-op – modern, competitive, relevant and innovative. We need to invest in the businesses we have now and open up new opportunities where our Co-op can make a real difference. Our Stronger Co-op, Stronger Communities plan includes all of this, and more.

Closing the Co-op circle

Through our Co-op Membership rewards, the thousands of community causes we've been supporting, through our campaigning, our commitment to academy schools and apprenticeships, and the great products and services we sell, we've been creating that rich and diverse Co-op value.

But the idea of shared value still isn't understood. The Co-op difference isn't quite cutting through. We need to do more to close the 'gap' in the Co-op circle.

It's widely recognised that making communities stronger and more resilient is an urgent priority for the UK. Our member-owned business, our heritage, and community presence makes us uniquely placed to play a significant role in that work. Making this happen will be the outcome of our plans and will turn us into the nation's favourite business.

Our strategy for a stronger Co-op

Much of what we're planning is old-fashioned business logic, building on the plans already in place. Now we're better placed than ever before to give those strategies the fuel they need to succeed. And the return on that investment will be the magic of enriched community life up and down the country.

In **Food** we've recently announced a £50m investment to cut prices across hundreds of everyday purchases. We're going to continue to grow our convenience store estate with hundreds of new openings over the next few years. We're going to continue to work through how we will use digital technology to bring our Co-op closer to our customers and members in other ways too. The Costcutter and Nisa deals (subject to regulatory approval) have the potential to expand the reach of our brand even further.

In **Funeral and Life Planning** we're already the market leader, and we're going to show market leadership too. We'll do that through innovation in our offer, outstanding facilities, and a strong focus on choice and affordability. We're holding our prices in a market that's traditionally seen annual price hikes. This business now encompasses our legal operations which are fully integrated, so we can offer a truly comprehensive offer for later and end of life planning. Our funeral plans are already award-winning, highly competitive and distinctly Co-op in their guarantees. Probate will be the major area of focus for growth and we plan to be the biggest player in this market.

In **Insurance** we have bold and exciting plans to meet more of the insurance needs of more of our members by improving our competitiveness and offering a wider range of insurance products. Our new groundbreaking travel insurance product, which is the first in the UK to offer unlimited, cashless medical expenses for all ages, is a great example of our ambitions for our Insurance business and our Co-op difference.

New opportunities

The markets we're in today will remain central to us, but our ambitions are greater. We're looking at markets using digital platforms that will allow us to learn quickly and build on our existing strengths while keeping our investment modest and limiting our risks.

We're exploring possibilities in Healthcare and Money where we believe we can provide more convenient and accessible services. We'll start small then adapt our offer and learn. Our Members' Council has set up an advisory team which will help shape our thinking as we develop our plans.

Membership

Our new Co-op Membership has attracted more than a million new members since its launch and returned £61m to members during 2017. Over the coming years we'll look to evolve our Membership rewards to create an even stronger offer that drives business growth and community resilience. This year we'll look closely at how to make more of our membership data and build the right technology to support our needs.

Colleagues

Our colleagues have been central to everything we've achieved and it's important we give them the reward and recognition they deserve. Over the next few years, we'll further improve the competitiveness of our pay for our customer-facing colleagues and we'll introduce significant well-being initiatives.

Community

We're looking at how we can build on the incredible work we've done so far through our Local Community Fund. We'll continue to invest in and develop our nationwide network of Member Pioneers so they can act as an important bridge between our Co-op, our members and the communities they live in.

We want to find ways to connect local people and organisations with each other so they can co-operate. Bringing people together to share ideas, skills and resources and really make a difference.

We'll continue to act on things that matter to our members. And we also want to start using our campaigning strength to focus on the issues that really matter locally. In future, we'll be shouting even louder about our campaigns and we'll have an ever more powerful and influential voice.

One Co-op

To achieve all our ambitions we need to make some changes. We've been holding ourselves back through the way we organise ourselves internally and how we work together. From now on we'll be 'One Co-op' in how we think, how we act and how we talk to our customers and members. We'll end duplication within our organisation and make decision-making easier and quicker. By doing this we'll become a Co-op able to respond to fast changing markets and social trends.

To support the huge investment and our growth plans we'll look closely at the cost base in every part of our business. This will form part of the investment we need, while keeping our bank borrowing at sensible levels.

We'll look at three ways of doing this: through organisational changes, better deals on the things we buy to help us run our organisation, and through the creation of the new Co-op Service Centre to look after our back office functions including finance, IT, HR and our customer and member helpdesks.

Ambitious for the future

Stronger Co-op, Stronger Communities is a return to an old Co-op idea with some very up to date Co-op thinking. Our plans address modern needs in a co-operative way that no other business can attempt to match.

The years ahead will be exciting and not without challenges. What's important is that we've been able to create these plans with the confidence that they're achievable as well as necessary.

Report from the President of the Members' Council – Nick Crofts

I'm delighted to present my report as President of the Members' Council.

First I must offer my heartfelt thanks to all of the members of the Council for their hard work, their passion, knowledge and commitment to our Society and our Movement. Serving our Society as an elected member is a great honour. In July I was especially privileged to be re-elected by Council to a second term as President.

Business success

Our Co-op had a good 2017. The successful trading of our family of businesses is the key which unlocks our ability to maximise our impact and influence as a leading co-operative society.

We opened over 100 new Food stores to better showcase our increasingly special own brand products. We enjoyed our fourth year of market-beating like-for-like sales growth in our convenience stores. The importance of strong commercial performance cannot be overstated. Our members know the necessity of operating successful co-operative businesses to our continued sustainability – and, indeed, our continued existence.

This success has been delivered by our 64,000 colleagues that work in every corner of the country. It is their work, in every store and funeral home, in every office and distribution centre, that has been steadily putting our Co-op back on track since 2013. The Members' Council and our millions of individual members are tremendously proud of them, and very grateful for their efforts. Thank you to every single one.

Collaboration

2017 saw the departure of our previous Chief Executive, Richard Pennycook. I took the opportunity at last year's Annual General Meeting (AGM) to thank Richard for his leadership following our 2013 crisis. I must now thank Allan Leighton, the Chair of the Board, who invited me to represent Council and serve as a member of the selection panel tasked to choose Richard's successor.

There are few things I can point to that better demonstrate the transformed relationship between Board and Council and the growing spirit of collaboration between elected members and the Board. I'm pleased to serve as a member of the Nominations Committee and delighted that Steve Murrells was its unanimous choice.

Steve's transition into his new role has been entirely seamless. His years spent transforming our Food business were the perfect preparation for the task of completing our rebuild as we begin to look at new opportunities in the future. Our plans to purchase Nisa and extend the reach of our brand through our proposed deal with Costcutter are an indication of our ambition, and demonstrates finally that our Co-op is now firmly back on its feet after its near-death experience in 2013.

Advisory teams

A significant step in 2017 was the commitment to involve elected members of the Council in exploring ideas and opportunities to feed into our future strategy. In February, Council held a one-day workshop identifying five key areas for further exploration. New 'advisory teams' have been set up to continue this work in 2018.

Strengthening the co-operative movement

Elected members in our Society have always known that our Co-op is part of something much larger and more important than it – a movement that began in the 19th century and now spans the world. Council was particularly pleased when, to celebrate the 150th anniversary of Co-op Insurance, Steve Murrells committed to regain our Society's leadership role in the national and international movement.

This is welcomed, as Council is the guardian of our co-operative Values and Principles and our co-operative business model which sets us apart from our competitors. We must continue to use our Co-op difference to distinguish our Co-op in all areas – our products and services, our role in local communities and our social and ethical responsibility. We know the difference co-operation – and co-operatives – can make to a better, more equal and more just society.

Campaigns and community

This manifests in our Co-op's campaigning work. I was very pleased that our campaign to tackle the scourge of modern slavery won overwhelming support from members at last year's AGM. Campaigning on social issues that matter to our members has always been central to the purpose of our Co-op, all the way back to the Society's pioneering beginnings. Be it modern slavery, Fairtrade, tackling loneliness or ending water poverty, there's so much that we do to make our members proud.

Our Co-op difference needs to thrive locally. I was particularly delighted by the Board's commitment to recruit Member Pioneers across each of our 1,500 communities. Developed by Council, the role of Member Pioneers is to forge links in the community, bringing

members together with local good causes and develop opportunities to get involved in our Co-op. It's a fine example of Council and Executive working together.

It's in the nature of co-operation that the work is never finished, and that is true of our Co-op. As the transformation of our businesses continues, there is work to do to revitalise and rebuild member engagement in our democracy. It's testament to the dramatically improved relationships with the Board and Executive that the Council is able to press for faster progress in areas that are important to our members.

We recognise that our ability to communicate the work of our elected members, including our Member Nominated Directors, remains incomplete and this is a high priority for the Council. Similarly, finding innovative and compelling ways for our members to be able to participate in the affairs of the Society which they own is critical. There have been some tremendous successes here – the member-designed Pioneer Pinot Grigio wine being my personal favourite – and Council continues to work with the business to develop more.

I thank Vice Presidents Dan Crowe and Bev Perkins for their support throughout 2017 and Council members for their terrific work and scrutiny in the Senate, committees and working groups of all types.

So we can look forward to further and faster progress in 2018. In no small part, this is due to the terrific work of Council Secretary Gill Gardner and her colleagues from the Council Secretariat. They comprise a very small team of outstanding and committed co-operators who do so much to deliver on the Council's agenda. All of our members owe them a debt of gratitude.

Our business performance – Food

Shared value

Co-op Food is our biggest business and the most significant way we reach our members and customers. With our 2,532 Co-op Food shops we have a high street presence across the country providing the communities we serve with high quality products responsibly sourced from our suppliers and partners in the UK and around the world.

- We've chosen to spend £2.5bn on British farm produce (2017-19) – all our fresh meat is now British and we've extending our British seasons commitment on fruit and veg
- We're extending our local sourcing to every county in the UK
- We've recruited over 200 apprentices in 2017

The numbers

The investment we've made over the last three years to create award-winning food sold in modern, friendly stores has shown its value through the 16 consecutive quarters of like-for-like sales growth we've seen in our core convenience estate.

Like-for-like store sales remained strong at 3.4% up, ahead of the market by 1.1%. Convenience store like-for-like sales were up 4.3%.

Our sales for the year were £7,054m (2016: £7,064m). This is slightly lower compared to last year because we sold 298 smaller food stores to McColl's Retail Group plc and a number of petrol filling stations, offset by our strong like-for-like performance. The deal with McColl's has helped us to focus our investment in new stores in more appropriate locations for the wider range we want to offer our members and customers, opening 105 new stores in 2017.

Underlying operating profit (which excludes any one-off items, property and business disposals and the change in value of investment properties) was in line with last year at £182m (2016: £182m), a strong performance given that this includes paying our Membership rewards. Operating profit, which includes property and business disposals and the change in value of investment properties totalling £20m (2016: £21m), was £202m (2016: £203m).

The momentum we built throughout 2017 led to a strong Christmas which outperformed the market. We saw a 6.2% jump in like-for-like sales over the two weeks to 1 January, almost double the 3.5% sales growth we reported last year. Overall, our Christmas and New Year sales were up 9%, proof that the public see our Co-op as far more than just an 'emergency' or top-up shop.

The quality of our food was acknowledged through more than 140 major awards including a Gold award for our Les Pionniers NV Brut Co-op champagne beating more well-known global brands costing up to 23 times as much. For the third year in succession we were recognised as the Sandwich Convenience Retailer of the Year at the British Sandwich Industry Awards (known as 'the Sammies').

What's new?

British

In May we announced our decision to spend £2.5bn on British-grown farm produce between 2017 and 2019. Just as we believe it's right to champion Fairtrade with our suppliers on the other side of the world, we also want to support our own farmers and their communities here in the UK. We've done this by moving to 100% British fresh meat in all our own label range.

Our investment in British goes well beyond meat. We've extended our British seasons commitment for home-grown fruit and vegetables and increased the British flower varieties we sell. We're also setting up British fish farming groups. In dairy we've put in place British sourcing credentials across our core dairy products and we make sure there's a fair farm gate price for our Co-op Dairy Group supplying our liquid milk.

Fairtrade

At our Annual General Meeting (AGM) in May our members backed our continuing commitment to Fairtrade and we're now using Fairtrade cocoa in all our own brand products. Sales of Fairtrade increased by 15.1% during the year – double the market increase. In 2018

we're switching to Fairtrade tea, banana and coffee as ingredients in our own brand products.

Local products

Our members have been keen to encourage our innovation with local products. From a successful trial in Yorkshire in late 2015, our programme is now being rolled out to every county in the UK with new relationships formed with local butchers, bakers, brewers and ice-cream makers. Unlike some of our competitors, we don't demand exclusivity as we want to see local businesses grow and thrive in our communities, create jobs and benefit the local economy. During 2017 we sold £164m of locally sourced products across the UK.

Recycling

At our AGM in May our members voted to make all our food packaging 100% recyclable in the long term, and we're aiming for 80% by 2020. We're on track and making good progress to meet this target. So far we've moved from 46% 'easy to recycle' to 71%. We've got there through making our meat and fish trays from only one plastic, changing the black plastic trays on our Irresistible tomatoes to card and making all our pizza bases cardboard, all of which are easy to recycle in the majority of local council areas. We're also supporting the government's plans for a deposit and return scheme for plastic bottles to reduce plastic waste.

We're now focusing on alternatives to hard-to-recycle plastics, including plastic film, CPET (a type of plastic used mainly for ready meals) and deeper coloured plastic, as well as being the first to trial fully compostable tea bags for our iconic 99 tea brand, which will break down completely in food waste collections.

Colleagues

Developing our colleagues and offering them clear career paths remain top priorities. We've launched the next phase of My Co-op Career giving colleagues in our stores, from Customer Team Member to Store Manager, access to new learning experiences to help them progress their career. My Co-op Career will be rolled out to Logistics this year. 27 Food colleagues were celebrated at the graduation ceremony for our Shining Stars development programme at the end of July. Our first ever Co-op-wide group of 28 Shining Stars started their leadership development journey in September.

Looking ahead

Our aim is to get closer to our members and customers:

- Closer to where they are – physically and digitally
- Closer to what they need – good food, friendly people and easy shops
- Closer to what they care about – ethics, values and community

In 2018 we'll open a further 100 new stores as part of £160m investment in new openings and refits, creating an estimated 1,600 jobs.

In January 2018 we announced a £50m price investment to cut the cost of everyday food. Some products have been lowered in price by more than 40% and, on average, more than 600 products now cost 14% less. Based on an average weekly food shop we estimate that our customers could save £120 a year on their food bills.

Wholesale

Critical to taking our brand to more people are our wholesale arrangements with Nisa and Costcutter announced last November. Members of Nisa Retail voted in favour of our offer to buy 100% of the business for up to £137.5m. The deal is subject to regulatory approval due in the spring of 2018.

We also announced an agreement to become the exclusive wholesale supplier to Costcutter Supermarkets Group and the 2,200 Costcutter, Mace, Simply Fresh, Supershop and Kwiksave convenience stores across its network from spring 2018.

This builds on our long standing wholesale experience and the recognition of the quality of our products. Our plans will help expand the reach of our products and increase our buying power with our suppliers.

Products, availability and suppliers

We're continuing to make our products relevant and reflecting the demand for more 'Free From', 'Vegan' and 'Health' ranges. Improved availability and great customer service remain priorities.

All of this will be supported by ongoing investment to improve our use of data, our product availability, logistics to stores, and the training we give our colleagues.

Following the end of the year, the Groceries Code Adjudicator (GCA) opened an investigation into some of our practices connected to suppliers relating to delisting and the introduction of benchmarking and depot quality control charges. We acknowledge that at times we've fallen short and have been discussing the two issues raised with the GCA for some months.

Co-op Food is part of the biggest product placement venture that Coronation Street has ever taken on. A Weatherfield Co-op Food store is part of a new area of the Coronation Street set and will appear in episodes from spring 2018. You'll see our store, our bags, and non-speaking artists walking around in Co-op uniform going about their daily business.

Our business performance – Funeral and Life Planning

Shared value

In 2017 we brought together our Funeralcare and Legal Services businesses to create a joined-up set of services and products to our members and customers.

We're now able to offer both an 'at need' (funerals arranged at the time someone dies) and 'pre need' (funerals planned and paid for in advance) funeral service along with power of attorney, will writing and probate services which means families can be supported with greater care and consideration through some of the most difficult of times.

- We're leading the way on funeral affordability and it's our top priority, holding our prices for at need and pre need
- We're bringing more choice and transparency in all we do
- We're offering free funerals for children up to the age of 17

The numbers

Our Funeral and Life Planning business had sales totalling £343m which was £14m up on 2016. We provided 99,925 at need funerals, up 2.4% on last year, and a growing number of our clients are choosing Simple funerals (our lowest price funeral). Our at need market share was 16.2% while pre need share was 33.2% at the year end (5.2% up on 2016).

Operating profit, which includes property and business disposals, was £66m, down £35m on the previous year mostly due to the sale of our crematoria. Underlying operating profit was £66m (2016: £71m), slightly down on last year due to Membership rewards and the impact of the crematoria sale.

We sold 68,969 funeral plans, an increase of 9,950 on 2016. At the start of 2018 we were awarded the 'Best Funeral Plan Provider' at the MoneyNet Personal Finance Awards. We've also received top marks from Fairer Finance – 5 stars for our silver and gold funeral plans.

The number of legal cases we handled was 16,342, up 321 on 2016.

We opened 63 new homes during the year, bringing the total estate to 1,079 funeral homes and a further 100 had rebrands or refits during the year. Our programme to brand our private name funeral homes as 'Co-op' should be completed by the end of 2018.

What's new?

In 2016 we became the first funeral provider to sign up to Fair Funeral's enhanced pledge to tackle funeral affordability. In 2017 we made good on that pledge keeping the price for our Simple funeral unchanged, and launching our most affordable fully guaranteed funeral plan.

Co-op Commitment

If you choose to pay in instalments over 2-25 years, your plan will include the new Co-op Commitment:

- If you die after the first 12 months of your plan, but before all your instalments have been paid, we'll still deliver all the services provided in your plan, with no more for your family to pay.
- Other funeral plan providers ask for the family to make up the shortfall if the plan hasn't been paid for in full.

Children's funerals

For the last 30 years we've helped approximately 25,000 families who've lost a child under the age of 16 by not charging for our funeral director services. We're not the only funeral providers to do this but in 2017 we decided to go a step further and we no longer charge for funerals for children aged 16 and 17. It was a decision welcomed by the government and others have now followed our lead.

Going digital

We've been investing significantly in new digital technology working with our Co-op Digital team. It's helping us to improve how we record and store information given to us by clients when arranging a funeral. The new platform, called Guardian, moves away from paper and makes the information easier for colleagues to access at each stage of the client journey from our first meeting with a family through to their wishes for the funeral and all the arrangements on the day. We tested it first with families and our colleagues in Edinburgh and Bolton, and by the end of 2017 the new platform was being used in four regions. It's already reducing administration and allowing more time for conversations with families. We'll be using Guardian across the whole business in 2018.

In October we set up a new online hub for colleagues running bereavement clubs around the country so that knowledge and experience could be shared more widely and more clubs could be set up.

Following the success of our online will writing service we've also put our Lasting Powers of Attorney process online.

Colleagues

We made the news in July when we took on our 2,000th apprentice since 2013. By the end of 2017 we had 500 apprentices working in the business and we remain the only national funeral provider to offer apprenticeships. Around a third of our apprentices are over the age of 50. In November 2017 we were awarded the Princess Royal Training Award for our apprenticeship programme.

Looking ahead

Our Funeral business is the market leader, and we want to lead the market. We're keeping a strong focus on making our services affordable and there'll be no increase in at need funeral prices in 2018. For our Co-op members we're changing the 5% Membership reward to exclusive member prices at the time of arranging a funeral or buying a funeral plan. We're investing in outstanding facilities like our new mortuary in Edinburgh and improving our funeral homes and car fleet. Our new digital systems will set a global benchmark in funeral administration and allow colleagues to spend more time caring for families.

Choice, affordability, regulation

We'll continue to offer customers and members more choice and affordability through new approaches like 'Direct to Crematorium' (funerals with no service) and we'll help families to celebrate the lives of loved ones in a way they feel appropriate and meaningful.

To encourage long term planning and to know better the funeral wishes of individuals we'll tackle the reluctance to speak about death within families and society as a whole.

We believe in the value of better national regulation of the funeral industry and will work with government to achieve this to make sure there are minimum standards of care. We're also strong supporters of a better regulatory model for pre-need plans to make sure the market works effectively and in the interests of consumers.

Training and business development

We'll invest in new skills and accreditation for our colleagues with more professional qualifications. We want our colleagues to be able to spend more time supporting bereaved families. So we'll complete the organisational changes we started in 2017, and continue the roll-out of the digital Guardian platform which is revolutionising the way we do business.

We'll grow the Life Planning & Legal part of the business organically and through acquisitions. We'll focus on probate and wills and form new partnerships to bring our products to the market. We'll broaden our marketing to the over 50s and provide access to them 24/7 through online, phone and face to face channels across the UK.

Across Life Planning & Legal we'll be growing our own in-house experts – providing a career framework for our colleagues, investing in training our own legal advisors and using online learning.

The rainbow hearse – one of only a handful in the country – is the latest addition to our growing fleet of specialist hearses, including a Land Rover, a 1933 Austin and a Buddhist-themed hearse.

The colourful hearse was a request from a member of the community in Brighton, but is now in demand across the country, as people want to personalise funerals for LGBT+ friends and relatives.

Our research shows that almost half (47%) of UK adults would like their own funeral to be conducted as a celebration and almost a quarter (23%) of Britons say they want to make their last journey in a personalised vehicle.

Our business performance – Insurance

Shared value

Our Insurance business puts the needs of our members first through our customer experience, member pricing and safer communities. In 2017 we celebrated our 150th anniversary and continued to innovate to support our members:

- Our new groundbreaking “cashless” Travel insurance product provides cover that meets the needs of more of our members and has been designed with them
- We're offsetting carbon emissions on our new direct Car and Home policies, as well as on our policies sold through price comparison sites

The numbers

Our Insurance revenue was £331m (2016: £439m). From January 2017 we had a new reinsurance contract in place. This supports our capital position but reduces the amount of revenue we recognise, so we expected our revenue to fall. On a like-for-like basis, excluding the impact of this reinsurance, our revenue grew by 8% compared to 2016 reflecting the investment we're making in our pricing capabilities.

Underlying operating profit in 2017 was in line with last year at £11m (2016: £11m). Our operating loss, which includes the one-off costs associated with our transformation plans, was £12m (2016: £18m loss).

At the half year we reported that our contract with IBM to upgrade our IT systems had been terminated and we were exploring alternative technology options. Since the termination of the contract we have made significant progress by investing in more specific IT improvements. In 2017 we started to see the benefits of this through innovations in pricing, an increased focus on customer service, and new product development.

While the insurance market as a whole in the UK remains fiercely competitive, our strategy remains to focus on meeting more of the insurance needs of more Co-op members and offering a wider choice of fairly priced insurance products.

What's new?

In September we tested the UK's first ever car insurance quote chatbot. The Co-op Insurance chatbot gives users an estimate of how much they could expect to pay for their

car insurance in as little as 30 seconds. They answer four questions on Facebook Messenger to get an estimate of the cost before completing the full quote on our Insurance website.

Safer communities

We've spent several years helping to make communities safer. We're working with Neighbourhood Watch to understand how we can help vulnerable homeowners who feel anxious at the thought of unexpected callers to their front door. We're also trialling the use of smart-device connected doorbells for customers who've already been a victim of a burglary. The technology allows homeowners to see and speak to anyone at the front door from anywhere, using their smart phone, tablet or PC. We're finding ways to help cut the number of burglaries and make customers and members feel safer.

Safer streets and cars

We're continuing to encourage safer driving, partnering with the charity Brake to work in schools to educate on speed awareness. Having pioneered telematics technology to encourage safer driving habits and lower insurance premiums for young drivers, we've been looking at more ways we can help our younger customers. We've followed up our research into best used cars with a new award for best 'first' used cars. In June we announced that the 2012 Skoda Citigo as our number one car for Co-op Safe Used First Car Award 2017.

In July we launched Park Smart, a new digital interactive map which aims to help people make informed choices about parking their car. The tool shows the number of vehicle related crimes in the last six months using government crime data. Users can enter their postcode across England and Wales and the Park Smart tool will highlight the risk level in each area based on vehicle theft, theft from a vehicle, and vandalism.

Cutting carbon emissions

In 2017 we became the first major UK insurer to offset as standard a proportion of customers' carbon emissions when they buy a new motor or home policy direct from us. We do this by supporting carbon offsetting projects which help to reduce carbon emissions, a cause of climate change.

The projects we support also have additional social and environmental benefits such as Gyapa cookstoves, which are cleaner and more efficient. We're helping to fund Gyapa stoves for 140,000 people in Ghana. The project, which has been accredited as Gold Standard, not only helps reduce carbon emissions but is also equipping people in Ghana with the skills and knowledge to manufacture, market and sell the stoves, as well as saving money on fuel for families.

Colleagues

Co-op Insurance created 25 new apprenticeships in 2017, including seven students from the Co-op Academies Trust, helping to bring in new talent and grow the next generation of insurance leaders.

Looking ahead

To create a stronger Co-op and stronger communities through our Insurance business we're planning to increase the range and cover of the products and services we offer for members.

Our new groundbreaking travel insurance product, launched in January 2018, is an example of how we plan to do this:

- We've built the product after talking to our members to help understand what frustrates them about other products on the market.
- We're the first UK general insurer to offer unlimited, cashless medical expenses for people of all ages. That means there's no need to pay upfront for medical help when away and then claim it back when you get home.
- Our insurance also gives access to face-to-face video consultation with a UK doctor before and during trips.

Our aim is to create more new products and services in this way – talking to our members, understanding their needs, and working with other experts while still maintaining our Co-op difference.

Megan Frater (16) is one of our first Co-op Insurance apprentices and a former Co-op Academy pupil. She's now studying towards a qualification in customer service:

"I've learned loads since I joined the Co-op Insurance team and although my first time talking to customers was daunting, I've since grown in confidence and now have the skills to answer most insurance queries."

All of the successful candidates have the opportunity to earn qualifications up to degree level and will benefit from a competitive salary, well above the national average for apprenticeships.

Our finances

The profit before tax for the year was £72m, compared to the loss before tax in 2016 of £132m. The loss in 2016 was affected by the reduction in value of our investment in the Co-operative Bank ('the Bank') to £Nil, which led to a cost in our income statement of £185m.

As with any organisation in change, there are always non-trading items that affect the numbers. This means our operating profit is down by £22m to £126m (2016: £148m) but our underlying operating profit is up by 10%. The table below shows how the operating profit is adjusted to get to the underlying operating profit (adding back losses and subtracting gains) and further details of the non-trading items are given in the Profits section.

	2017	2016
	£m	£m
Operating profit	126	148
One-off items	23	21
Property and business disposals	4	(27)
Change in value of investment properties	(15)	(16)
Underlying operating profit	138	126

2017 is the first full year of our new Co-op Membership and members have earned £61m through the 5% reward (2016: £16m). £13m was also earned for local community causes through the 1% reward during the year (2016: £3m). The cost of the 5% and 1% rewards is included in arriving at our underlying profit.

Sales

Sales of £9.5bn were in line with last year. More information on the performance of each of our businesses can be found on page 13.

Profits

Our key profit measure is underlying profit before tax, which looks at our core trading performance less underlying interest (interest on borrowings). Underlying profit before tax of £65m was 25% up on last year, mainly as a result of cost savings in our support areas. Profits across our businesses were in line with last year, with our Membership rewards being funded from improvements in our underlying performance.

Costs from supporting functions of £118m were, as expected, £16m lower than last year, which was a peak year for investment in our activities to rebuild our Co-op.

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

	2017	2016
	£m	£m
Profit / (loss) before tax	72	(132)
One-off items	23	21
Property and business disposals	4	(27)
Change in value of investment properties	(15)	(16)
Finance income and non-cash finance costs	(11)	35

Share of (profits) and losses from associates and joint ventures	(8)	171
Underlying profit before tax	<u>65</u>	<u>52</u>

The main elements are explained below.

One-off items

Where we have significant costs that aren't expected to happen every year, like major restructuring, we strip these out of normal trading profit to present a clearer picture of our ongoing trading performance. One-off items of £23m relate to restructuring costs in our Insurance business. The one-off items last year also related to restructuring costs, both for our Insurance business and our support functions.

Disposals

We made a loss on disposals of £4m, compared to a profit of £27m in 2016. The table below shows how this is made up of the profits and losses from different disposals during the year.

	2017	2016
	£m	£m
Crematoria	-	30
NOMA joint venture	12	-
Bank investment	5	-
Food store sales to McColl's	7	-
Other property and business disposals	<u>(28)</u>	<u>(3)</u>
(Loss) / profit on disposals	<u>(4)</u>	<u>27</u>

More information about the Bank and NOMA disposals is provided in the Investments in associates and joint ventures section.

Finance income and non-cash finance costs

The table below shows what we include in finance income and non-cash finance costs.

	2017	2016
	£m	£m
Pension finance income	42	45
Fair value movement on quoted debt	(11)	(74)
Fair value movement on interest rate swaps	(12)	8
Discount unwinds	(8)	(14)
Finance income and non-cash finance costs	<u>11</u>	<u>(35)</u>

The fair value movement on our quoted debt is also known as 'mark to market'. As the market value of our bond debt liability increases in the accounts, it creates a charge to the income statement. We also have to include the movement in the fair value of interest rate swaps we hold to protect us from changes in interest rates. Both of these items can be either income or costs depending on what happens in the finance markets.

We have to reduce (known as 'discounting') the value of some of our financial assets and liabilities to reflect that when we receive or pay the money in future its value will have reduced, mainly due to inflation. As we get nearer to receiving or paying the money, the difference between the current and future values gets smaller and we call the difference a 'discount unwind'.

Investments in associates and joint ventures

At the end of 2016 we had several joint venture and associate arrangements, most notably a 20% stake in the Bank and a 30% stake in a travel joint venture with Thomas Cook.

During 2017, the Bank went through an exercise to secure additional capital and as a result we saw our shareholding reduce from 20% to 1% in early September. We later sold our remaining shareholding for £5m.

We reported last year that we'd served notice to exit the travel joint venture arrangement and we received £50m (plus interest) from Thomas Cook in December 2017 in return for our shares in the joint venture. We also received £32m during the year under a minimum dividend guarantee.

Just before the end of the year, we sold our investment in Manchester's NOMA development to our joint venture partner. We started our NOMA joint venture by originally contributing a number of our properties with a book value of £58m. Over the life of the partnership we contributed a further £19m of cash, and we've received £123m cash in return.

We also completed the sale of two of our windfarm investments.

The table below shows our income and losses during 2017 and 2016 from associates and joint ventures.

	2017	2016
	£m	£m
Reduction in value of our investment in the Bank	-	(185)
Share of profits or losses made during the year:		
• Travel	-	12
• NOMA	8	1
• Other investments	-	1
Income / (losses) from associates and joint ventures	8	(171)

Financing and cashflow

Net debt was £775m at year end, down from £885m last year (details of what is included in net debt are provided in note 10).

We've continued to invest in our trading estate and in our systems but have also received significantly higher proceeds from our disposals than we did in 2016 – £241m compared to £65m in the previous year, driven by the disposals in our Food business as explained on page 23. We invested £441m on capital expenditure, including £95m on new Food stores, £135m on refitting existing Food stores and £51m on our Funeral and Life Planning business.

Underlying interest payable fell to £73m from £74m.

Our regulated Insurance business is separately funded from the Trading Group, which includes our other businesses, so we review our funding position separately and on an overall group basis. The Insurance business operates under the Solvency II regulatory reporting regime which sets out capital requirements for the business. Our Insurance business meets and, based on current plans will continue to meet, all these regulatory capital requirements.

The Trading Group is comfortably within the ratios of debt and interest agreed with our banks and our funding position is strong. Our £21m debenture stock is due to be repaid during 2018 and we're also due to pay back our £450m Eurobond notes in 2020. We're confident we'll be able to fully replace these facilities and have already started work on this.

Tax

We won't be paying corporation tax in respect of the year because we have brought forward capital allowances and tax losses in excess of the taxable profit. These allowances and losses are explained in more detail in note 5. In 2017 we paid £201m (2016: £199m) 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 2017 showing that we put our purpose, 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

Our accounts show a surplus of £1,553m (2016: £1,727m) across all our schemes. Our largest scheme, the Pace Complete scheme, has a healthy surplus of £1,603m (2016: £1,822m) with most of the other schemes in a deficit position and so partially offsetting this.

These figures are on an accounting basis. Pension schemes look at funding on a statutory basis which values pension liabilities on a more prudent basis than the accounting basis. On a statutory basis, Pace Complete has a smaller surplus which was assessed as part of the funding valuation at 5 April 2016. It's this statutory funding basis which informs how much cash we'll need to pay into the pension pot in future. We agreed with the Pace trustee that contributions to Pace Complete would stop with effect from 1 December 2017 to reflect this surplus as it moves towards being self-funded. Discussions are currently taking place about the funding of two of our other schemes that had valuations during 2017.

As part of the arrangements which led to the sale of our investment in the Bank, we agreed principles to split the total pension liabilities of Pace and to remove the Bank's obligation to support our share of the Pace Complete pension scheme liabilities. This agreement means that in our accounts we've reduced the amount of pension surplus we show by around 21% (£374m) and our pension liabilities by £1.9bn. This is explained further in note 8.

Balance sheet

Total equity fell by £153m to £3,088m during the year. This was mainly due to the reduction in the amount of pension surplus recognised as a result of our agreement reached with the Bank as explained above, offset by our retained profit for the year.

Our investments in joint ventures and associates have reduced from £52m to £3m due to the sale of our investments in NOMA and two of our windfarms. The balance relates to one windfarm investment.

Our funeral plan investments have grown over the year to £1,076m (2016: £872m), reflecting our increased sales of funeral plans. An independent actuarial valuation is carried out each year and we're comfortable that we have enough assets to meet the costs of carrying out the funerals in future.

Outlook

In 2017 we continued the great progress we've made over the last few years. As we move into 2018, we'll continue to invest in our businesses so that we can grow our Co-op, while we explore potential new markets where we believe we can deliver a better solution for the benefit of our members. 2017 was the first full year of our new Membership, and we want to continue to develop this to drive business growth as well as strengthening communities.

Principal risks and uncertainties

The key risks most relevant to the Group are as follows:

Risk description	Reasons for risk	Where we are and what we're doing
Change		
<p>Transformational change is not done effectively</p> <p>Potential consequences Failing to realise the planned benefits in full</p>	<ul style="list-style-type: none"> Number and complexity of change programmes Available resources for programmes Dependencies between programmes 	<p>Where we are</p> <ul style="list-style-type: none"> Our plans are ambitious and as a result of there being a number of complex programmes this risk profile remains high. <p>What we're doing</p> <ul style="list-style-type: none"> Set up a Transformation Steering Group with Executive oversight and sponsorship Regular review of all our programmes and rationalisation by the Portfolio Co-ordination Board Governance at an individual programme level and across all our programmes Training colleagues in our approach to managing change
Misuse and/or loss of data		
<p>Personal data is inappropriately accessed, shared and/or not managed in line with our expectations</p> <p>Potential consequences Customer and member confidence is affected, financial loss, regulatory fines, and reputational damage</p>	<ul style="list-style-type: none"> Member, colleague and customer confidence Data privacy and GDPR regulations Information processed on our behalf by third parties 	<p>Where we are</p> <ul style="list-style-type: none"> Our GDPR programme is in place to help make sure our Co-op is ready for changes to data protection law that come into force in May 2018. <p>What we're doing</p> <ul style="list-style-type: none"> Revised data protection operating model Expanded data protection team led by our Data Protection Officer Revised policies and standards

		<ul style="list-style-type: none"> • Inventory of all personal information, its uses and how long it's held • Information retention framework • Use of IT to support GDPR compliance • GDPR training and awareness • Managing third party contracts and processes • Payment Card Industry (PCI) framework
Market and economic conditions		
<p>Changing market and economic conditions may threaten our objectives and business model</p> <p>Potential consequences Changes to our consumers' spending patterns and choices, availability of labour, increased cost of funding and disruptions to parts of our supply chain</p>	<ul style="list-style-type: none"> • Consumer behaviour • Pressure on margins • Structural impact of Brexit • Economic downturn • Competitors • Political landscape • Currency fluctuation 	<p>Where we are</p> <ul style="list-style-type: none"> • Continuing uncertainty around Brexit and its potential impact on the economy and consumer spending means that this risk remains high. <p>What we're doing</p> <ul style="list-style-type: none"> • Scenario analysis and planning • Monitoring of leading economic indicators • Establishing early warning triggers • Brand strategy • Market research and analysis • Strategic ventures to strengthen our brand • Currency hedging
Revenue targets		
<p>We don't meet our sales growth targets</p> <p>Potential consequences Not achieving our planned sales growth would affect the sustainability of our business model and mean we can't invest in communities</p>	<ul style="list-style-type: none"> • Consumer confidence • Changes in spending patterns • Price competition in all of our markets • Customer experience 	<p>Where we are</p> <ul style="list-style-type: none"> • We're a market leading funerals business, have great food store locations, great products, a good reputation and loyal customers. <p>What we're doing</p> <ul style="list-style-type: none"> • Continuous review of our products and services • Expanded wholesale offering through our proposed acquisition of Nisa • Management of our locations and online services
Fuel for growth		
<p>We don't achieve our 'fuel for growth' targets making our organisation more costly</p> <p>Potential consequences If we don't find ways to save money and become more efficient our</p>	<ul style="list-style-type: none"> • Market cost pressures • Inefficiencies in our operations • Complexity 	<p>Where we are</p> <ul style="list-style-type: none"> • We have many projects looking at cutting costs and making us more efficient that are managed through the programme governance explained above. <p>What we're doing</p> <ul style="list-style-type: none"> • Programme governance structure with Executive oversight and sponsorship

profitability will be lower than planned

- Continuous review of individual savings and progress to savings targets
-

Brand and ethical framework

Failure to create a brand and ethical framework that strengthens our Co-op Way

- Our Co-op values
- Members' expectations
- A Co-op that makes our colleagues proud

Where we are

- Our business model is Stronger Co-op, Stronger Communities
- Ethical framework in place
- Award-winning sustainability report
- Leading global campaigns like modern slavery

Potential consequences

We don't successfully balance profit and ethics

What we're doing

- More focus on our social impact supported by external assessments and benchmarking
 - Continued improvement to our sustainability reporting
 - Our Co-op Way plan
-

Managing health and safety

Weaknesses in our health and safety practices and procedures could put customers and colleagues at risk

- Keeping our colleagues, members and customers safe
- UK Health and Safety Regulation and Approved Codes of Practice
- Avoidable accidents
- Complexity of our business

Where we are

- Our health and safety programme is creating a better controlled and safer place to work which can be seen through less events being reported and the organisation's increased awareness.

Potential consequences

An unsafe environment for our colleagues and customers

What we're doing

- Making sure our colleagues understand our health and safety culture and how it links with our Ways of Being Co-op
 - Training and awareness at all levels including the Executive
 - Health and safety operating model with clear roles and responsibilities
 - Policies and control standards
 - Putting a new accident management system in place
 - Safety governance framework
-

Regulatory compliance

Non-compliance with laws and regulations may increase our cost of doing business

- Regulations from our primary regulators
- Codes and regulations that apply to our Food business including the Groceries Supply Code of Practice and product safety regulations

Where we are

- In our Food business we're doing a full review of processes and ways of working to make sure we fully understand, execute and monitor our performance against regulatory compliance.
 - The Groceries Code Adjudicator has opened an investigation into some of our practices relating to suppliers.
-

Potential consequences

Our Co-op is subject to various laws and regulations across its businesses. Failure to

respond to changes in regulations or stay compliant could affect profitability through fines and sanctions from our regulators

- Solicitors Regulation Authority regulations applicable to our Funeral and Life Planning business
- Financial Conduct Authority and Prudential Regulation Authority applicable to our Insurance business
- Increased enforcement activity

- Our regulated Insurance business has well established regulatory risk and compliance teams.

What we're doing

- Regular engagement with primary authorities and regulatory bodies
 - Executive oversight of compliance activity
 - Horizon scanning by our in-house Legal team
 - Continued focus on product quality and safety
 - Dedicated Food policy and Code Compliance Team
 - Colleague training and awareness
-

IT security and cyber threats

A cyber-attack or data security breach could lead to downtime of critical IT services and/or a loss of sensitive personal or commercial data

Potential consequences

Our ability to serve our customers is highly dependent on our IT systems. Any prolonged downtime or data breaches could prevent us from providing our products and services to our customers and members.

- Data privacy and GDPR regulations
- Colleague, member and customer confidence
- Processing of data through third parties
- Worldwide spread of cyber threats
- Increasingly sophisticated and diverse threat landscape

Where we are

- The continuous evolution of cyber threats means that this risk remains critical.

What we're doing

- Strengthened Information Security team in place
 - Information Security governance framework in place
 - 24/7 security monitoring
 - Enhanced patching, encryption, user access controls and incident detection
-

Consolidated income statement for the period ended 6 January 2018

	Notes	2017 £m	2016 £m
Revenue		9,470	9,472
Operating expenses		(9,432)	(9,363)
Other income		88	39
Operating profit	1	126	148
Finance income	3	44	53
Finance costs	4	(106)	(162)
Share of profits / (losses) of associates and joint ventures	7	8	(171)
Profit / (loss) before tax	1	72	(132)
Taxation	5	(2)	(2)
Profit / (loss) for the period (all attributable to members of the Society)		70	(134)

Non-GAAP measure: underlying profit before tax **

	Notes	2017 £m	2016 (restated*) £m
Operating profit (as above)		126	148
Add back losses / (deduct gains):			
One-off items	1	23	21
Property and business disposals	1	4	(27)
Change in value of investment properties		(15)	(16)
Less underlying interest payable		(73)	(74)
Underlying profit before tax		65	52
Underlying profit before tax (as above)		65	52
Add back: member rewards		61	16
Underlying profit before tax and member rewards		126	68

* For more details on the restatement, refer to the general accounting policies note on page 56.

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

Consolidated statement of comprehensive income for the period ended 6 January 2018

		2017	2016 (restated*)
	Notes	£m	£m
Profit / (loss) for the period		70	(134)
Other comprehensive income:			
Items that will never be reclassified to the income statement:			
Remeasurement gains on employee pension schemes		112	503
Derecognition of pension surplus attributable to Co-operative Bank	8	(374)	-
Related tax on items	5	44	(78)
		(218)	425
Items that are or may be reclassified to the income statement:			
Changes in value of available for sale assets		(7)	16
Related tax on items	5	1	(3)
		(6)	13
Other comprehensive income for the period net of tax		(224)	438
Total comprehensive income for the period (all attributable to members of the Society)		(154)	304

*For more details on the restatement, refer to the general accounting policies note on page 56.

Consolidated balance sheet

as at 6 January 2018

		2017	2016 (restated*)
	Notes	£m	£m
Non-current assets			
Property, plant and equipment		2,014	1,943
Goodwill and intangible assets		897	911
Investment properties		68	74
Investments in associates and joint ventures	7	3	52
Other investments		1,538	1,414
Reinsurance contracts		44	47
Derivatives		38	50
Pension assets	8	1,746	1,978
Trade and other receivables		58	55
Deferred tax assets		228	221
Reclaim Fund assets		234	237
Total non-current assets		6,868	6,982
Current assets			
Inventories		389	439
Trade and other receivables		635	704
Cash and cash equivalents		403	283
Assets held for sale	9	6	106
Other investments		415	372
Reinsurance contracts		14	7
Reclaim Fund assets		439	332
Total current assets		2,301	2,243
Total assets		9,169	9,225
Non-current liabilities			
Interest-bearing loans and borrowings	10	1,138	1,141
Trade and other payables		1,249	1,078
Provisions		222	224
Pension liabilities	8	193	251
Deferred tax liabilities		400	429
Insurance contracts		289	280
Reclaim Fund liabilities		446	495
Total non-current liabilities		3,937	3,898
Current liabilities			
Overdrafts		6	6
Interest-bearing loans and borrowings	10	34	21
Income tax payable		-	1
Trade and other payables		1,400	1,506
Provisions		90	102
Liabilities held for sale	9	-	5
Insurance contracts		461	444
Reclaim Fund liabilities		153	1
Total current liabilities		2,144	2,086
Total liabilities		6,081	5,984
Equity			
Members' share capital		73	72
Retained earnings		2,914	3,062
Other reserves		101	107
Total equity		3,088	3,241
Total equity and liabilities		9,169	9,225

*For more details on the restatement, refer to the general accounting policies note on page 56.

Consolidated statement of changes in equity for the period ended 6 January 2018

	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 31 December 2016		72	3,062	107	3,241
Profit for the period		-	70	-	70
Other comprehensive income:					
Remeasurement gains on employee pension schemes	8	-	112	-	112
Derecognition of pension surplus attributable to Co-operative Bank	8	-	(374)	-	(374)
Gains less losses on available for sale assets		-	-	(4)	(4)
Available for sale cumulative gains transferred to the income statement		-	-	(3)	(3)
Revaluation reserve recycled to retained earnings		-	-	-	-
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		73	2,914	101	3,088

See note 20 in the annual report for further details of Share Capital and Reserves.

	Notes	Members' share capital £m	Retained earnings (restated) £m	Other reserves £m	Total equity (restated) £m
Balance at 2 January 2016		72	2,770	95	2,937
Loss for the period		-	(134)	-	(134)
Other comprehensive income:					
Remeasurement gains on employee pension schemes	8	-	503	-	503
Gains less losses on available for sale assets		-	-	17	17
Available for sale cumulative gains transferred to the income statement		-	-	(1)	(1)
Revaluation reserve recycled to retained earnings		-	1	(1)	-
Tax on items taken directly to other comprehensive income	5	-	(78)	(3)	(81)
Total other comprehensive income		-	426	12	438
Contributions by and distributions to members:					
		-	-	-	-
Balance at 31 December 2016		72	3,062	107	3,241

*For more details on the restatement, refer to the general accounting policies note on page 56.

Consolidated statement of cash flows

for the period ended 6 January 2018

	Notes	2017 £m	2016 £m
Net cash from operating activities	6	363	247
Cash flows from investing activities			
Acquisition of property, plant and equipment		(427)	(330)
Proceeds from sale of property, plant and equipment		186	60
Purchase of intangible assets		(4)	(23)
Acquisition of businesses		(10)	(5)
Proceeds from sale of investments		55	5
Disposal of businesses, net of cash disposed		-	17
Dividends received from investments	7	33	2
Net cash used in investing activities		(167)	(274)
Cash flows from financing activities			
Interest paid on borrowings		(75)	(72)
Repayment of corporate investor shares		(8)	-
Repayment of borrowings including derivatives		(1)	(22)
Finance leases entered into / (repaid)		8	(3)
Net cash used in financing activities		(76)	(97)
Net increase in cash and cash equivalents		120	(124)
Cash and cash equivalents at beginning of period		277	401
Cash and cash equivalents at end of period		397	277
Analysis of cash and cash equivalents			
Overdrafts (per balance sheet)		(6)	(6)
Cash and cash equivalents (per balance sheet)		403	283
		397	277

	2017 £m	2016 £m
Group Net Debt		
Interest-bearing loans and borrowings:		
- current	(34)	(21)
- non-current	(1,138)	(1,141)
Total Debt	(1,172)	(1,162)
- Group cash	403	283
- Overdraft	(6)	(6)
Group Net Debt	(775)	(885)
Add back fair value adjustment	138	127
Group Net Debt (pre fair value adjustment)	(637)	(758)

See note 10 for a full reconciliation of the movement in net debt.

Notes to the financial statements

1 Operating segments

2017

	Revenue from external customers (f) £m	Underlying segment operating profit (a) £m	Operating profit £m	Additions to non- current assets (e, f) £m	Depreciation and amortisation (e) £m
Food	7,054	182	202	357	(215)
Funeral and Life Planning	343	66	66	51	(22)
Insurance	331	11	(12)	61	(61)
Other businesses	59	(3)	(5)	1	-
Federal (g)	1,683	-	-	-	-
Costs from supporting functions	-	(118)	(125)	33	(26)
Total	9,470	138	126	503	(324)

2016 (restated - see (d) below)

	Revenue from external customers (f) £m	Underlying segment operating profit (a) £m	Operating profit £m	Additions to non- current assets (e, f) £m	Depreciation and amortisation (e) £m
Food	7,064	182	203	286	(210)
Funeral and Life Planning	329	71	101	26	(19)
Insurance	439	11	(18)	64	(61)
Other businesses	67	(4)	3	1	-
Federal (g)	1,573	-	-	-	-
Costs from supporting functions	-	(134)	(141)	40	(22)
Total	9,472	126	148	417	(312)

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), change in value of investment properties, profits / losses from associates / joint ventures and one-off costs.

b) Each segment derives its revenue and profits from the sale of goods and provision of services, mainly from retail and insurance activities.

c) The Group identifies its operating segments based on its divisions, which are organised according to the differing products and services it offers its customers. The reportable operating segments (and the captions) reported above are based on the periodic results reported into the Chief Operating Decision Maker (CODM) which is the Board and whether the respective division's results meet the IFRS 8 minimum reporting thresholds. The 'Other Businesses' category includes activities which are not reportable per IFRS 8. The significant constituent parts of 'Other businesses' are the Group's Electricals business and the deferred income recognised on the disposal of the Travel business in 2011 (see also d) below) and these results have been combined as allowed by IFRS 8. Other

Financial Services entities (mainly holding, ancillary companies and the Reclaim Fund Limited) are included within costs from supporting functions.

d) The result of the Group's Legal services business has been reported in the segmental analysis within Funeral and Life Planning (previously reported within Other Businesses) to be consistent with a change in the way information is reported to the Group Board. Deferred income recognised on the disposal in 2011 of 70% of the Group's interest in Travel is now shown within property and business disposals whereas previously it was shown within underlying operating profit (within Other businesses). See general accounting policies section on page 56 for details of the restatements.

e) Additions to non-current assets are derived on a cash flow basis. Depreciation and amortisation excludes £nil (2016: £7m) amortisation of deferred income relating to the use of the Co-operative Travel brand by the Group's associate: TCCT Holdings UK Limited. Amortisation of £61m (2016: £61m) and additions of £61m (2016: £64m) on deferred acquisition costs are included within Insurance.

f) 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.

g) 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 because of this. This is run on a cost recovery basis and therefore no profit is derived from its activities.

h) Transactions between operating segments excluded in the analysis are £6m (2016: £6m) sales of electrical goods by Co-op Electrical to Food and £1m (2016: £2m) sales of legal cover on insurance policies by Legal Services to Insurance.

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

2017						
	Food	Funeral and Life Planning	Insurance	Other businesses	Costs from supporting functions	Total
	£m	£m	£m	£m	£m	£m
Underlying segment operating profit	182	66	11	(3)	(118)	138
One-off items	-	-	(23)	-	-	(23)
Property and business disposals	5	-	-	(2)	(7)	(4)
Change in value of investment properties	15	-	-	-	-	15
Operating profit	202	66	(12)	(5)	(125)	126

One-off items include restructuring costs of £23m (2016: £29m) relating to expenditure incurred in relation to the transformation programme and replatforming work being undertaken within our Insurance business. The costs associated with the implementation of the transformation programme are charged to the income statement as incurred, with recognition of assets where the technical accounting criteria are met.

2016 (restated*)						
	Food	Funeral and Life Planning	Insurance	Other businesses	Costs from supporting functions	Total
	£m	£m	£m	£m	£m	£m
Underlying segment operating profit	182	71	11	(4)	(134)	126
One-off items	-	-	(29)	-	8	(21)
Property and business disposals	5	30	-	7	(15)	27
Change in value of investment properties	16	-	-	-	-	16
Operating profit	203	101	(18)	3	(141)	148

*See general accounting policies section on page 56 for details of the restatement.

j) A reconciliation between underlying segment operating profit and profit before tax is provided below:

		2017	2016 (restated*)
	Notes	£m	£m
Underlying segment operating profit		138	126
Underlying interest payable	4	(73)	(74)
Underlying profit before tax		65	52
One-off items		(23)	(21)
(Loss) / profit on property and business disposals - see overleaf		(4)	27
Change in value of investment properties		15	16
Finance income	3	44	53
Non-cash finance costs	4	(33)	(88)
Share of profits / (losses) of associates and joint ventures	7	8	(171)
Profit / (loss) before tax		72	(132)

(Loss) / Profit from property and business disposals	2017		2016 (restated*)	
	£m	£m	£m	£m
Crematoria sale				
- proceeds	-		41	
- less net book value written off	-		(11)	
		-		30
Sale of Somerfield Stores Ltd				
- expenses	-		(13)	
- payable recognised	-		(35)	
- net onerous lease provision release and net book value written off	-		53	
		-		5
Sale of NOMA (50% stake in joint venture)				
- proceeds	35		-	
- less net book value written off	(23)		-	
		12		-
Sale of Bank (remaining 1% shareholding)				
- proceeds	5		-	
- less net book value written off	-		-	
		5		-
Food store sales to McColls Retail Group				
- proceeds	121		-	
- less net book value written off	(114)		-	
		7		-
Other Disposals				
- proceeds	80		90	
- less net book value written off	(82)		(83)	
- provisions recognised on closure	(19)		(20)	
		(21)		(13)
Impairment of property, plant and equipment and goodwill		(7)		(5)
CFS Management Services Ltd (CFSMS) retirement liability derecognised		-		3
Deferred income on Travel disposal		-		7
(Loss) / Profit on disposal		(4)		27

*See general accounting policies section on page 56 for details of the restatement.

2 Supplier income

Supplier Income	2017	2016
	£m	£m
Long-term agreements	149	155
Bonus income	142	157
Promotional income	337	359
Total supplier income	628	671

Percentage of Food's Cost of Sales before deducting Supplier Income

Long-term agreements	2.1%	2.2%
Bonus income	2.1%	2.3%
Promotional income	4.8%	5.2%
	9.0%	9.7%

These figures do not include income or purchases made as part of the Federal joint buying group.

3 Finance income

	2017	2016
	£m	£m
Net pension finance income	42	45
Fair value movement on interest rate swaps (see note 11)	-	8
Discount unwind from trade receivables	2	-
Net interest on funeral investments and liabilities (see below)	-	-
Total finance income	44	53

The discount unwind from trade receivables relates to the £50m put option that was recognised in trade receivables in the prior year following the Group serving notice to Thomas Cook of its intention to exit its investment in the Travel JV. The £50m put option (plus interest) was paid by Thomas Cook in December and the Co-op Group no longer holds any receivable balances in respect of Travel.

Included in the above are interest and bonuses of £103m (2016: £23m) earned in the year on funeral plan investments. These have been offset by a £103m (2016: £23m) increase in the corresponding financial liability.

4 Finance costs

	2017 £m	2016 £m
Loans repayable within five years	(27)	(27)
Loans repayable wholly or in part after five years	(46)	(47)
Underlying interest payable	(73)	(74)
Fair value movement on quoted Group debt (see note 10)	(11)	(74)
Fair value movement on interest rate swaps (see note 11)	(12)	-
Discount unwind of provisions	(10)	(14)
Other finance costs	(33)	(88)
Total finance costs	(106)	(162)

The Group's Eurobond debt is fair valued each period with the fair value movement going through the income statement (see note 10).

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 profit or loss was £15m (2016: £16m).

5 Taxation

	Footnote	2017 £m	2016 £m
Current tax charge - current year	(i)	-	-
Current tax - adjustment to group relief payable owed to Co-operative Bank plc	(ii)	3	6
Current tax (charge) / credit - adjustment in respect of prior years	(iii)	(1)	12
Net current tax credit		2	18
Deferred tax charge - current year	(iv)	(8)	(24)
Deferred tax credit - adjustments in respect of prior years	(v)	4	4
Net deferred tax charge		(4)	(20)
Total tax charge		(2)	(2)

The tax on the Group's net profit before tax differs from the theoretical amount that would arise using the standard applicable rate of corporation tax of 19.25% (2016: 20%) as follows:

	Footnote	2017 £m	2016 £m
Profit / (loss) before tax		72	(132)
Tax (charge) / credit at 19.25% (2016: 20%)		(14)	26
Deferred tax reconciliation:			
Expenses not deductible for tax (including one off costs)	(vi)	(4)	(1)
Depreciation and amortisation on non-qualifying assets	(vii)	(4)	(3)
Non-taxable profits / (losses) arising on business disposals	(viii)	2	(2)
Impairment of investment - Co-operative Bank plc	(ix)	-	(37)
Associated company profits	(x)	1	2
Capital gains arising on property disposals	(xi)	10	(21)
Adjustment in respect of previous periods	(v)	4	4
Restatement of deferred tax to blended rate (2016:17.1%)	(xii)	1	12
Subtotal of deferred tax reconciling items		10	(46)
Current tax reconciliation:			
Current year tax charge	(i)	-	-
Adjustment in respect of previous periods	(iii)	(1)	12
Adjustment to group relief payable	(ii)	3	6
Current tax reconciling items		2	18
Total tax charge		(2)	(2)

The net tax charge of £2m on a profit before tax of £72m, gives an effective tax rate of 3%, which is 16.25% lower than the standard rate of 19.25%. The majority of this difference can be explained by two principal items. Firstly, there was a £4m reduction in the amount payable to the Bank in respect of group relief, representing 5% of the difference (see footnote (ii) overleaf). The remaining 11% is in respect of the sale of food stores to McColls Retail Group. Tax legislation dictates that the tax charge on this disposal is triggered in 2016, being the date in which the contract was signed. This differs to the accounting treatment, where the disposal is recognised in 2017, being the period in which the properties were transferred out of the Group.

Tax expense on items taken directly to consolidated statement of comprehensive income

	2017 £m	2016 (Restated*) £m
Actuarial gains and losses on employee pension scheme	44	(78)
Available for sale assets - Insurance	1	(3)
	45	(81)

Of the tax taken directly to the consolidated statement of comprehensive income, £45m credit (2016: £81m charge) relates to deferred taxation credit of £44m (2016: £91m charge) arising on the actuarial movement for the year, net of a credit of £nil (2016: £13m) relating to the restatement of deferred tax rates on the pensions scheme surplus. *For more details on the restatement, refer to the general accounting policies note on page 56. Furthermore, there is a £1m credit representing the movement in deferred taxation on available for sale assets in General Insurance (2016: £3m charge).

The Finance Act 2016 will reduce the main rate of corporation tax to 17% from 1 April 2020. This will reduce the company's future current tax charge accordingly. Each deferred tax balance has been measured individually based on the tax rate at which it is expected to unwind (either 17%, 18% or 19%). This results in a blended deferred tax rate of 17.1% at the balance sheet date.

Tax policy

The Group published its Tax Policy on our website <https://www.co-operative.coop/ethics/tax-policy>. The Group have complied with the commitments set out in that policy.

Footnotes to taxation note 5:

i) The Group is not taxpaying in the UK in respect of 2017 due to the fact it has a number of brought forward capital allowances (£187m gross claimed in 2017) and tax losses (£29m gross utilised in 2017) that are in excess of its taxable profit for the period. An amount of current tax of £265k (2016: £253k) is in respect of wholly owned IOM resident subsidiary, Manx Co-operative Society, an entity undertaking convenience retailing in the Isle of Man. This is the Group's only non UK resident entity for tax purposes, which employs 246 out of our total Group headcount figure. All other employees are employed in the UK. The unaudited 2017 revenue of Manx Co-operative Society is £34m, all other Revenue reflected in the consolidated income statement is generated by UK trading activities. The unaudited 2017 profit before tax of Manx Co-operative Society is £2m, all other income in the consolidated income statement is generated by UK trading activities. The net assets of Manx Co-operative Society at December 2016 were £19m, compared to net assets of the consolidated Group of £3,209m. 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/downloads/manx-co-operative-2016-accounts.pdf>. The presence of this IOM resident subsidiary has resulted in this additional tax charge of £265k. 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 hold a creditor balance in relation to group relief claimed from 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 intrinsically linked to and held at prevailing tax rates to 17%. As a result of the change in tax legislation regarding the utilisation of losses, the timing of the total group relief payable has 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. In addition a contractual agreement was made to reduce payments due to the Bank by £4m in July 2017 and a credit for reduction in amounts payable has been booked.

iii) 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. Furthermore, 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 £0.5m have been released in the year as a result of increased certainty gained through correspondence with HMRC during 2017.

iv) Deferred taxation is an accounting standard concept that reflects how certain income and expenses fall into the charge to tax in differing periods from the accounting period than the period the original income or expense arose. These differences are a result of tax legislation.

v) In addition to the adjustments arising between prior year estimates and submissions to HMRC, the Group ascertained on the original purchase cost information on deferred tax balances arising on land and buildings.

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 certain 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 taxation purposes the Group is entitled to claim capital allowances, a relief provided by law. Certain 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 Co-operative Bank Plc. 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.

ix) In 2016, the investment held in the Co-operative Bank Plc was impaired, which attracted no tax relief. No such impairment has been made this year.

x) 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.

xi) During the year a number of assets were sold, where the tax value is in excess of the accounting profit. The most significant element of this figure relates to NOMA following the sale of the JV's interest in the CIS Tower Miller Street and disposal of the investment in this partnership.

xii) 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 identified in 2017 at which these deferred tax balances are expected to unwind.

6 Reconciliation of operating profit to net cash flow from operating activities

	2017	2016 (restated*)
	£m	£m
Operating profit	126	148
Depreciation and amortisation charges (excluding deferred acquisition costs)	264	251
Non-current asset impairments	9	5
Profit on disposal of businesses and non-current assets	(4)	(32)
Change in value of investment properties	(15)	(16)
Retirement benefit obligations	(45)	(45)
Decrease in inventories	50	6
Increase in receivables	(137)	(160)
Increase in payables and provisions	88	78
Net cash flow from operating activities before asset and liability movements in Financial Services	336	235
Fair value through profit and loss movement	14	(27)
Assets available for sale movement	18	21
Movement in deferred acquisition costs	1	(3)
Reinsurance assets	(5)	15
Loan receivables at amortised cost	9	(6)
Insurance and other receivables	(23)	36
Insurance and participation contract provisions	24	(24)
Insurance and other payables	(11)	-
Asset and liability movements in Financial Services	27	12
Net cash from operating activities	363	247

*See general accounting policies section on page 56 for details of the restatement.

Asset and liability movements from Financial Services activity are shown separately from the rest of the Group to help members understanding the impact of fluctuations and volatility in this area.

The increases in receivables and payables noted above for the Trading Group include increases on funeral plan assets and liabilities of £233m (2016: £109m) and £213m (2016: £109m) respectively.

7 Investments in associates and joint ventures

A breakdown of the investments held and income received is disclosed below:

	2017		2016	
	Income / (losses)	Investments	Income / (losses)	Investments
	£m	£m	£m	£m
The Co-operative Bank plc	-	-	(185)	-
TCCT Holdings UK Limited (Travel) - share of income / (losses)	-	-	12	-
NOMA	8	-	1	39
Other investments (including windfarms)	-	3	1	13
Total	8	3	(171)	52

The movements in investments in associates, joint ventures and other investments are as follows:

	2017 £m	2016 £m
At beginning of period	52	285
Additions	10	5
Share of profits / (losses)	8	(171)
Dividends received	(33)	(2)
Disposals	(34)	(65)
At end of period	3	52

The Co-operative Bank plc (the Bank)

On 1 September 2017, The Co-operative Bank plc ('the Bank') announced that it had successfully recapitalised, raising approximately £700m of additional core tier 1 capital and positioning the Bank to meet regulatory capital requirements in full in the medium term. The Group's shareholding therefore reduced from 20% to 1% from 1 September 2017. As a result, some formal arrangements including the right of the Group to nominate a Director to the Bank Board ended and meant the Group no longer accounts for the Bank as an associate as it has lost significant influence. The remaining 1% shareholding was subsequently sold for £5m in September 2017.

TCCT Holdings UK Limited (Travel)

On 29 November 2016, a deed was signed with Thomas Cook that determined when the additional outstanding dividend amount of £32m had to be paid by and in addition confirmed that the value payable for the Group's shares in the JV in the event of exit in 2017 would be £50m, in line with the terms of the Shareholders' Agreement.

Of the outstanding dividend, £20m was received on 3 January 2017 and the remaining £12m was received on 3 April 2017. This amount was recognised by the Group in 2015 and the balance as at 31 December 2016 was held within trade and other receivables.

On 6 December 2016 the Group served notice to Thomas Cook of the decision to exit its investment in the Travel JV under the put option granted to it in the Shareholders' Agreement. This meant that Thomas Cook Retail Ltd had to buy the Group's 30% interest by 30 November 2017. Upon giving notice, the Group lost all voting rights to the associate meaning it was no longer able to demonstrate significant influence over the entity. Therefore, the book value of the investment in Travel transferred to trade and other receivables and was treated as a disposal in the prior year in the above table. The £50m put option (plus interest) was paid by Thomas Cook in December 2017 and the Co-op Group no longer holds any receivable balances in respect of Travel.

NOMA

During 2017, the Group invested an additional £10m (2016: £5m) into the NOMA joint venture and also received dividends of £33m (2016: £1m) relating to the sale of the JV's interest in the CIS Tower Miller Street in June 2017. On 22 December the Group completed the sale of its 50% stake in NOMA to Hermes Real Estate. Over the full term of the joint venture since its incorporation in 2014, the Group received total cash proceeds and dividends of £123m in return for total investment of £77m in property (£58m) and cash (£19m).

Windfarms

The Group sold its investment in Biggleswade and Whitemill windfarms on 20 December 2017 for £12m. The only remaining investment is the 20% interest in Coldham windfarm.

Other Joint Ventures or Associates

The principal place of business for all of the Group's remaining investments in associates and joint ventures is the United Kingdom. There were no contingent liabilities or capital commitments in respect of the Group's other joint ventures or associates as at 6 January 2018 (31 December 2016: £nil).

8 Pensions

Defined benefit (DB) plans

The Group operates five funded DB pension schemes all of which are closed to future accrual. 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.

Pace is a multi employer scheme in which the Bank is a participating employer. Following discussion during 2017 it is anticipated that during 2018 the scheme will be split such that the liabilities and corresponding assets attributable to the Bank will be moved to a new section. Discussion during 2017 has also facilitated the identification of the Group's share of assets and liabilities and the Group's financial statements at the 2017 year end now reflect only its own share of the scheme.

Defined contribution (DC) plans

Since the closure of the DB schemes, the Group continues to provide all employees 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 member has selected.

Contributions are based on the member's basic pay plus any earnings in respect of overtime, commission and shift allowance. Colleagues who meet automatic enrolment requirements are enrolled into the tier with 2% colleague and 3% employer contributions. All colleagues across the Group are able to join the DC section and have the option to change their contributions at any point.

The Pace DC section provides benefits based on the value of the individual colleague's fund accrued through contributions and investment returns. The Group has no legal or constructive obligation to pay contributions beyond those specified 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 2017 £m	Net 2016 (restated) £m
Schemes in surplus		
The Co-operative Group Pension Scheme (Pace)	1,603	1,822
Somerfield Pension Scheme	143	156
Total schemes in surplus	1,746	1,978
Schemes in deficit		
United Norwest Co-operatives Employees' Pension Fund	(133)	(173)
Yorkshire Co-operatives Limited Employees' Superannuation Scheme	(11)	(21)
The Plymouth and South West Co-operative Society Limited Employees' Superannuation Fund	(43)	(51)
Other unfunded obligations	(6)	(6)
Total schemes in deficit	(193)	(251)
Total schemes	1,553	1,727

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.

Restatement

The net surplus of the Pace scheme in 2016 has been restated from £1,783m to £1,822m with a corresponding increase in other comprehensive income to recognise £39m of insured pensions assets relating to AVCs that had not been included in the 2016 actuarial valuation.

Changes in the present value of the defined benefit obligation (DBO)

	2017	2016
	£m	£m
Opening defined benefit obligation (restated)	11,152	9,669
De-recognition of Britannia Pension Scheme (unfunded)	-	(3)
Interest expense on DBO	275	355
Remeasurements:		
a. Effect of changes in demographic assumptions	(106)	(550)
b. Effect of changes in financial assumptions	223	2,432
c. Effect of experience adjustments	(26)	(285)
Benefit payments from plan	(667)	(466)
Derecognition of scheme liabilities attributable to Co-operative Bank	(1,866)	-
Closing defined benefit obligation	8,985	11,152

Changes in the fair value of the plan assets

	2017	2016
	£m	(restated) £m
Opening fair value of plan assets	12,879	10,799
Interest income	317	400
Return on plan assets (excluding interest income)	203	2,100
Administrative expenses paid from plan assets	(3)	(5)
Employer contributions	49	51
Benefit payments from plan	(667)	(466)
Derecognition of plan assets attributable to Co-operative Bank	(2,240)	-
Closing fair value of plan assets	10,538	12,879

9 Assets and liabilities held for sale

	2017	2016	2017	2016
	£m	£m	£m	£m
	Assets held for sale		Liabilities held for sale	
Total	6	106	-	(5)

	2017	2016
	£m	£m
Property, plant and equipment	6	48
Intangible assets	-	58
Deferred tax	-	(5)
	6	101

The majority of the assets held for sale in the prior year related to 298 food stores that were sold to McColls Retail Group plc. Assets are recorded at their current carrying value unless this exceeds any expected net proceeds of sale in which case the assets are impaired.

10 Interest-bearing loans and borrowings

Non-current liabilities:	2017 £m	2016 £m
£450m 6 7/8% Eurobond Notes due 2020*	502	511
£350m 7 1/2% Eurobond Notes due 2026*	436	416
£21m 8 7/8% First Mortgage Debenture Stock 2018*	-	21
£109m 11% final repayment subordinated notes due 2025	109	109
£16m instalment repayment notes (final payment 2025)	15	16
Non-current portion of finance lease liabilities	8	-
Trading Group interest-bearing loans and borrowings	1,070	1,073
£70m 12% Financial Services Callable Dated Deferrable Tier Two Notes due 2025	68	68
Total Group interest-bearing loans and borrowings	1,138	1,141

Current liabilities:	2017 £m	2016 £m
£21m 8 7/8% First Mortgage Debenture Stock 2018*	21	-
Instalment repayment notes (final payment 2025)	1	1
Corporate investor shares	8	16
Current portion of finance lease liabilities	2	2
Other unsecured loans	2	2
	34	21

* These drawn down loan commitments are designated as financial liabilities at fair value through the income statement.

For more information about the Group's exposure to interest rate and foreign currency risk, and a breakdown of IFRS 13 level hierarchies in relation to these borrowings, see note 11.

Reconciliation of movement in net debt

Net debt is a measure that shows the Group's net indebtedness to banks and other external financial institutions and comprises the total of cash and short-term deposits less deposits held in trustee-administered bank accounts and current and non-current interest-bearing loans and borrowings. The Group's Eurobonds and first mortgage debenture stock borrowings are designated as financial liabilities at fair value through the income statement. The year-on-year 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 6 January 2018	Start of period	Non-cash movements	Cash flow	Movement in corporate investor shares	End of period
	£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:					
- Group cash (per balance sheet)	283	-	120	-	403
- Overdraft (per balance sheet)	(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 Ltd (CBG Ltd) 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)

For period ended 31 December 2016	Start of period	Non-cash movements	Cash flow	Movement in corporate investor shares	End of period
	£m	£m	£m	£m	£m
Interest-bearing loans and borrowings:					
- current	(22)	-	1	-	(21)
- non-current	(1,071)	(74)	3	1	(1,141)
Total Debt	(1,093)	(74)	4	1	(1,162)
Group cash:					
- Group cash (per balance sheet)	405	-	(122)	-	283
- Overdraft (per balance sheet)	(4)	-	(2)	-	(6)
Group Net Debt	(692)	(74)	(120)	1	(885)
Comprised of:					
Trading Group debt	(1,025)	(74)	3	1	(1,095)
Trading Group cash	331	-	(123)	-	208
Trading Group Net Debt	(694)	(74)	(120)	1	(887)
CISGIL debt and overdrafts	(72)	-	(1)	-	(73)
CBG Ltd cash and overdrafts	74	-	1	-	75
Group Net Debt	(692)	(74)	(120)	1	(885)
Less fair value adjustment	53	74			127
Group Net Debt before fair value adjustment	(639)	-	(120)	1	(758)

Terms and repayment schedule

The 8.875% First Mortgage Debenture Stock 2018, which is secured over freehold and leasehold properties, with an original value of £50m, was subsequently reduced to £21m as a result of a partial redemption exercise in April 2014. This also had the effect of increasing the debenture coupon to 8.875% (previously 7.625%). The residual carrying amount of £21m is to be paid to holders upon maturity.

The 6.875% (inclusive of 1.25% coupon step up) Eurobond Issue 2020 has an original value of £450m (carrying amount of £502m) and the 7.5% (inclusive of 1.25% coupon step up) Eurobond Issue 2026 has an original value of £350m (carrying amount of £436m). 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 upon 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 repayments notes of £109m and the instalment repayment notes of £16m.

The unsecured bank loans consist of a £355m Revolving Credit Facility which expires in February 2021. The facility is undrawn as at 6 January 2018.

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 money at call and the rate of interest that is charged is fixed across all Societies based on a policy of Base 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:

	2017 £m	2016 £m
Less than one year	2	2
Greater than one year but less than five years	4	-
Greater than five years	4	-
	10	2

Under the terms of the lease agreements, no contingent rents are payable. The difference between the total future minimum lease payments and their present value is immaterial.

11 Financial instruments, derivatives and fair values of financial assets and liabilities

Derivatives

Derivatives held for non-trading purposes for which hedge accounting has not been applied are as follows:

	2017			2016		
	Contractual/ notional amount £m	Fair value assets £m	Fair value liabilities £m	Contractual/ notional amount £m	Fair value assets £m	Fair value liabilities £m
Interest rate swaps	390	38	-	390	50	-
Total recognised derivative assets	390	38	-	390	50	-

Fair values of financial assets and liabilities

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the annual report and accounts:

a) Financial instruments at fair value through income or expense

The fair value of financial assets designated at fair value through income or expense, 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.

Fixed rate sterling Eurobonds

The fixed rate sterling eurobond values are determined in whole by using quoted market prices.

b) Available for sale assets

Fair value of listed debt securities is based on clean bid prices at the balance sheet date without any deduction for transaction costs. Available for sale 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	Fair value	Carrying value	Fair value
	2017	2017	2016	2016
	£m	£m	£m	£m
Interest-bearing loans and borrowings	203	215	194	203

The table below analyses financial instruments by measurement basis as detailed by IAS 39 (Financial Instruments: Recognition and Measurement).

2017	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	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	606	665	403	3,000
Liabilities					
Interest-bearing loans and borrowings	959	-	-	203	1,162
Trade and other payables	-	-	-	2,456	2,456
Funeral plans	1,139	-	-	-	1,139
Overdrafts	-	-	-	6	6
Total financial liabilities	2,098	-	-	2,665	4,763

2016	Designated at fair value £m	Loans and receivables £m	Available for sale £m	Other amortised cost £m	Total £m
Assets					
Other investments	1,098	-	688	-	1,786
Derivative financial instruments	50	-	-	-	50
Trade and other receivables	-	678	-	-	678
Cash and cash equivalents	-	-	-	283	283
Total financial assets	1,148	678	688	283	2,797
Liabilities					
Interest-bearing loans and borrowings	948	-	-	212	1,160
Trade and other payables	-	-	-	2,355	2,355
Funeral plans	915	-	-	-	915
Overdrafts	-	-	-	6	6
Total financial liabilities	1,863	-	-	2,573	4,436

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 7 (Financial Instruments: Disclosure):

• Level 1	Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
• Level 2	Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
• Level 3	Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Based upon guidance issued by The Committee of European Securities Regulators, CISGIL classifies debt securities in Level 1 only if it can be demonstrated on an individual security by security basis that these are quoted in an active market, i.e. that the price quotes obtained are representative of actual trades in the market (through obtaining binding quotes or through corroboration to published market prices). Pricing providers can not guarantee that the prices that they provide are based on actual trades in the market. Therefore all of the corporate bonds are classified as Level 2.

Valuation of financial instruments

2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through income or expense				
- Funeral plan investments	-	-	1,076	1,076
- Derivative financial instruments	-	38	-	38
- Insurance investments	-	212	-	212
Available for sale assets	-	665	-	665
Total financial assets at fair value	-	915	1,076	1,991
Liabilities				
Financial liabilities at fair value through income or expense				
- Fixed-rate sterling eurobond	-	938	-	938
- First mortgage debenture	-	21	-	21
- Funeral plan liabilities	-	-	1,139	1,139
Total financial liabilities at fair value	-	959	1,139	2,098

2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through income or expense				
- Funeral plan investments	-	-	872	872
- Derivative financial instruments	-	50	-	50
- Insurance investments	-	226	-	226
Available for sale assets	-	688	-	688
Total financial assets at fair value	-	964	872	1,836
Liabilities				
Financial liabilities at fair value through income or expense				
- Fixed-rate sterling eurobond	-	927	-	927
- First mortgage debenture	-	21	-	21
- Funeral plan liabilities	-	-	915	915
Total financial liabilities at fair value	-	948	915	1,863

The following table allows comparison of debt securities (other than those classified at fair value through income or expense) on the basis of the current carrying amount, fair value and amortised cost (pre impairment).

Investments in debt securities as available-for-sale financial assets:

	2017	2016
	£m	£m
Carrying amount	665	688
Fair value	665	688
Amortised cost	647	664

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:

	2017	2016
Derivatives	0.70% - 1.51%	0.40% - 1.22%
Loans and borrowings	3.96% - 5.01%	3.65% - 9.41%

12 Commitments and contingent liabilities

a) Capital expenditure not accrued for, but committed by the Group at the year end was £nil (2016: £4m). The prior year figure all related to property, plant and equipment.

b) Commitments under operating leases:

The Group's operating leases include stores, warehouses and vehicles. These have varying terms, restrictions and renewal rights. The commercial terms of the Group's operating leases vary, however they commonly include either a market rent review or an index linked rent review. The timing of when rent reviews take place differs for each lease. At 6 January 2018, the future minimum lease payments under non-cancellable operating leases were:

	2017		2016	
	Land and buildings	Other	Land and buildings	Other
	£m	£m	£m	£m
Within one year	177	7	171	7
In two to five years	659	9	606	9
In over five years	1,335	-	1,318	-
	2,171	16	2,095	16

The total of future minimum sublease payments expected to be received under non-cancellable subleases less than 50 years is £208m (2016: £198m).

Co-op Insurance entered into a long term "software as a service" contractual agreement in 2016. This contract has now been terminated. The estimated value of the remaining commitment is £nil (2016: £148m), these amounts have not been provided for in the financial statements.

c) Contingent liabilities:

On 8 March 2018, an investigation was launched into the Group's treatment of Grocery suppliers. The adjudicator has a range of measures that can be taken as part of an investigation and these are set out in the "Statutory guidance on how the Groceries Code Adjudicator will carry out investigation and enforcement functions" document on the GCA website at <https://www.gov.uk/government/publications/statutory-guidance>.

13 Related party transactions and balances

	Relationship	2017 £m	2016 £m
Sales to associated undertakings and joint ventures on normal trading terms	(i)	0.2	0.2
Subscription to Co-operatives UK Limited	(ii)	0.7	0.7

i) Details of the Group's associates and joint ventures are set out in note 7.

ii) The Group is a member of Co-operatives UK Limited.

The Group's Independent Society members include consumer co-operative societies which, in aggregate, own the majority of the corporate shares. Sales to Independent Society members, on normal trading terms, were £1,683m (2016: £1,573m) and the amount due from Independent Society members in respect of such sales was £122m at 6 January 2018 (31 December 2016: £124m). No distributions have been made to Independent Society members 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 management executive and directors of the Group. At the balance sheet date, a number of key management personnel had transacted with our Funeral division. These transactions totalled £25,000 (2016: £5,000). Other than the compensation set out in the Remuneration Report, there were no other transactions greater than £1,000 with the Group's entities (2016: £nil). Total compensation paid to key management personnel is shown below.

	2017 £m	2016 £m
Key management personnel compensation		
Short-term employee benefits	8.5	9.0
Post-employment benefits	0.5	0.5
Other long-term benefits	2.6	1.9
Termination benefits	0.0	0.4
Total	11.6	11.8

Of the above, £nil (2016: £0.3m) was paid via a management entity.

Termination benefits in 2016 relate to LTIP awards vested in the year in respect of Executives who left the Group in previous years.

NOMA

The Group has transacted in both periods 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 the Group completed the sale of its stake in NOMA to Hermes Real Estate.

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 53 weeks to 6 January 2018 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 2017, 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 2018 Annual General Meeting, and made available to members by no later than 27 April 2018.

General information

Co-operative Group Limited is a registered co-operative society domiciled in England and Wales. The address of the Society'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/foodsite>.

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 53 week period ended 6 January 2018. 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 basis are applied are identified in the relevant accounting policy in the notes. For example, the Group fair values its Eurobond Notes (see note 10). Amounts have been rounded to the nearest million.

The accounting policies set out in the notes have been applied consistently to all periods presented in these financial statements, except where stated otherwise.

Basis of consolidation

The financial statements consolidate Co-operative Group Limited ('the Society'), 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 whereby 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 it from other 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 for the first Saturday of January unless 31 December is a Saturday. These financial statements are therefore prepared for the 53 weeks ended 6 January 2018. Comparative information is presented for the 52 weeks ended 31 December 2016. Since the financial periods are virtually co-terminous with the calendar years, the current period figures are headed 2017 and the comparative figures are headed 2016. The comparative amounts are not entirely comparable with the results of 2017, which are based on a longer period.

The Financial Services subsidiaries of the Group have prepared accounts for the period ended 31 December 2017. This differs from the parent of the Group and other Trading Group subsidiaries. For the period ending 6 January 2018, 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 is reconciled back to operating profit. In calculating this non-GAAP measure, property and business disposals (including individual store impairments), the change in value of investment properties, one-off costs are added back.

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.

Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements and estimates made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are described in the following notes in the annual report stated below:

- Supplier income (Note 4)
- Non-current asset impairment (Notes 10 & 11)
- Pensions (Note 23)
- Provisions (Note 19)
- General Insurance claims and reserves (Notes 12 & 24)

The Group has applied all endorsed IFRSs that are effective on a European basis for the Group's financial statements for the period ended 6 January 2018 and the comparative period.

Restatements

The comparative figures presented within these financial statements for the financial year ended 31 December 2016 are consistent with the 2016 annual report with the exception of the restatements noted below:

- pension assets on the balance sheet have been restated in the prior year by an increase of £39m. Retained earnings have been restated by an increase of £32m (net of £7m deferred tax) to reflect this adjustment. For more details on the nature of the restatement, refer to note 8. The restatement is not considered material enough in the context of the Group's reserves of £3.2bn and a net pension surplus of £1.7bn in the prior year to warrant a third balance sheet as required under IAS 1.
- insurance contracts in the balance sheet have been restated to reclassify £197m of insurance contract liabilities from non-current to current liabilities. This restatement is not considered material enough in the context of total current liabilities of £2.1bn and non-current liabilities of £3.9bn to warrant a third balance sheet under IAS 1.
- the result of the Group's Legal services business is now reported within Funeral and Life Planning (in the segmental analysis) whereas previously it was reported within Other Businesses. This is to be consistent with a change in the way information is reported to the Group Board.
- deferred income recognised on the disposal in 2011 of 70% of the Group's interest in Travel is now shown within profits / (losses) from property and business disposals in the segmental analysis (note 1 of the accounts) whereas previously it was shown within underlying operating profit (within Other businesses). As a result of this change underlying segment operating profit has decreased by £7m (FY 2016) and profit on property and business disposals has increased correspondingly. The change helps to facilitate a more meaningful comparison of underlying operating profit.

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- IAS 12 (amendments) - regarding the recognition of deferred tax assets for unrealised losses;
- IAS 7 (amendments) - to the disclosure initiative; and
- IFRS 12 (amendments) - annual improvements to IFRS Standards 2014-2016 Cycle.

The adoption of these 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 31 December 2017 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 when adopted:

- 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 and *
- IFRIC 23 – Uncertainty over Income tax treatments. **

* Effective 1 January 2018. ** Effective 1 January 2019.

The adoption of the following standards will or may have a material impact on the Group's accounts when adopted and the Group's assessment of the impact of these new standards and interpretations is set out below:

Title	IFRS 15 Revenue from Contracts with Customers
Nature of the change	<p>IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue can be recognised. The new standard replaces existing revenue recognition guidance including IAS 18 (Revenue), IAS 11 (Construction Contracts) and IFRIC 13 (Customer Loyalty programmes). The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.</p> <p>The standard sets out criteria for deciding when and whether revenue can be recognised and of particular relevance to Co-op, whether a "performance obligation" has been delivered.</p> <p>IFRS 15 defines performance obligations as a "promise to provide a <i>distinct good or service</i> or a series of distinct goods or services".</p>
Impact	<p>Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:</p> <p><u>Funerals:</u> Funeralcare sells funeral plans that allow an individual to arrange and pre-pay their funeral.</p> <p>Under the current IAS 18 standard, Funeralcare recognises an amount of revenue at the time a funeral plan is sold that is equivalent to the costs incurred in selling the plan. The balance of income is then recognised when the funeral is conducted. This approach will change with effect from 7 January 2018 under IFRS 15 which states that revenue should be recognised in respect of separable "performance obligations" delivered to the customer. Upon analysis of the standard, it has been concluded that the only separable 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.</p> <p>The new standard also requires that certain costs associated with delivering a funeral plan to the customer are deferred until the funeral is delivered. This cost deferral only applies to incremental or fulfilment costs i.e. costs directly relating to the plan sale that would otherwise not have been incurred. These costs will be charged to the income statement when the funeral plans are redeemed at the same time as revenue is recognised.</p> <p>After restatement, the impact of the new standard on the year ending 6 January 2018 is a reduction in revenue of c. £22m and a reduction in profit before tax of c. £21m. This is because the number of new plans being sold is much higher than the amount of plans being redeemed. As the redemptions on these plans grows relative to plan sales in the future, the impact on profit will reverse. Trading cash flows are unaffected by this change.</p> <p>The prior year adjustment will mean that at 6 January 2018 the deferred funeral plan income liability will increase by c. £107m as if no income had ever been recognised at the point of funeral plan sales. This income will now be recognised when the funeral is performed. Similarly, the deferred funeral plan cost asset will increase by c. £17m to reflect incremental costs incurred on existing plans deferred until redemption or cancellation of the plan. In aggregate, there will be an estimated reduction in retained earnings of c. £90m.</p> <p><u>Retail:</u></p>

	<p>There is no material profit impact for Retail since the vast majority of sales relate to upfront consideration for the immediate transfer of goods and as such the delivery of the performance obligation is very clear. IFRS 15 will require the Group to show some income that is currently netted within costs as a reduction in revenue. This primarily relates to rebates paid to FRTS members that are currently recognised as a cost of sale but which under IFRS 15 will be treated as a reduction in revenue (estimated £200m reduction in revenue within Federal sales).</p> <p><u>Other businesses:</u></p> <p>Insurance is subject to its own accounting changes when IFRS 17 is effective in 2021 and the vast majority of its business is out of scope for IFRS 15 and so will be unaffected by the new standard. There will be a change to personal injury revenue recognition in Legal Services where the new standard will see an earlier recognition of revenue than currently but this will not be material to the Group.</p> <p><u>Member rewards and dividends:</u> Member rewards (the 5%) are currently treated as a reduction in revenue in line with IFRIC 13 (Customer Loyalty Programmes) and this treatment will not be affected by the introduction of the new standard.</p>
Date of adoption by the Group	Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the fully retrospective approach which means that the comparative figures will be restated to reflect the cumulative impact of the adoption.

Title	IFRS 16 Leases								
Nature of the change	IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.								
Impact	<p>Management has undertaken an initial assessment of the expected impact of applying the new standard on the Group's financial statements. Further detailed assessment work is required to determine the actual impact upon the Group's accounts and that impact will also be dependent upon future economic conditions, including calculating incremental borrowing rates, the make-up of the Group's lease portfolio at that date, the Group's assessment as to whether it will exercise any lease renewal or break options and the extent to which the Group chooses to use practical expedients and recognition exemptions at the time of adoption.</p> <p>However it is clear at this stage that the most material impact of the new standard will be that approximately 3,000 property leases asset and liabilities will need to be brought on balance sheet and the Group's initial assessment of the impact of this is noted below:</p> <p><i>Property leases: (indicative numbers rounded to nearest £100m, based on using the modified retrospective transition option with practical expedients)</i></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Balance Sheet:</td> <td style="text-align: right;">£m</td> </tr> <tr> <td>Right of use asset</td> <td style="text-align: right;">900</td> </tr> <tr> <td>Lease liability</td> <td style="text-align: right;"><u>(1,300)</u></td> </tr> <tr> <td>Change in reserves</td> <td style="text-align: right;">(400)</td> </tr> </table>	Balance Sheet:	£m	Right of use asset	900	Lease liability	<u>(1,300)</u>	Change in reserves	(400)
Balance Sheet:	£m								
Right of use asset	900								
Lease liability	<u>(1,300)</u>								
Change in reserves	(400)								

	<p>The impact on profit before tax is estimated as a £40m net reduction in 2019.</p> <p><u>Non-property leases:</u></p> <p>The Group has started assessing what 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. Based on the current business set-up, most equipment is bought by the Group rather than rented and therefore the impact in this area is expected to be minimal.</p>
Date of adoption by the Group	Mandatory for financial years commencing on or after 1 January 2019. The Group currently intends to adopt the standard using transition option 2a which means measuring the right of use assets as if IFRS 16 had always been applied, but discounting at an incremental borrowing rate at the date of transition. This approach will be confirmed during 2018.

Title	IFRS 9 Financial Instruments
Nature of the change	IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.
Impact	<p>Most of the changes to IFRS 9 are not relevant to the Group. However, there are a couple of changes that may impact the Group in future periods:</p> <p><u>Fair value election:</u></p> <p>The Group currently fair values its Eurobond debt and under IFRS 9 there is an option to reset the accounting treatment such that these liabilities could be carried at amortised cost. This would remove the requirement to fair value the debt each year. Management are considering if this would be an appropriate election to make as the requirement to mark to market (fair value) the Group's swaps would remain.</p> <p><u>Bad debts:</u></p> <p>IFRS 9 also requires an entity to move to an "expected credit losses model" for bad debt. It will change the way we account for bad debt but is not expected to be material.</p>
Date of adoption by the Group	Mandatory for financial years commencing on or after 1 January 2019.

Title	IFRS 17 Insurance Contracts
Nature of the change	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. These requirements are designed to achieve the goal of a consistent, principle-

	based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 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 Our Business Performance on page 12). The Directors have also assessed the financial risks facing the Group, its liquidity position and available borrowing facilities. These are principally described in Note 10 to the accounts. In addition, Notes 17 and 25 in the 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 assessing the appropriateness of the going concern basis of preparation, the Directors have firstly considered the going concern position and outlook of the Trading Group and CISGIL separately, as they are independently funded. The Directors have then, taking these individual assessments into account, considered the overall going concern position of the Group.

The Trading Group meets its working capital requirements through a number of separate funding arrangements, as set out in detail in note 25 in the annual report, certain of which are provided subject to continued compliance with certain covenants (Debt Covenants). Profitability and cash flow forecasts for the Trading Group, prepared for the period to June 2018 (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 Trading 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.

CISGIL is required to comply with a number of regulatory capital requirements. In assessing capital resilience for the period under review, CISGIL has considered a number of stress and reverse stress tests on capital in the context of maintaining future capital levels above all regulatory requirements. In considering these scenarios, management has identified potential actions that could be taken to improve the capital position if overall solvency is threatened.

After considering both Trading Group and CISGIL as described above, and 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.