Annual Report 2019

Co-operating for a fairer world

It's what we do

Contents

Strategic report

Governance reports

Financial statements

Quick reads

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

You can also jump back to this page by clicking this icon in the top of every page.

We're creating value for our members

2019 Highlights

Group revenue

£10.9bn

up 7% on 2018

Group profit before tax (continuing*)

£67m

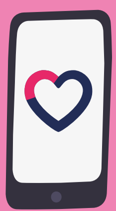
2018: £83m but **£79m** vs £83m (excluding IFRS 16 impact)

Group underlying profit before tax**

£31m

2018: £33m but **£50m** vs £33m (excluding IFRS 16 impact)

*The loss on discontinued operations of £16m (2018: £230m) relating to the proposed sale of our insurance underwriting business is shown below profit before tax. **Our 2019 numbers reflect the impact of IFRS 16. Our 2018 numbers have been restated. Please see **page 11** for further information.



Co-op Health
launched

77% of own-brand packaging easy to recycle (**up from** 72%)

39% reduction in direct Greenhouse gas emissions since 2016

6 more Co-op Academy Schools opened

£17m shared with over **4,400** local causes

£59m awarded to members through **5%** Co-op reward

600 Member Pioneers

Co-operating for a fairer world

We're a consumer owned co-operative running an ethically responsible business. Our vision is to use **the power of co-operation to create a fairer world.**

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

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

It's what we do.

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

We're a major food retailer and wholesaler; we're the largest funerals provider in the UK; the largest probate provider; and we provide life planning services and sell insurance products. In 2019, we launched a new business – Co-op Health.

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

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

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

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

For more information on our sustainability progress in 2019 please see our report:

Co-operate: It's what we do
our Sustainability Report 2019

Chair's introduction

> Our business is drawing deeply on our values of commercial responsibility and community concern to play our part in responding to Covid-19.

As we've been preparing this report, the UK and the wider world has become engulfed in an unprecedented health and economic crisis. Our business is drawing deeply on our values of commercial responsibility and community concern to play our part in responding to Covid-19. Our commitment is to do all we can to help our members, customers and colleagues through the weeks and months ahead.

We've all experienced the speed at which the crisis has developed and the radical responses introduced by the Government. In Steve Murrells' business overview, you'll see how we've been responding to the situation across our business areas, as well as the action we've taken to support local communities. I'd like to give a special thanks to our colleagues, especially in our food stores and funeral homes, who've responded so well to the additional pressures created by the pandemic.

It's already clear that coronavirus will have profound consequences for the UK and global economy and our Co-op members and customers will not be immune.

One of the many consequences of the pandemic has been the need to move the date of our 2020 AGM and run it in a very different way to ensure social distancing and compliance with government guidance. That means we're telling our members not to attend the meeting in person. I never thought I'd say to our members that they should not attend our AGM but it's one more example of an extraordinary situation. We still want our members to have their say by voting online or by post in advance of the meeting and submitting questions via an online tool. Taking care of our members and each other is our key priority right now, as well as complying with Government guidance. I've discussed it with Nick Crofts, our Council President, and we know this is the right thing to do.

This is our 2019 report and financial statements, so we're looking at the year gone by before the current crisis. I'm proud of what we've achieved last year and we want to share all of the good work with you, even though this may seem a little strange when you read the report with the current backdrop. We have included reference to the coronavirus pandemic where we think this is appropriate and helpful.

High Streets under pressure

Even before the outbreak of coronavirus, the High Street in 2019 was under considerable strain. At the end of 2019 the Centre for Retail Research reported that UK high streets had shed more than 140,000 jobs during the year. Some big name brands went under and, up and down the country, more than 60 shops a day were closing their doors for the last time. For those still in business, sales have been mostly flat or down. According to the British Retail Consortium, 2019 was the worst year for its members for a quarter of a century, with food retailers failing to gain any uplift in the final month of the year.

Experts and commentators put the blame on the economic and political uncertainty caused by Brexit. The dour mood at Westminster had spread to the whole country. The high street closures were not only bad news for the businesses concerned, and their employees, but for the local communities they serve, too.

It's against the background of this challenging and highly competitive market that the Co-op is reporting continued like-for-like growth in our food stores, along with new store openings. In addition, we've launched a new digital-led business with Co-op Health and seen extensive product and service innovation in our Funerals, Insurance, and Legal businesses. We're staying modern and relevant by embracing new technology and responding quickly to the changing needs of all our customers.

Commercial performance

Our results are particularly complicated this year because of accounting changes discussed later. Although our income statement shows profit before tax of £67m against £83m last year this is distorted by the accounting changes. A truer measure of our performance is our underlying profit before tax. As explained in more detail later, this was £50m (excluding IFRS 16) up £17m on 2018 on a like-for-like basis.

Generating value

Profitability is not the only way we measure our success at the Co-op. Strengthening and sustaining our local communities is fundamental to us, and in 2019, we gave £17 million to over 4,400 local causes. In fact, we've shared £56m since we launched our Local Community Fund in 2016. By using the data we've collected through our new Community Wellbeing Index, we have a clear idea about how best to support those communities. This insight is now reflected in our 'Co-operate 2022' community programme which our Members' Council helped to develop. We're prioritising local initiatives that are supporting and protecting local community spaces and mental and physical wellbeing.

And we're looking to enable all generations to develop and share their skills to boost individual and community wellbeing.

Last year, the Co-op Academies Trust opened six more schools bringing its total to 24. Co-op Academy schools are raising standards and improving the opportunities for thousands of children in some of the most disadvantaged areas in the north of England. Meanwhile, our charity, the Co-op Foundation, is also contributing to these priorities. The Foundation has supported more than 200 community spaces, including through its £1.6million 'Space to Connect' partnership with the British Government.

Another way in which we return value to our 4.6 million members is by giving them a national voice on the issues that matter most to them. It's because we've listened to our members, and their elected representatives on our Council, that we're tackling crime and the causes of crime both locally and nationally; it's why we're raising awareness of the importance of community spaces; and why we're taking seriously our responsibilities for the growing climate emergency.

New challenges, new vision

Throughout 2019 we marked the 175th anniversary of the birth of the co-operative movement in the UK. We chose to use the anniversary to think carefully about how we respond in a co-operative way to the new challenges we face in the world.

Although the issue of leaving the EU has been settled, there remain many divisions in society that, as a business founded on ideas of fairness, deeply concern us. The ever-widening gap between the richest and poorest; the inequalities between the north and the south; divisions between towns and cities; gender, ethnic and religious discrimination; and differences in outlook between old and young – all work against us achieving the ideals of co-operation that first inspired our business founders. The current pandemic has also highlighted the inequalities between those who have secure employment and the many millions who are self-employed and reliant on ongoing work and income.

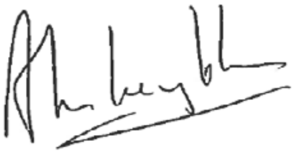
Our long-term thinking about the relationship of our business to wider society has led us to adopt a new vision statement: 'Co-operating for a fairer world'.

Our aim in the years ahead is to help prepare our local communities for the difficulties and the opportunities to come in a rapidly changing world. We want to give communities the tools that will allow them to take more control of their lives. We especially want to make sure that a younger generation has a fair chance to be the best they can. We believe that co-operative business endeavours and co-operative ways of working will be needed in the future even more than they were in the past.

However, we know that our Co-op can't fix all that's broken. And nor should we try. We should look first at how we run our own affairs and how we touch the lives of others. We want to focus on areas of concern that are relevant to our members and relevant to the products and services we sell. Above all, we must set out to make a tangible difference. And by working co-operatively with others, we can greatly increase the difference we make. An early test of our new vision has been the response we've made to the coronavirus outbreak which Steve Murrells sets out in his introduction below.

I'd like to thank my fellow Board directors for their work throughout the year. I also want to acknowledge the unique role of our elected Council members in the governance of our Co-op and the invaluable contribution they continue to make to all aspects of our work. Our Council makes sure that we stay true to the Values and Principles of Co-operation that have been our most important inheritance from Rochdale for the last 175 years.

Finally, let me welcome our new Member Nominated Director Sarah McCarthy-Fry, who was elected in May 2019, and Shirine Khoury-Haq who joined our Executive team and Board as Chief Financial Officer in August.



Allan Leighton
Chair, Co-op Group

Chief Executive's overview

> Safeguarding the health of our front line colleagues has been a top priority.

This is our 2019 annual report and accounts, but I feel I need to start my overview with what's happening in the world right now.

Since early March this year no part of our business operations have been left unaffected by the consequences of the Covid-19 virus.

As a national food retailer we're playing a critical role in maintaining the basic necessities of life through an exceptional time in the nation's history. Like other food retailers, we've been working hard to keep our shelves stocked so everyone can get what they need when they need it.

However, a dramatic increase in purchases in the early weeks of the pandemic did place severe pressure on our store colleagues and logistics network. Like others, we introduced restrictions on customers' purchases to help stabilise availability. We've also introduced temporary changes to our trading hours to give colleagues more time to clean the stores and re-stock and have implemented social distancing guidelines across our store estate and depots. Vulnerable customers, those that care for them, and NHS workers are being given shopping priority at the start of the day.

In just seven days we recruited and trained 5,000 additional colleagues to work in our stores and across our logistics network. Many of our new Food colleagues were recruited from the leisure, hospitality and catering sectors which saw significant layoffs as social distancing came into force.

Across the world, as the virus has advanced, we've seen high numbers of deaths and huge pressure on healthcare systems. As a national funeral provider we're working closely with the Government and NHS Trusts to share our expertise and provide support. The new regulations for Covid-19 related deaths have changed the way we can care for the deceased and the type of funerals we can arrange. Our Funeralcare colleagues are supporting bereaved families as best they can under the emergency procedures now in place, this includes offering a live streaming facility for the funeral service. As with Food, we've also been recruiting new colleagues into Funeralcare to make sure we have the capacity required in the weeks ahead.

Safeguarding the health of our front line colleagues has been a top priority. We've introduced protective plastic screens at every checkout across the UK, in addition to the extra gloves and sanitisers we've made available. We've also sourced additional personal protective equipment (PPE) for our colleagues in Funeralcare. At the beginning of the crisis we made changes to our colleague sickness and absence policies. No colleague will be disadvantaged due to the unprecedented circumstances we're all facing, in particular the need to self-isolate if you, or anyone in your home, is showing symptoms of the virus.

It's impossible to predict with any certainty what the full impact of Covid-19 on our business operations will be. So far, we estimate that the impact on our costs is between £200 and

£275 million, including significant increases in payroll, logistics, store expenses, investment in colleague safety and the impact of social distancing on the type and size of funerals we undertake. Some of this will be off-set by increased food sales and the changes to business rates announced by the Chancellor as part of the Government's Covid-19 response.

At the same time as our business response, we've been doing all we can to support local communities.

As the economic impact of the virus began to take hold and food bank donations from customers dropped, we announced a donation of £1.5 million worth of food to FareShare, a national charity tackling hunger, which supports over 11,000 local organisations including food banks across the UK. Ahead of Easter, we pulled our planned Easter promotions TV advertising campaign, and donated the airtime – worth £2.5 million – to promote giving to FareShare. Alongside the TV advert, we've set up ways to donate money to the charity via text or in-store.

With charitable fundraising more difficult and local needs increasing, we decided to bring forward part of our annual pay-out to the local community causes our members have been supporting through their 1% Co-op Member reward. This has given £4.5 million to more than 4,000 local causes at a critical moment. We've also asked our members if they would like to donate their 5% reward to help tackle food shortages and funeral poverty at this difficult time for so many people.

As schools began to close, ahead of the official national closure, we stepped in to help the 6,500 pupils at Co-op Academy Schools who receive free school meals. We provided £20 per week for each student using Co-op gift cards to bridge the gap while the Government was organising its own national response. We've also extended to non-Co-op Academy schools Co-op gift cards as a solution to providing help to their own pupils and several hundred schools have taken us up on this.

Meanwhile our national network of 700 Member Pioneers, an increase of 100 since 2019, has been supporting local communities in a variety of ways including setting up 'mutual aid' groups to co-ordinate support for the most vulnerable. They've also been sharing key resources through social media, such as a guide from our charity partner Mind on how to support your mental wellbeing while being in isolation.

We decided to accelerate the reach and functionality of our new online platform 'Co-operate' which connects people to local support and information. This new platform is now focusing its support on helping individuals and communities to stay connected and respond to local needs during the pandemic and on-going social isolation.

Co-operating for a fairer world

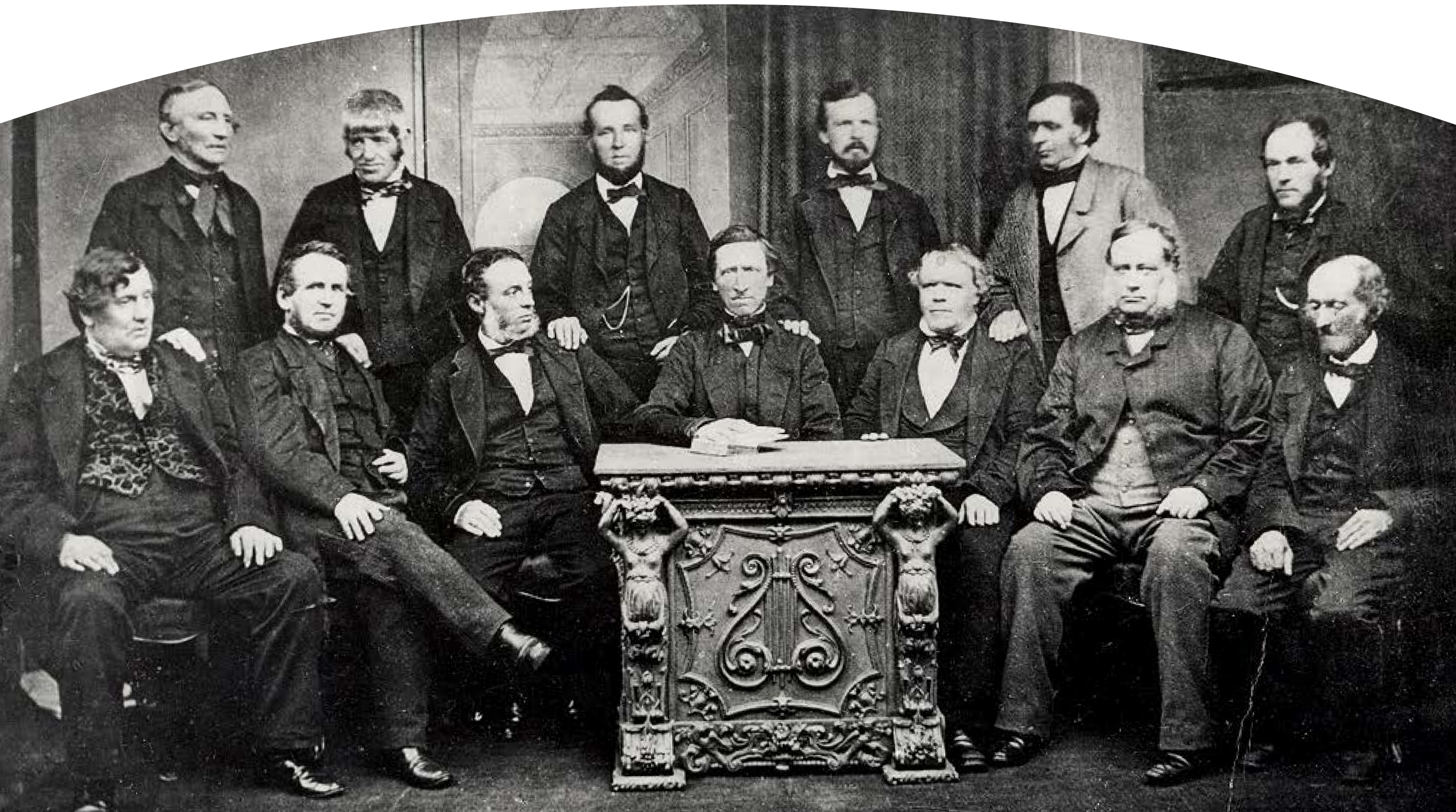
As our Chair Allan Leighton set out, our new vision 'Co-operating for a fairer world' gives us our long-term direction of travel for every aspect of the business. It's a vision which embraces everything from the strategic and operational decisions we take to run our Co-op, to how we develop our work to support the local communities we were set up to serve. It's a way of thinking and behaving that you won't see in any other national UK business. It's distinctively co-operative because it demonstrates our belief in the co-operative values of democracy, equality, and self-responsibility all placed in the service of achieving a common good for our communities. In short, you achieve a fairer world by being co-operative.

Co-operative thinking doesn't mean that we forget what it is to be commercially focused and financially rigorous. The importance of running a commercially successful business as well as a community-minded one, is also an inheritance passed down to us from Rochdale. Our ethical intentions have to be right but so too do our business strategies and our efficiency at implementing them. This report shows how we're doing just that.

Environmental awareness

In 2019, the world seemed to wake up to the need to act on the accelerating climate emergency. We've long recognised this need and have been working to reduce our operational greenhouse gas (GHG) emissions since 2006 - halving them over that time. In 2019, in response to our members AGM motion to respond to the climate emergency, we went even further. We've set science-based targets to reduce our direct emissions by an additional 50% by 2025 and our product-related emissions by 11% by 2025 compared to 2016.

We've also become the first UK retailer to sign up to the United Nations' 'Our Only Future' campaign for businesses to meet the 1.5°C target for global warming and reach net zero GHG emissions across both direct and indirect emissions by 2050 at the latest. Targets are all well and good but it's our performance that we should be judged on and from 2016 to 2019 we reported a 39% reduction in our direct GHG emissions and a 2.5% reduction in our product-related emissions.



Understanding our financial performance in 2019

As Allan explained in his introduction, our headline business performance figures are difficult to compare with last year because of a significant change to financial reporting in respect of accounting for leases, called IFRS 16. This means that our financial commitments relating to leases are now shown on our balance sheet. It doesn't change how we run our business, nor the business cashflows, but it does have a significant impact on our reported profit and our balance sheet. So for this report (as we did in our 2019 Interim Report) we're including additional numbers in the finance review, as though the new reporting regulations didn't apply, so that year-on-year performance can be seen on a like-for-like basis.

Our Group turnover was £10.9 billion, an increase of 7% from 2018, reflecting the continued strong Food performance. In an ever more competitive environment, like-for-like Food sales have increased by 2.7% (convenience) or 1.9% (total Food excluding fuel). Profit before tax was £67 million but on a like-for-like basis, excluding the impact of IFRS 16, it was £79 million, marginally behind 2018. Our underlying profit before tax, which excludes the impact of non- trading items such as disposals and one-off items, was £50m on a like-for-like basis excluding IFRS 16 compared to £33m last year, a £17m increase principally reflecting strong profit growth in our Food business.

The numbers above also include a restatement of our results following the identification of some historical accounting errors in relation to the acquisition of Nisa in May 2018. These errors arose because of control weaknesses over some finance processes within Nisa and our new finance team are working to resolve these issues.

The errors impact the consolidated balance sheet at 5 January 2019 with net assets overstated by £33m, the balance sheet of Nisa at acquisition in May 2018 when net assets were overstated by £23m, and the consolidated income statement for 2018 that overstated profits by £10m.
More detail is given in our Financial Performance section on **page 46** and also in Note 38 to the accounts on **page 212**.

IFRS 15 – financial reporting for funeral plans

We have made the difficult decision to disagree with our auditors over the appropriate accounting for our funeral plan arrangements in full knowledge this has led to a qualified audit opinion in respect of our application of the IFRS 15 accounting standard on revenue recognition. We have taken this decision both because we believe it is the most appropriate accounting interpretation of what is a highly judgemental area but also because we have an obligation to prepare accounts for our members that are clear and understandable. We are firmly of the view that our approach most clearly reflects the true commercial nature of our funeral plan arrangements.
See our Financial Performance section on **page 46**.

Business overview

Food

The biggest part of our business is Food and once again we've shown our ability to win as a co-op. 2019 saw a sixth successive year of like-for-like sales growth in our food stores, a performance matched only by the main discount retailers in the market. Underlying profit in Food was £283 million in 2019 compared to £204 million in 2018. On a like-for-like basis excluding IFRS 16, profit was £235 million, up 15% on last year, reflecting the strong sales performance but also good cost control. We've remained focused on our strategy of being closer to where our customers are and adapting to external market trends and customer needs.

Nisa continues to grow as a wholesale platform and with a refreshed strategy in place we can see significant potential and growth in the business. Nisa has connected well with the Co-op over 2019 and we're seeing great collaboration between colleagues and unlocking product and proposition opportunities for partners. This remains a strategically important acquisition for us, enabling us to expand into 4,000 new outlets with our Co-op brand in a capital light way, generating cash and buying scale.

As the world changes at pace, the lifestyles of our customers are adapting and, as a result, so are their needs and expectations as food shoppers. Our members and customers span all generations, each with different needs from convenience shopping. We also see the general public as a whole becoming more aware and responsive to health and environmental issues. Ethical consumerism is growing rapidly, as our own research has shown.

We're in no doubt that the Co-op's leadership in ethical retailing over the decades has been a significant contributor to this welcome trend. Our plans over the coming years will see us face in to these issues even more.

We're continuing to strengthen our own store estate and we're opening new stores in more communities across the country. 2019 saw the Food business win some incredible awards. A key highlight was The Grocer's Gold award for 'Grocer of the Year'.

As you'll see in this report, Co-op Food is innovating, growing, and finding new ways to define 'convenience'. Our Food business also creates a vital anchor point in local communities up and down the country. We, and our millions of members, think of ourselves as a community asset, a focal point from which wider co-operative endeavours can spread. We have no intention of retreating from the high street but while we welcome the Government's short term business rates relief in response to coronavirus, we'd welcome long term Government reform to give us a level playing field with our online competitors.

Funeralcare

Our funerals business had a challenging year, with sales and profit down on 2018, a situation we were already reporting at the half year. Although funeral sales have been impacted last year by a 2% fall in the death rate, we know that the most significant factor in our performance has been the unprecedented change in public expectations and wishes which means we need to innovate and adapt to recover performance. By mid-way through 2019 we had agreed our turnaround strategy which will take a number of years to fully implement.

Our strategy is focused on supporting our colleagues to deliver the very highest standards of care and service for families and their loved ones. We aim to reposition, innovate and grow the business by modernising our offer and providing greater choice for families, improving value, and making it easier for them to get the support and care they need and expect from the Co-op. Over time, we plan to introduce new ranges and services so that our clients can create a very personal tribute and we'll make a step change to the end-to-end customer journey.

We know that the families we help have changing expectations about how they want to stay in touch with us, so we'll develop our face-to-face, telephone, text and online communication channels in ways that integrate all these forms of communication into a seamless customer experience. We'll be there for them whenever they need us.

Affordability is a central part of our strategy, but we won't be compromising on quality. In 2019 we held our At Need funeral prices all year. We'll be holding all of our prices for 'At Need' funerals for the foreseeable future and we're adopting a more agile and local approach to pricing. We're also looking at more flexible payment options. Meanwhile, we're removing significant cost from the centre during 2020 and maximising the efficiencies of running a national operation.

It was good to see very significant increases in colleague engagement scores across Funeralcare by the end of 2019, with our colleagues showing a renewed confidence in the future. Customer satisfaction has also increased, with over 600 customer compliments each week and high levels of recommendation.

As we complete this report, it's already clear to us that we will have to pause important aspects of our turnaround plans while we focus on the unprecedented demand being made on our funeral business by the coronavirus outbreak. We're currently reviewing all aspects of our implementation and will defer some initiatives to later in the year or beyond. Our immediate priority is to support bereaved families and the Government's efforts on dealing with the pandemic.

Alongside all of this, we're continuing to work with the Competition and Markets Authority (CMA) on their investigation into the funerals and cremation market. We have, from the outset, welcomed the Government's work on behalf of consumers and fully support a statutory regulator for the funerals sector covering quality and transparency with inspection and enforcement powers.

However, the CMA is consulting on a wide ranging set of proposals, which, if implemented in full, are likely to have repercussions for the sector and our business and we do not believe are warranted. The coronavirus outbreak is also likely to have implications for the sector which will need to be taken into account by the CMA in the scale and timing of further regulatory change. We also recognise that there's a pressing need in the funeral plan market for increased transparency, a ban on aggressive sales, and better financial protection for consumers. We welcome bringing funeral plans under the direct remit of the Financial Conduct Authority as the only body with appropriate expertise.

Insurance

At the beginning of 2019 we announced the sale of our insurance underwriting business to Markerstudy. Part of the agreement will put in place a new long term arrangement for Co-op to distribute Co-op branded motor and home insurance products underwritten through Markerstudy.

Co-op Insurance saw a loss mainly reflecting an increase in the underwriting costs of personal injury claims. Our accounts for 2019 show our insurance underwriting business as a discontinued operation.

As we wait for the deal to be approved by the regulators I want to thank our Insurance colleagues for their on-going commitment. Our insurance distribution business has continued to increase its profile and product development so we can meet the ever-increasing needs of our members and customers in the future. This year has seen us return to the life protection market and also launch a new product for young drivers.

Our ambition is to meet more of our member and customer insurance needs, more of the time and to deliver growth and good returns in a capital light way. We're building on our unique Co-op advantages – our membership, our trusted brand, and our community presence. We've put new teams in place during the year to develop how we use member insight and data to reach our members and customers, refine our offer and improve our partnerships. Sales of our travel insurance grew by 41% in 2019 due to returning customers, increased awareness of our product and several well publicised difficulties across the holiday and travel industry. Meanwhile, our home and motor policies continue to score highly across all categories within the recently announced 2020 Consumer Intelligence Awards.

In March 2020, as a result of the worsening global coronavirus outbreak, we regrettably paused the sale of our travel insurance to new customers so that we could focus on protecting our existing policy holders. It will still be possible to renew existing policies, however, we're having to include a temporary coronavirus exclusion. This is in line with the insurance industry as a whole.

As social distancing measures were brought in across the UK, we co-operated with the Association of British Insurers (ABI) to support those affected by the impact of Covid-19, as well as those who want to help their communities.

For anyone that needs to work from home because of Government advice or are self-isolating, home insurance cover will not be affected and customers don't need to contact us, provided that the work is clerical in nature.

If customers have to drive to work instead of getting public transport because of the impact of Covid-19, their car insurance policies will be valid. And if customers are using their car for voluntary purposes in any capacity as an NHS volunteer to support others who are impacted by Covid-19, cover will not be affected and they do not need to let us know. Additionally, key workers needing to use their own car to drive to different places of work because of the impact of Covid-19 will not be affected and do not need to tell us.

Legal Services

Our Legal Services business is continuing to do well across all of our practice areas, in particular probate, estate planning and family law. In 2019 Legal saw a 13% increase in revenue to £40 million and profits up £4 million to £6 million reflecting strong growth in probate together with operational improvements that have accelerated progression of cases.

In 2019 the probate registry office was impacted by reforms, and grants of probate were delayed by up to 13 weeks (from the previous norm of two weeks). Our probate business dealt exceptionally well with this challenge and minimised the disruption to our business and clients.

During the early weeks of the coronavirus outbreak we saw an increase in customer demand for our will writing services. In addition, we continue to maintain our focus on developing legal-tech services to make accessing legal help smoother and more convenient. Our partners will need and want more effective and efficient services for their clients as we emerge from this challenging period. We intend to provide engaging, value-added legal services and help our partners in the recovery phase.

Co-op Health

Following the launch of Co-op Health in May 2019, we've successfully re-entered the healthcare market, with the first digitally-led business from the Co-op. The number of customers choosing a new way to manage their medication through our Co-op Health app and having it delivered to their home or Co-op Food store, has continued to grow. We're also seeing that customers are happy with the service we provide, with 95% rating our service as good or very good for ordering medication. As is the case with all start-up ventures, we have spent much of the first 10 months establishing the fundamentals of our business, learning about what works for our customers, and developing our product accordingly.

With many people having to self-isolate at home due to coronavirus, our online prescription and delivery service is seeing greater demand. We're working to make sure we can meet that need despite Co-op Health being a fledgling business.

Investing and planning for the future

Over the next two years we'll continue to invest in all parts of our Co-op, however, in the context of the economic impact of the pandemic we'll be reviewing priorities and timelines.

We're putting in place stronger finance control frameworks in Nisa to make sure this part of our business is in line with the rest of our Co-op. Meanwhile, in our support functions across the business we're also putting in place improved guidance for our managers to ensure we are spending our members' money wisely.

We continue to plan as best we can for the future UK trading relationship with the EU. Of particular concern for us will be the additional costs and complexity of supplying our stores in Northern Ireland and our wholesale customers in the Republic of Ireland. We're dedicated to maintaining high welfare standards in our meat and poultry and to continuing our commitment to British farming.

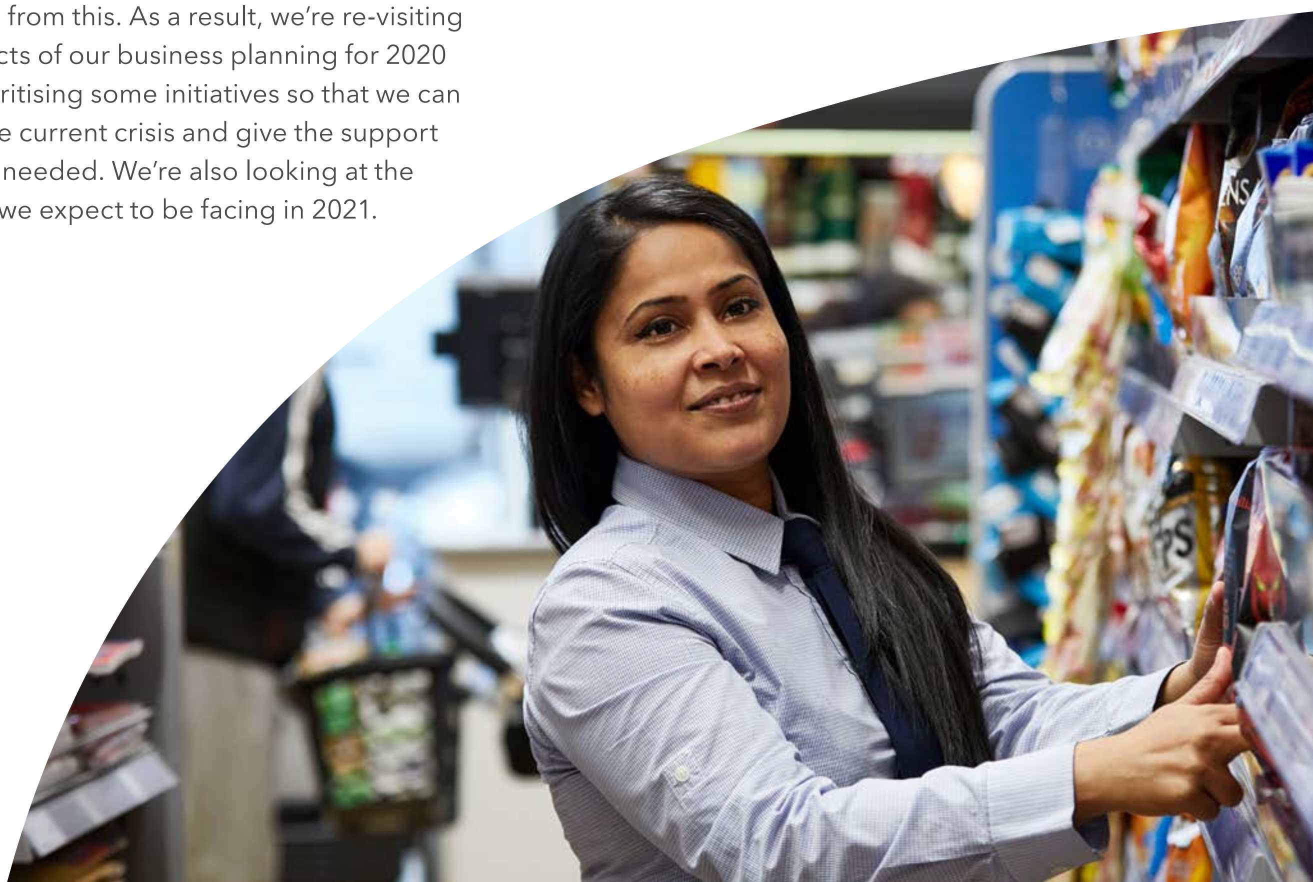
As we publish these results, and witness the scale of the disruption and the impact on both health and livelihoods, a UK economic downturn looks inevitable. Our members and customers will not be immune from this. As a result, we're re-visiting some aspects of our business planning for 2020 and re-prioritising some initiatives so that we can focus on the current crisis and give the support that's most needed. We're also looking at the conditions we expect to be facing in 2021.

To make sure we can keep doing the right thing for our colleagues, members and communities, we need to work as efficiently as we can, be cost conscious in all we do and ensure we make the right financial and strategic decisions now for the challenges we know are still to come. This will never have been as important to us as it will be in the coming months.

Our country is at its best when it comes together and we look out for each other. Community is everything right now. Our business sits at the heart of communities across the length and breadth of the UK and we're going to continue to play our part by doing the right thing.

Finally, let me thank our 62,000 colleagues working across the business in customer-facing and support roles. It's their hard work and commitment to our values, especially through these exceptional times, that make us who we are today.

Steve Murrells
Chief Executive, Co-op Group



Report from President of the National Members' Council

> I must thank Council for their constructive, passionate and positive work during 2019.

As Allan has said in his statement during this unprecedented national lock down, our Co-op is drawing deeply on our co-operative values and principles with commercial self-responsibility and community concern at the very heart of everything we are doing. Your Council is wholeheartedly supportive of the work our Co-op is doing to help members, customers and communities at this very difficult time.

It is with this backdrop that I am making this report to you as President of the National Members' Council reflecting on Council's key areas of focus in 2019, as well as acknowledging the challenges which we now face into.

As we celebrated the 175th anniversary of the birth of the co-operative movement in the UK, the Council ensures that we stay true to the Values and Principles of Co-operation. Council represents and is accountable to you, our member owners, and in 2019 we have continued to improve the ways we can connect and communicate with you through our 'Join In Live' events, blogs, social media, our Join In platform and our Council newsletter. Council has also championed our Member Pioneer model to ensure that co-operation can thrive in our communities up and down the country.

During 2019 Council has continued to build upon and develop a positive relationship with the Board and Executive providing constructive and robust challenge. Council held a number of sessions with the Board and Executive helping to shape and influence future plans for our Co-op and our vision, 'Co-operating for a fairer world' and how this can be brought to life and delivered for members and colleagues in the years to come. We have seen this vision in action as we have responded to the consequences of the coronavirus pandemic.

Campaigns

The safety of our colleagues is our top priority and has been a key concern of our members for some time and at the end of 2018 your Council supported our new 'Safer Colleagues and Safer Communities' campaign. Throughout 2019 Council has championed this work which has seen continued investment in colleague safety through new technology and training, continued pressure on Government through our leading campaigning work, and partnership with community organizations to help us to tackle the root causes of crime.

In April 2019 Council agreed that the Co-op's next charity campaign would be focused on mental and physical wellbeing. With the support of our colleagues, members and customers we'll raise £6 million over the next 18 months to help tackle mental health issues, partnering with three charities which together cover every part of the UK: **Mind** working in England and Wales; **SAMH** working in Scotland; and **Inspire** in Northern Ireland. Look out for opportunities to help us reach the fundraising target and participate in this key campaign.

These are both key areas as we face into the challenges of Covid-19.

Join In

We have consistently championed new and creative ways for members to get involved with our Co-op. Our 'Join In' programme is a shining example of this. In 2019, 148,000 members have participated 219,000 times. From helping to develop our new products to services shaping our approach to plastic recyclability, putting members at the heart of the Co-op's thinking is a huge priority for Council.

In 2019, Council held 12 large and 16 local Join in Live events in communities across the UK. These events brought members together and enabled them to hear about our Co-op, meet and put questions to Council members and Board directors, input into our Food range and our Endangered Spaces campaign and join us in celebrating the 25 year anniversary of our commitment to Fairtrade. Members also joined an online Q and A session with Steve Murrells, our Chief Executive, and myself. It's really important for us to be able to connect with members locally in their communities and in 2020, depending on social distancing requirements, we hope to increase the number of locally delivered events to help more members get involved.

We have made progress on establishing channels of communication that allow a two-way dialogue with members. There is always more work to be done on communications and Council will continue to explore and promote multi-channel member engagement.

You'll have seen Allan's statement about our AGM this year. None of us would ever want to hold a co-operative AGM without a healthy gathering of co-operative members, but this year I totally agree with the approach our Co-op is taking. The health and wellbeing of our members, and ensuring we comply with Government "stay at home" measures, must take precedence. We will, therefore, tell members who are not colleagues who need to be there as part of their job, not to attend in person. I know the team are doing everything they can to make available information online and to ensure there is an opportunity for questions and answers to be provided.

Council led research

Throughout 2019 Council has been carrying out a range of research to help inform our work and future priorities.

Council played a key role in commissioning work to develop proposals for changes to UK co-operative legislation, led by Mutuo and partners from the wider co-op movement with support from our Co-op. The aim of this is to update UK co-operative legislation to better reflect modern co-op businesses, increase the capital options available to co-ops, whilst ensuring the safeguarding of co-operative assets for future generations. I look forward to updating you on the progress made throughout 2020.

Council has also been carrying out research into best practice in Co-operative Member Education, Training and Information. In partnership with Co-operatives UK, Co-op Press and Co-op College, we have looked at the work of a number of different co-operative and membership organisations in this area and will be using our findings to help shape our work on Co-operative Member Education, Training and Information.

Thank yous

I was delighted to recruit Andy Seddon to the role of Council Secretary, to lead the Council Secretariat, a small team of committed individuals who deserve thanks from all of our members.

Vice Presidents Bev Perkins and Lesley Reznicek have been a source of tremendous support to me and I am very grateful for their dedication, commitment and wisdom.

Finally, I must thank all of the members of Council for their constructive, passionate and positive work during 2019.

Nick Crofts

Nick Crofts
President of the Council

Growing our Co-op business

Growing our Co-op business

We're constantly looking for new and better ways to reach more customers with Co-op products and services. For us to win as a co-op we need to grow as a co-op and we're finding new and creative ways to do this in every part of our business.

We've set out below the key initiatives and plans we had in place for our various businesses. Like all businesses we're facing challenges as a result of the coronavirus pandemic and we are having to adapt our plans in the short term to address these issues. This will likely put on hold or delay some of the plans for 2020 and beyond.

New food stores

We have continued to invest significantly in our Food Store Estate with 79 new stores across the UK by the end of 2019. We also refitted 152 stores and extended ten others. As the largest UK convenience retailer we have opened new stores across the country and in total we invested £187m in our new store development and refit programme.

Improved products

We're constantly developing our products; improving quality and helping our customers and members to make informed choices. We continue to promote a healthy range of products with clear nutritional information.

At the start of 2020 we launched our new plant-based brand called GRO, available from up to 6,000 Co-op and independent stores. The meat-free food market is growing and our research shows that the market has topped £1bn for the first time ever and has more than doubled in the last 20 years.

As a convenience retailer, with more than 2,600 stores covering the length and breadth of the country, it's important that we have an offering for vegans and vegetarians as well as the growing number of flexitarians to meet increased demand.

During the year we also relaunched our Irresistible pizza range with improved and innovative toppings with help from our Co-op Members.

Wholesale

In spring 2019 we marked the first year of our Wholesale expansion through the acquisition of Nisa. We've set up a single buying operation for all of the stores we supply, with Nisa partners able to select from 2,000 Co-op own brand products. We've seen a rapid uptake of this, with 90% of Nisa partners now taking lines from across the range.

The integration of Nisa into the Wholesale business has transformed the proposition Nisa partners are able to offer their customers with some like-for-like sales as strong as our own Co-op stores.

Festivals

Building on last year's success we attended even more music festivals in 2019. In partnership with Live Nation, we opened 6,000 ft. pop up shops at seven UK music festivals through the summer. This was in addition to our festival store at Glastonbury which we branded as '31 Toad Lane' in recognition of the 175th anniversary of the Rochdale Pioneers opening their first shop. We were able to introduce our Co-op heritage and values to new customers who weren't familiar with the ethical values which underpin our business and which align well with the festival's own outlook.

Co-op's festival partnership with Live Nation, and in particular our approach to environmental sustainability, has also been recognised at a number of industry awards, including the Festival Supplier Awards, European Sponsorship Association Awards and the IGD Shopper Activation Excellence Award.

Franchising

Franchising has long been a feature of consumer retail co-operatives on the continent and now we're beginning to use this way of reaching new markets in the UK. Our franchises are a capital light way to extend our reach. We now have eight franchise stores open via three Costcutter-owned stores, four on university campuses at Leeds, Kent and Newcastle as well as our first Nisa partner.

Opening our franchise store in February 2019 at Leeds University, the fifth biggest university in the UK, was a milestone for us and the new store has achieved significant sales uplift. It's clear that our quality, convenience and ethical values are a great fit with the student population. Students are 'accelerated adopters' giving us early insight into likely market trends and they're an important demographic for us as we develop our food retail offer across our entire estate.

Building on the success of our first three University based franchise stores, in September we announced a deal with the National Union of Students to be its exclusive retail grocery store franchise partner which could see us serving seven million students with food products and services over the next five years.

New insurance products

In the summer Co-op Insurance introduced a new policy designed to further reward our safest young drivers. The 'Graduated Young Driver' product offers drivers who've been on Co-op's Young Driver telematics product for two years or more, and who have a high Safe Driving Score, the chance to be 'unboxed'. Qualifying customers who've proven to be consistently safe drivers can have their black box switched off, will be offered our most competitive rates and, by carrying forward their safe driving score, can continue to save up to £300 on their renewals.

In 2019 we also re-entered the life insurance market launching Co-op Life Cover in partnership with Royal London. The product, which has been designed with input from Co-op members, includes the option to take two six-month payment holidays throughout the lifetime of the policy after a 12-month qualifying period, whilst allowing their policy to remain in force. Customers can also opt to reduce their cover level rather than pay back any shortfall at the end of the payment holiday window.

Co-op Health

In May we launched **Co-op Health** with an initial focus on repeat prescriptions. The health market is changing fast and parts of it are clearly broken and need fixing. Our new app makes ordering repeat prescriptions easier for customers and more efficient for the NHS.

Our app links directly into GP surgeries and gives a convenient, safe and secure connection. For our launch, the repeat prescriptions business focused on major cities like Manchester, Liverpool and London. In 2020 our prescription service will be available across all of England.

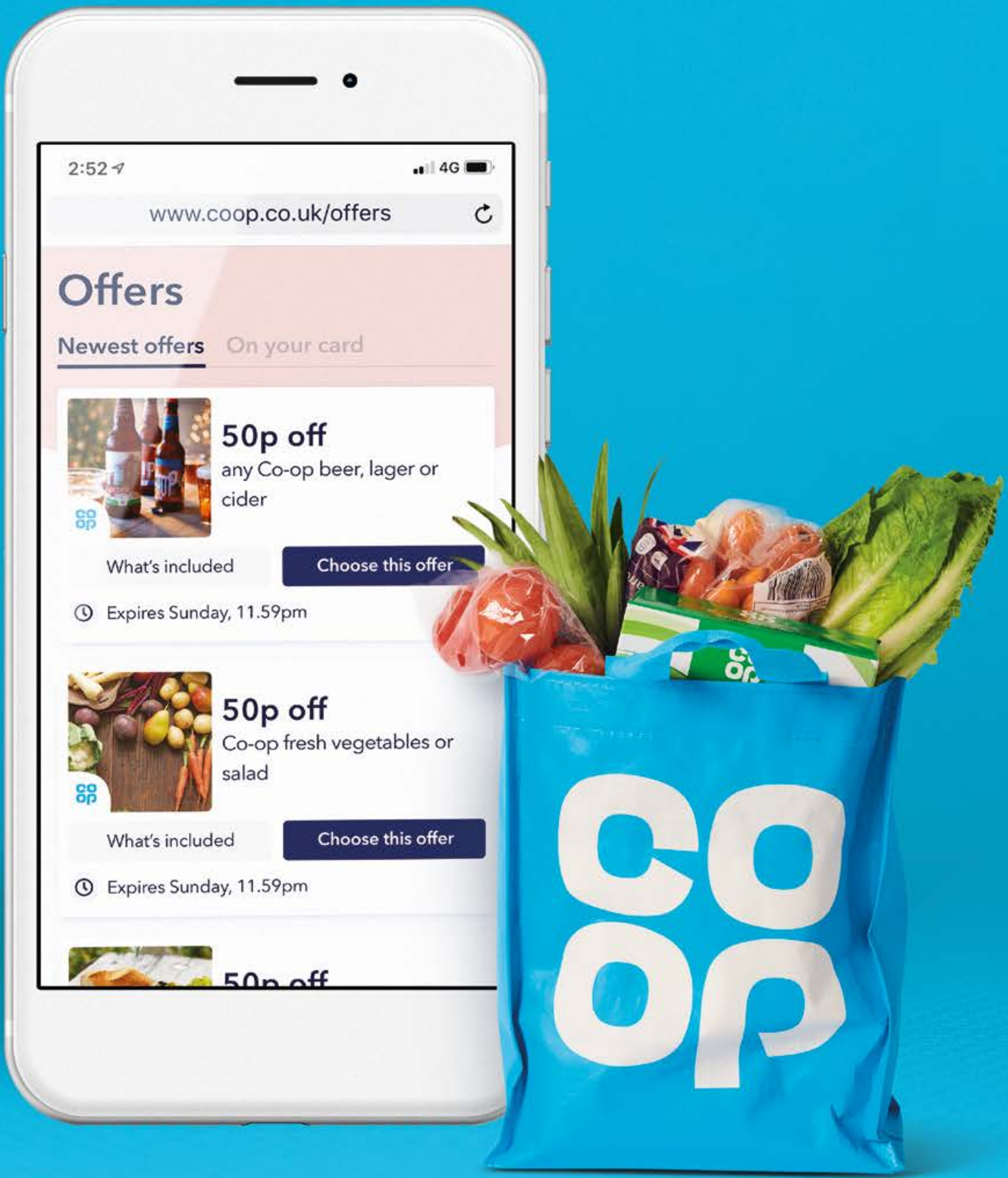
Since the AGM, the app has been downloaded more than 147,000 times. We've also begun our 'click & collect' trial, using lockers in Co-op food stores. We'll soon increase the app's functionality as we continue to learn and understand more about what our customers need.

New legal partnerships

Building partnerships with other businesses has been a key aspect of the growth of **Co-op Legal Services**. In October we secured a partnership with the Institute of Professional Will writers (IPW). IPW is a membership organisation with over a thousand members who provide will writing services to their client base. When IPW members identify a probate need they will now refer the customers to the Co-op. This will be an important new relationship for us, especially as IPW were previously working with one of our competitors.

We're currently in talks with several well-known businesses about how our services can help their customers with probate or estate planning. We expect to make more announcements during 2020 as we begin to rapidly expand our growth through a business to business strategy.

Convenient and innovative



Convenient and innovative

We've long understood the importance of convenience for our Food business and are continuing to develop solutions and services to meet changing customer needs.

The importance of being convenient is now being applied to the commercial development and growth of all parts of the Co-op's offer. Achieving convenience is closely linked to our innovation, technology and the use of data. As a Co-op, we want convenience to have an ethical dimension too, making it easier to do good for yourself and others through your purchases.

Supporting bereaved families

As we implement our turnaround strategy for **Co-op Funerals**, we're putting great emphasis on developing a range of ways for us to support families through their bereavement. Face to face contact remains essential for the sensitive service we're providing. However, we know that families are looking for a range of ways to talk to us; from the moment a loved one passes away, to how we keep in touch through all of the decisions and preparations that must be made for the funeral itself and the support that's needed in the weeks that follow.

So we're investing in our online presence and in the functionality of our website. We also want to improve our 24/7 phone availability and the way we use text messaging if that's a preferred way of communication for the family.

Food to Go

'Food to Go' is the fastest growing category in convenience and in 2019 we've been opening new 'On the Go' store formats with products aimed at busy city workers looking to 'grab' breakfast, lunch or dinner, both hot and cold. The stores feature extended food ranges to appeal to health conscious consumers including more vegetarian and vegan products, as well as free water taps for customers to refill their own bottles, and self-serve hot soup and porridge. Our third On the Go store was opened in Moorgate in the City of London in January 2019.

Online ordering and home delivery

In March 2019, Co-op Food launched its same day online delivery service **shop.coop.co.uk**, using low and no emission cargo bikes from our Co-op Kings Road store in Chelsea in London. It's the first time that we've successfully offered online delivery via a dedicated website. By the end of 2019, we were operating out of 32 hub stores covering central London and Manchester centre. In parallel, Co-op Food continued to expand online delivery services through partnerships with Deliveroo and Starship, accelerating scale across the UK to reach ever more customers.

At the beginning of 2020, we announced that Co-op Food will be continuing to expand our own services out of around 400 hub stores, serving 1,169 catchments around the UK including Southampton, Liverpool, Leeds, Manchester and London.

Young drivers

We've changed the web journey for our Young Driver telematics insurance product by integrating mobile and pc platforms and improving the quote information we provide. The result has been an improvement in online completion rates by over 50%, leading to an increase in directly sourced Young Driver sales and associated cost savings.

Co-op App

In the summer we launched a new Co-op App for our members which allows them to make weekly savings in addition to their 5% and 1% Co-op Member rewards. Each week members can choose two offers to take advantage of from a list tailored to them. It's a great example of how we're using data and insight to personalise our offer and make relevant recommendations. It was developed with the help of our members, 16,000 of whom took part in the trials. So far 265,000 members have downloaded the app saving themselves a total of £697,000. Over time we'll be adding to the app's functionality.

As part of coronavirus response to ensuring availability of food to all of our customers we have temporarily suspended our weekly offers to members.

Legal innovation

In October our **Co-op Legal Services** were given an 'Excellence in Innovation & Technology' award by the Law Society for our Family Law team's pioneering approach to digital technology. This includes the development of our online divorce tool, our work with the UK Government to digitise the submission of divorce paperwork, the production of a wealth of online content and the use of in-house technology to support flexible working. By embracing new technology, we're able to more effectively and efficiently fulfil the needs of our clients, while also helping to shape the future of the divorce process in England and Wales.

Investment in technology was a key focus in 2019. The Estate Planning business rolled out a new proprietary client service platform which improved document production quality and timelines. In addition, our platform has unique risk management and compliance features. The probate business rolled out a new cloud-based client service platform which keeps partners in touch with case progress through the key stages of case management.

We're committed to significant future technology investments and have plans for several cloud-based applications.

Involving our Co-op Members

A significant difference in how we run our business is the time we make to involve our Co-op Members in developing our products, services and community plans.

We've been using technology and innovative ideas to enable our Co-op Members to be more involved in the business they collectively own. Almost 148,000 members joined in with Co-op activities 219,000 times during 2019 and together they clocked up around 20,000 hours of their time to working with us, ensuring that new Co-op products, policies and services better met the needs of members.

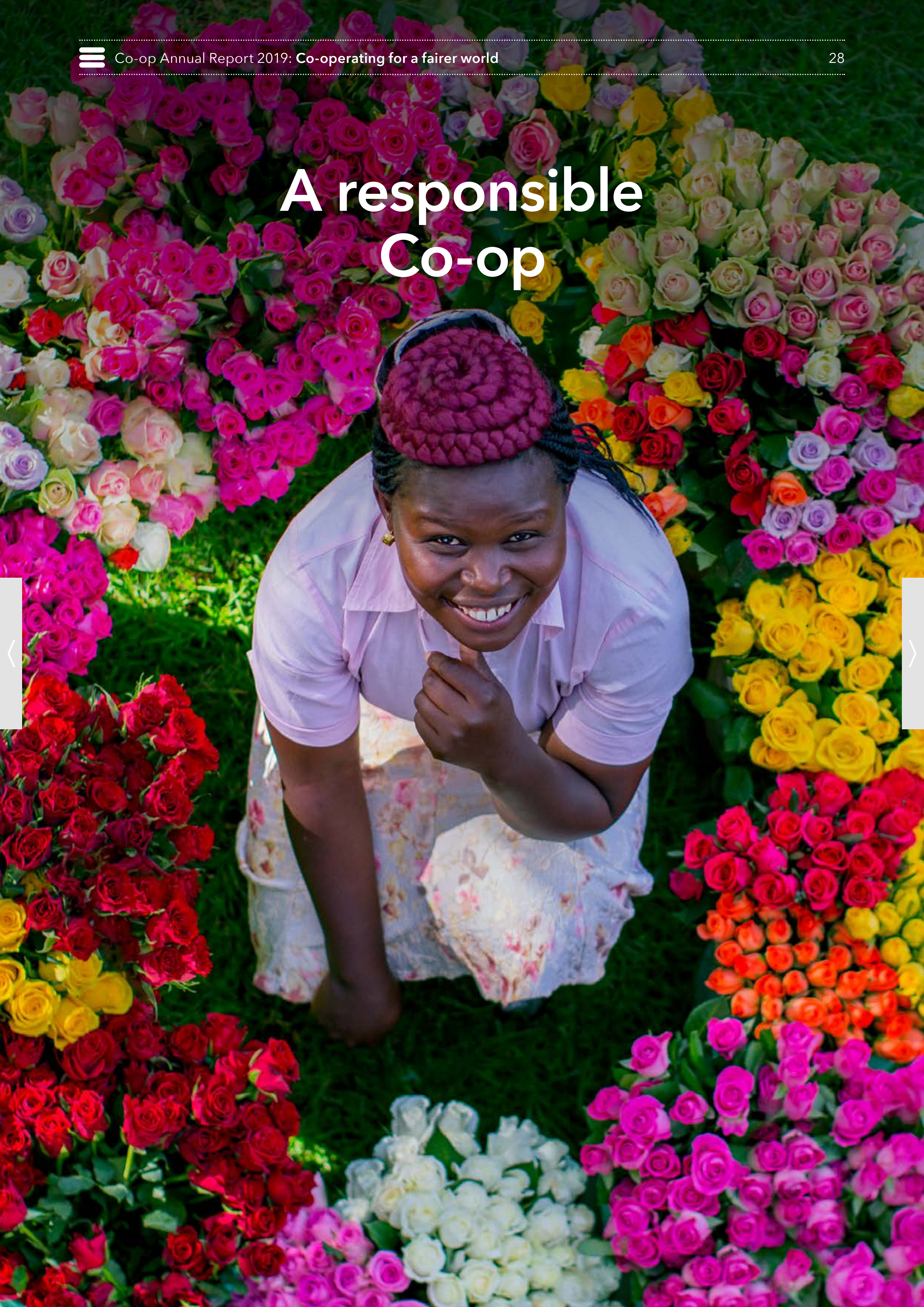
Our members helped us to launch new pizza toppings, design new crisp flavours and develop new digital apps. Once again, we ran 'Join In Live' events across the country during the autumn so our members could put questions to our elected Council Members and to our Board Directors.

Through sharing personal stories and life experiences, our members have also helped us to explore topics such as period poverty, bereavement and youth loneliness. And, by working together, we're taking steps to break down some of the barriers that prevent people from talking about these issues. Our members have also been essential to the development of 'Co-operate 2022' community priorities.

In 2019, our total number of active members was 4.6m, in line with 2018. However, a focus on attracting younger members saw a 36% increase in new members aged 35 or under.

Through 2020 our members will be working with us to develop new food, insurance and funeral services and products. They'll also help us to test new online services, promote Fairtrade, share their priorities with our Members' Council, support our community plan and provide the members' eye view on many other ideas we're considering.

A responsible Co-op



A responsible Co-op

Responsibility has always been central to our approach to running all aspects of our Co-op. Our ethical approach to business means we care about every link in our global supply chain and the impact we have on the planet.

It means we take seriously our responsibility towards our own colleagues who we see as the strongest advocates of our Co-op. To achieve this level of responsible commerce, we need to create a co-op culture which spreads well beyond the business.

Colleagues

We care about the wellbeing of our colleagues and it's important to us to offer them the support and advice they most need. Responding to the coronavirus has demanded we adopt new ways of working for many colleagues which have involved balancing work and family responsibilities in a whole new way. We know this is far from straight forward for many colleagues, especially when schools are closed and child care provision is unavailable. We're supporting our thousands of colleagues who are now working from home through established flexible working policies while team leaders are being encouraged to regularly check-in on their colleagues' morale.

We've also benefited from recent investment in technology which has enabled good individual and team communications to be maintained.

For our colleagues in food stores and funeral homes our priority has been their wellbeing, both physical and mental.

Our Funeralcare colleagues are supporting families and the NHS through the worst consequences of the crisis, while our colleagues in stores are part of the essential work of keeping the nation fed. At the beginning of the epidemic we provided extra sanitisers and time for hand washing and store cleaning. From the start of April we installed protective plastic screens at check outs. In recognition of their ongoing commitment, we gave a 'thank you gift' of £100 cash, £50 worth of Co-op Food, plus an additional day's annual leave to all of our front line Food and Funeralcare colleagues, totalling more than £13 million.

Over the last few years we've developed a suite of new policies and practical support including: Lifeworks, our employee assistance programme; help with mental health awareness; a new menopause support policy; and financial support partnerships to help with debt management and savings. These initiatives have gained even greater importance since the coronavirus outbreak.

Our colleagues in **Funeralcare** deal with grief and death on a daily basis and we're exploring more ways to be able to support them. We're implementing an approach to wellbeing that helps both our leaders and colleagues to better support each other. We're testing a number of approaches focused on: training our leaders to identify signs of anxiety and depression in their teams; learning how to talk about issues and know where professional support can be accessed; helping colleagues to support each other as peers; and offering tools and coping mechanisms to enhance colleague resilience.

From our food depots colleagues to our night ambulance drivers in Funeralcare, we rely on having a 24/7 workforce at the Co-op. We know that poor sleep patterns can have a serious impact on mental wellbeing. So through 2019 we worked with our colleagues and with the Wellcome Trust to understand the challenges of shift working and the importance of sleep. As a result of this research, we've developed '**Nightclub**', a 32ft mobile container which is travelling around the country to offer night shift workers practical support with their sleep health. On offer in Nightclub are interactive exercises, mini experiments and expert-led talks to learn about the science behind sleep.

One of priorities through 2019 was to create a more diverse and inclusive culture across our Co-op. Our strategy focuses on designing and developing the foundations that enable us to create, sustain and embed an inclusive culture. To that end, we've continued to use celebratory events such as National Inclusion Week, International Women's Day and Pride to build awareness of why diversity and inclusion is important in the Co-op and to include colleagues in the conversation. In 2019 our campaigns went bigger and bolder to reach our 62,000 colleagues.

We have grown our diversity and inclusion pioneers across all business areas from 80 to 150. Our colleague pioneers support our Diversity and Inclusion Strategy by leading the conversation; and helping leaders and colleagues understand the value and importance of having a more diverse and inclusive Co-op.

Gender pay gap reporting shows the overall difference in the average pay for all men and women across our Co-op and more information on this can be found on [page 100]. We want to do more monitoring and reporting on diversity across the business looking at gender in leadership roles, how well we attract and retain black, Asian and minority ethnic colleagues, and how well we retain young people as our future talent pool.

You can read more about our support for colleagues in our **Sustainability Report**.

The Future of Food

Our Future of Food ambition, setting our ethical approach to food retail, was launched in 2018. The ambition has three core areas: sourcing and creating with care; treating people fairly; and learning and celebrating together, with a series of ambitious goals underneath each. Those renewed commitments were built on decades of environmental responsibility which had already seen the Co-op take a lead on the use of renewable energy, ethical trading relationships, and testing on animals. During 2019 we saw the public's rapidly growing concern on environmental issues, particularly around sustainable sourcing and the use of plastic. Our members and customers want action and solutions and they want them fast. We believe they are right to expect this.

Throughout 2019 we made rapid progress in our **Action on Plastic** plans – removing black plastic, moving our packaging to 76% recyclable packaging by line to reflect what customers see in store (95% by weight). This work has included innovations like making our ready meal packaging easy to recycle and using aluminium and cardboard alternatives where we can. We've also increased our use of recycled plastic content in our bottles and oils.

We rolled out compostable carrier bags across the UK to stores in areas where food waste is collected, and lobbied local councils that don't to change their position. We continued to strengthen our **Fairtrade commitments** – celebrating 25 years of Co-op support for Fairtrade with our members, customers and suppliers.

In April 2019 we made a commitment to only source 100% sustainable soy as a way to prevent deforestation and the loss of native vegetation caused by ever expanding soy cultivation, predominantly for use in animal feed.

We committed to reducing our greenhouse gas emissions in line with limiting global temperatures to 1.5°C, pledging a move to net-zero by 2050 at the latest. This commitment applies not only to the carbon footprint of our business operations but to the much more significant climate impact created by the products we sell.

In June we announced we were accelerating our efforts by promising to halve the direct greenhouse gas (GHG) emissions from our business from 2016 to 2025, and reduce the GHG emissions from our products by 11% over the same period. In September we became the first UK retailer to sign on to the United Nation's 'Our Only Future' campaign for businesses globally to meet the 1.5°C target.

Our Future of Food ambition was awarded the IGD Sustainable Futures award and commended for being "the blueprint that others should follow".

In 2020, we intend to accelerate our plans on plastics, our climate change ambition, and will continue to collaborate with our members to find sustainable solutions to the challenges ahead.

Responsible pension investments

In June we changed the default investment strategy for the defined contribution section of the Co-op's pension fund to invest more in companies that score highly for sustainability and with an emphasis on mitigating climate change. This means approximately £320m of Co-op employees' defined contribution assets was switched to invest in a fund with a conscious bias towards companies and bonds that score well on environmental, social and corporate governance performance.

Meanwhile, affordable housing projects in East Lothian, Glasgow and Yorkshire have been built thanks to the £50m investment in social housing which our Pension fund announced in 2018.

Sustainability Bond and Fairtrade

At the end of May, we became the first UK retailer to issue a sterling-denominated Sustainability Bond. It's raised £300m and we're using the funds exclusively on supporting and promoting Fairtrade, including Fairtrade producers and their communities.

Co-op intends to allocate the net proceeds of the Sustainability Bond issuance to the costs of bringing Fairtrade products to customers, marketing and promoting Fairtrade products and wider Fairtrade movement.

Our continued commitment to Fairtrade comes as some other major retailers are scaling back their investment despite it being a key source of support for communities around the developing world.

You can read more about our achievements as a responsible business in our annual Sustainability Report.

A campaigning Co-op

A campaigning Co-op

We have a long tradition of campaigning on the issues that matter most to our members. Our aim is to provide a national voice that can speak to local and national decision makers. We also set out to develop practical solutions that can be shared with others and scaled up to a national level.

The safety of our colleagues has been an increasing concern of our members and our Executive for some time and at the end of 2018 we adopted our new campaign 'Safer Colleagues and Safer Communities' with the approval of our nationally elected Members' Council.

We're tackling crime in our stores through investment in technology and security and by lobbying Government to take the issue seriously. However, we also want to address the root causes of the problem in our communities. At our AGM we announced our new partnership with the Damilola Taylor Trust and in 2019 we funded one of its skills training programmes for young people at risk of falling into a life of crime, and we'll continue this support in 2020.

Following the call for evidence by the Home Office, we encouraged and supported more than 600 of our colleagues to come forward and record their experience of crime in the workplace. We also submitted our own 70-page report with ten key recommendations for the Government to consider.

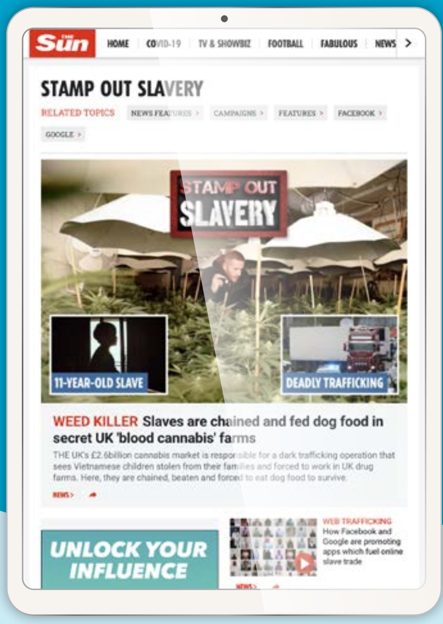
We commissioned new academic research by Dr. Emmeline Taylor into violence on shop workers and published the findings in September. In November we hosted a summit to mark the beginning of Usdaw's 'Freedom from Fear' week with Sadiq Khan, Mayor of London, alongside our Food Chief Executive, Jo Whitfield, as keynote speakers. At the start of 2020 thousands of our colleagues wrote to their MPs asking for their support in pushing the Government to take further action.

Meanwhile, we're continuing to invest in store technology such as our intelligent CCTV equipment which helps us to gather evidence and work with the police to secure convictions. We've also been testing body cameras in a number of stores with a view to rolling this out to our shops in the most affected areas.

As well as supporting many local projects tackling the causes and consequences of crime through our Local Community Fund, we're also partnering with specific crime initiatives in London and Manchester tackling the root causes of crime.

At our AGM we launched our partnership with the knife-crime charity Steel Warriors. This multi-million-pound investment was begun following our decision to stop selling single pack kitchen knives in our stores. We donated our existing knives to Steel Warriors who create free community gyms in places impacted by knife crime. The gym is made from knives surrendered or seized from the streets and melted down to make equipment. In 2019 we opened two new gyms in Lambeth and Finsbury Park in London. Our aim is to help Steel Warrior build 20 open-air gyms across the UK with six opening in 2020. Alongside the gyms, we're also providing certified personal trainers to offer training sessions to youngsters of all abilities at the same time as promoting an anti-knife crime message.

In 2020 we'll focus our direct support for colleagues working in those shops which account for the majority of all crimes committed against our estate. We'll continue working with local and national politicians, Police and Crime Commissioners and the Home Office to raise understanding of the issues and push for new legislation. We'll invite politicians to visit our stores to see the affect crime has on our colleagues.



Loneliness and slavery

Our campaigns on Loneliness and Slavery continue to be influential in the public debate on these issues. In May we hosted the Loneliness Action Group's national conference with the Government Minister for Loneliness, Mims Davies MP, speaking. We also published new research on the effectiveness of our Community Connector programme and on loneliness in the black, Asian and ethnic minority communities.

We continued to lobby for enhanced support for victims of Modern Slavery throughout 2019. We helped to coordinate a 'victim support' petition hand-in at No 10 Downing Street and the Home Office in March, urging the UK Government to back Lord McColl's 'Victim Support Bill' and provide survivors of modern slavery with 12 months' support (rather than 45 days). The combined petition comprised 64,241 signatures. We also worked with The Sun's 'Stamp out Slavery' campaign, calling for the government to support Lord McColl's Bill.

We were delighted when, in April 2019, a Judicial Review relating to Victim Support was carried out, resulting in an extension of support given.

Supporting our communities

Supporting our communities

For generations our Co-op has been famous for its work supporting local communities. Over the years we have evolved how we do this, responding to changing needs and challenges. Today, we are continuing to strengthen the communities in which we trade through practical help based on evidenced based research and listening to our members.

Community pay-out

In November our annual pay out of our Local Community Fund gave more than £17 million to 4,400 local causes across the UK. The money is raised through the 1% our Co-op Members earn when they buy Co-op branded products and services and through the carrier bag levy in England and Scotland. Our members can choose to give their 1% from three local causes selected in their area. Since its launch in 2016, the Local Community Fund has given £56 million to thousands of local causes across the country at a time when public funding has been rapidly decreasing leaving many important projects vulnerable to closure.

As highlighted earlier in this report, we took the decision to bring forward to April a part pay out of £4.5 million for this year in recognition of the additional strains all local causes are facing as a result of coronavirus.

Co-operate 2022

We used 2019 to develop our ideas for how we support local communities over the next few years so that we're addressing today's challenges in a co-operative way. Our community plan, which we're calling '**Co-operate 2022**', was developed using data from the Community Wellbeing Index and with input from more than 10,000 Co-op members and our Members' Council.

It builds on all the work we've been doing since 2016 to create stronger communities.

As this work has evolved, we've been putting ever greater emphasis on projects which will bring people together and promote co-operative solutions. Through our Community Wellbeing Index, and our broader research and consultation work with members and communities, we've identified three priorities for our community work: Community Spaces; Physical and Mental Wellbeing; and Education and Skills.
We're aligning the work of our Member Pioneers behind this plan and giving priority through our Local Community Fund to local causes working on these issues. Our charity, the Co-op Foundation, is also contributing and, in 2019, launched a £3m extension to its #iwill Fund. Grants will support young people to advocate to improve spaces, and help each other during bereavement and on the move from primary to secondary school.

We want to create stronger, more connected communities that bring people together.
To achieve that, communities need good physical spaces, both indoor and out, and we know these are under threat. One of the best ways to address social exclusion and mental and physical illness is to help and support people to connect with their local communities. We want to encourage that to happen by making it easier for communities to create, secure and use social spaces, and encouraging local initiatives that bring people together and address isolation and health issues.

We also want to build powerful virtual community spaces too where local initiatives can be shared, calls for support made, and connections built that will enable great things to happen.

Endangered Spaces

At the start of the summer we launched our **Endangered Spaces** campaign in partnership with the charity Locality. Our aim is to protect 2,000 community spaces by the end of 2022. By the end of the year we'd helped 300 community groups looking for financial or specialist support to help save local spaces. Additionally, we've supported 1,466 local causes using community spaces through the Local Community Fund.

Our charity, The Co-op Foundation, is contributing to our work and by the end of 2019 had helped to improve more than 200 spaces. It awarded almost £900,000 of grants from its Space to Connect partnership with Government and supported green spaces in Wales through funds raised from the Welsh carrier bag levy.

Mental wellbeing

We know that health issues - both physical and mental - are becoming more urgent and better understood. Mental health diagnoses are rising, particularly among younger people. Our Community Wellbeing Index data shows high levels of prescriptions relating to depression, diabetes and obesity in some areas of the UK. Meanwhile, nearly half of adults believe they've had a diagnosable mental health condition at some point in their lives. We also know, through our work to tackle loneliness, that mental and physical health issues are a huge driver of social exclusion and therefore isolation.

In October we announced, with the support of our Members' Council, that we're going to raise £6 million over the next 18 months to fund new research, services and advocacy activity to build individual and community resilience improve mental wellbeing.

We're partnering with three charities which together cover every part of the UK: Mind (working in England and Wales); SAMH working (in Scotland); and Inspire (in Northern Ireland).

It's the experiences of our colleagues and our knowledge of local communities that's led us to make mental wellbeing a priority. There are many things that can affect both mental and physical wellbeing, including work. From Funeralcare colleagues dealing with bereaved families, to food and logistics colleagues dealing with shift patterns, to financial worries and general work load that can affect all colleagues. And course, coronavirus is creating further anxiety and stress across the UK.

As we did with our loneliness and social isolation work, we'll be doing research to help us understand where we could make the greatest difference with the money we raise. We'll also be campaigning at a national level to improve how decision-makers understand mental health and what legislative changes could help.

Education and skills

We want to support individuals and communities to reach their full potential across all life stages. This is especially important in our fast-changing digitally driven world. Our support for the Co-op Academies Trust and our apprenticeship programme will have an important part to play in this.

As part of our aim to promote co-operation, we want to explore ways to share skills, especially across the generations. We'll look to create a platform for doing this.

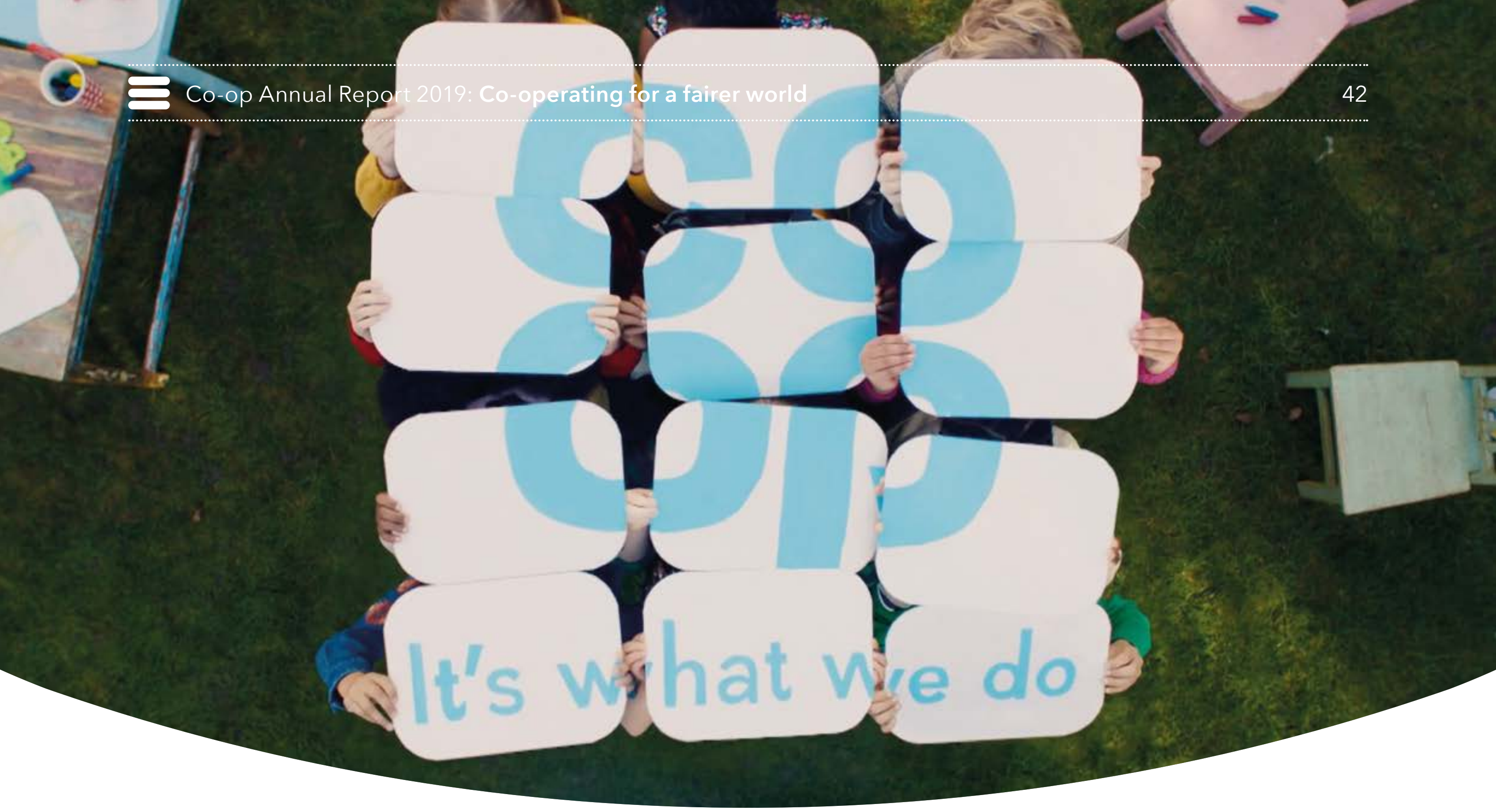
This year our Co-op took on its 5,000th apprentice since 2011. In 2019 there were 1,000 apprentices working across the business including degree level training in partnership with Anglia Ruskin University. We pay the full rate for the job and offer permanent contracts from day one. Our apprenticeship programmes are reducing attrition and enabling internal mobility across the business. They're also creating our own Co-op trained talent pipeline including links into our Co-op Academy schools.

Some colleagues who had applied for the apprenticeship programmes weren't meeting the minimum entry requirements in maths and English, particularly where English wasn't their first language. To support them and increase inclusivity, we developed a Pre-Apprenticeship Programme using a combination of face-to-face and webinar teaching. All but one of the first 16 colleagues have successfully achieved their qualification and are now moving on to a full apprenticeship programme.

We're the first national UK retailer to introduce this approach and we're supporting other retailers who want to follow. In November we were awarded Apprenticeship Employer of the Year at the annual Personnel Today awards and also achieved the Princess Royal Training Award.

By December 2019, the Co-op Academies Trust has added six new schools including two special schools in Bradford. This makes the Co-op Academies Trust not only the fastest growing academy trust in the UK but also the most diverse in terms of age and ability. The Trust now educates more than 15,000 students with a full range of abilities, from early years to sixth form. At the year-end there were 24 Co-op academies and colleges across northern England in some of the most economically challenged areas in the UK. The aim is to have at least 40 schools by the end of the academic year 2021/22.

Building co-operation in our communities



Building co-operation in our communities

Not only do we want to be co-operative in all we do as a business, we also want to increase co-operation in every sphere of public life. We're committed to the idea that through co-operation you will create fairer outcomes in all walks of life.

Sometimes this is about simply bringing people together. At other times it's about helping to create structures and models of organisation based on co-op principles of ownership and governance.

Member Pioneers

By the end of 2019 we had more than 600 Member Pioneers around the country and are constantly adding to them. Our Member Pioneers are part-time employees dedicated to being community catalysts able to bring people and ideas together to make great thingshappen locally.

In February 2019, following extensive discussions with our Members Council and consultation with our trade union partners, we announced a new team structure for our Member Pioneers. We've introduced a National Member Pioneer Manager, ten field-based Member Pioneer Managers, and approximately 100 Member Pioneer Coordinators, each working two and a half days each week. This new structure is enabling us to bettermanage and co-ordinate their work and make sure it's aligned to our priorities.

Co-operate platform

Over the last 18 months we've spent time learning what stops communities from coming together. We've been talking to volunteers, organisers, charities, social entrepreneurs and those who just want to get involved but don't know how.

We know there's no shortage of people who want to help, and no shortage of organisations and groups desperate for that help. However, the tools to help them are often hard to find, hard to use and don't connect to each other. So we're creating a new platform that brings together people, digital tools, and physical community assets.

We're calling it 'Co-operate' and it's for people that care about their local community and want to come together to get things done. Our ambition is to create the national community centre for local co-operation that connects people in and across communities.

It can help people find out what events and activities are happening that benefit their community, see how they can help, or even start something themselves.

As we evolve Co-operate it will continue to help overcome more of the problems that we've heard are stopping communities making good things happen. It will help you find a community space that's available when you need it, it will help you club together financially to reach a goal more easily, and it will help you campaign with others to take a stand on something you're passionate about.

In 2019 we began testing Co-operate in Trafford and Leeds and then extended our trials to other parts of Greater Manchester and to parts of London. As the social impact of the coronavirus began to become clear, we accelerated the platform's functionality and reach so it could be used across the UK to co-ordinate local responses to the virus and point people in the direction of helpful information. Early indications are that it's proving a welcome and needed initiative.

Greater Manchester Co-operative Commission

The North West of England is the home of co-operation in the UK and we were pleased to be invited by the Mayor of Greater Manchester, Andy Burnham, to be one of the commissioners involved in a new report putting forward recommendations for promoting co-operation across the city-region.

Through 2020 we'll continue to work with the Greater Manchester authority and our other co-operative partners to encourage and facilitate co-operative solutions to social and economic issues.

Looking ahead

Looking ahead

As we publish this report, it's clear that the Covid-19 virus is causing hugely significant disruption to the UK economy as well as to everyday life in the country. 2020 will now be dominated by this global event. If movement restrictions continue for some months, we'll need to adapt to new patterns of shopping and respond to any disruptions within the food supply chain. We'll continue to work closely with the Government and industry bodies to ensure the resilience of all our businesses and we're following all advice on protecting the health of our colleagues and customers. With the disruption set to continue into the foreseeable future, we'll be reviewing our business planning and investment decisions to ensure they are still appropriate in these rapidly changing conditions.

To deliver our long-term vision of 'co-operating for a fairer world' we need to be commercially successful by providing a compelling co-operative offer across every part of our business. For the next few years we'll continued to invest in modernising our business so that we're innovative, competitive and convenient in all we do.

To maximise the value we can return to our members, we'll create stronger insight into the cost of our operations and focus on cost control by introducing new expenditure frameworks to guide our senior managers.

In the coming months we should begin to understand the Government's plans for our post Brexit trading relationship with the EU and the rest of the world. This is likely to have consequences for our **Food** supply chain and the way in which we supply our stores in Northern Ireland. We'll continue to talk to the Government about our commitment and belief in the importance of high animal welfare standards and the need to support our British farmers. Whatever the outcome of the trade negotiations we'll be ready, having already spent the last two years preparing for all possible Brexit scenarios.

In **Funeralcare** our focus will be on responding to the pandemic and supporting the NHS. This means that the full implementation of our turnaround strategy will be delayed.

Our **Insurance** business will continue to develop its new operating model and we currently plan to introduce innovative insurance products this year in the areas of home, motor and commercial.

In 2020 we're relaunching **Co-op Power** which provides access to renewable energy to other businesses and organisations. Our scale means we can make this more affordable to smaller energy customers. We're also able to offer consultancy services to other businesses and organisations based on our knowledge and experience as a pioneer in using renewable energy.

Although we're still in the storm of the Covid-19 crisis and responding to the serious health and economic consequences of the pandemic, as a business we're already starting to think about the longer term implications of what's taking place this year. When social distancing restrictions begin to be lifted, it's likely that new patterns of economic and social behaviour will emerge and potentially become the new 'normal'. How we work, how we travel, and how we make consumer choices will be greatly influenced by our current experience. So too will public thinking about the importance of resilient community life and individual wellbeing.

As a national Co-op we recognise that as we recover from this global shock there's an opportunity to bring to the fore the values of commercial responsibility and community strength which have always been central to our work. In the coming months we'll assess how we should be responding operationally for the longer term and how we can encourage the best of the nation's crisis response to continue beyond the current emergency.

Our financial performance

IFRS 16

Our accounts have changed significantly this year because of a major new accounting standard, IFRS 16, which we adopted from the start of 2019. Our accounting policies note explains IFRS 16 in more detail but the headline is that we are now required to put leases onto our balance sheet that previously were not included, most significantly over 3,000 leases on properties that we rent. This means our balance sheet now includes lease liabilities of £1.5 billion (representing future financial commitments) and a 'right of use' asset of £1.0 billion (reflecting the value of our right to use the asset). It also has a big impact on profits, most notably rent of £159 million is no longer included in our income statement, depreciation increased £104 million and lease interest of £74 million is included. The overall impact on operating profit is a £55 million increase whilst profit before tax is £12 million lower.

Our 2018 numbers are not restated for IFRS 16 which means understanding year-on-year performance is quite complicated so we've included some additional information below to help.

Restatement of Nisa results

In early 2020 we identified some historical accounting errors relating to stock, supplier income, creditors and cash in the Nisa business that we acquired in May 2018. These errors impact the consolidated balance sheet at 5 January 2019 with net assets overstated by £33 million, the balance sheet of Nisa at acquisition in May 2018 when net assets were overstated by £23 million and the consolidated income statement for 2018 that overstated profits by £10 million. The goodwill arising on acquisition of Nisa has also increased by £23 million as a result of the change to the acquisition balance sheet.

There are 3 key areas of the £33 million overstatement to net assets. A £20 million understatement to creditors has arisen principally from cut-off errors where no liability had been recognised for stock received before year end but not yet invoiced and errors relating to tobacco stock picking in the warehouse. Receivables were overstated by £9 million relating principally to errors in the calculation and timing of recognition of supplier income. Finally a £4 million error arose on cash which relates to a historical error in the bank reconciliation. These errors demonstrate a historical weaknesses in balance sheet reconciliation processes both through poor understanding and design of reconciliations and lack of robust review and experienced oversight.

The errors were uncovered by the new dedicated and experienced senior finance team appointed by Co-op to lead the Nisa financial integration within Co-op's financial reporting and control environment. Alongside ensuring the new finance team have appropriate support and resource to improve the control environment in Nisa, a key priority will be to accelerate the integration of key Nisa finance processes into the core Co-op financial control environment. Prior to this issue emerging we had already set out that one of our key strategic priorities for the coming year was a review of our operating model and particularly our control framework and we will use the lessons learnt from the Nisa issue to inform this work.

We have restated the 2018 Consolidated balance sheet and Consolidated income statement for these errors and full details are shown in note 38 of our accounts.

Qualified audit report

We note that our auditors have qualified their audit opinion in respect of our interpretation of IFRS 15 (Revenue from contracts with customers) as applied to our funeral plans. This relates to a highly judgemental area of IFRS 15 as to whether a sale contains a "significant financing component" and whether the amount received from the customer is "variable consideration". This issue and accounting rationale are explained in detail in our General Accounting Policies note in the key judgements section on page 215.

We remain firmly of the view that the approach we took in 2018 when we first adopted IFRS 15, and that was supported by both our auditors and the advice we took from another accountancy firm at the time, remains appropriate. We have considered the views of our auditors and the decision to continue with this accounting approach was made in full knowledge that it would lead to a qualified audit opinion. It is not a decision we have taken lightly but we have carefully considered both the technical accounting interpretation as applied to the particular nature of our funeral plan arrangements and the need to present clear and understandable accounts to our members.

We believe that our treatment most fairly reflects the true underlying commercial nature of a funeral plan sale. The accounting policies note sets out the illustrative impact of the alternative approach that our auditors believe we should adopt. As noted above, as well as disagreeing with that accounting interpretation, our view is that this approach would make our accounts very difficult to understand for our members and not fairly reflect our true financial performance.

Summary of financial performance

The tables below show 2019 on both a reported basis as in our income statement (prepared under IFRS 16) and on a like-for-like with 2018 (excluding IFRS 16). The 2018 figures for Nisa are restated for the accounting errors discussed above:

	2019 per income statement £ million	**2019** excluding IFRS 16 £ million	**2018** (restated) £ million
Revenue	10,860	10,860	10,162
Food	283	235	204
Wholesale	(10)	(10)	(21)
Funeral and Life Planning	14	12	25
Costs of supporting functions	(110)	(115)	(107)
Other	(8)	(8)	(4)
Total underlying trading profit (a)	**169**	**114**	97
Property valuations, disposals and one-off items			(7)
Operating profit	**169**	**114**	**90**
Underlying interest (b)	(64)	(64)	(64)
Net underlying lease interest (c)	(74)	-	-
Non-underlying interest	36	29	57
Profit before tax	**67**	**79**	**83**
Tax	18	20	(17)
Discontinued operations	(16)	(16)	(230)
Profit / (loss) for the year	69	83	(164)
Underlying profit before tax (a)-(b)-(c)	**31**	**50**	**33**

Our headline performance

Revenue rose by £0.7 billion to £10.9 billion, a 7% increase compared to 2018. £0.4 billion of this increase relates to our wholesale business which had a full year's trade in 2019 compared to eight months' trade in 2018 following the acquisition of Nisa in May 2018. Revenue growth also reflected a strong trading performance in our Food business with revenue up £0.2 billion or 3% driven by like-for-like sales growth that once again exceeded the market as measured by IGD.

Profit before tax was £67 million compared to £83 million in 2018. Excluding the impact of IFRS 16 (as shown above) profit before tax was £79 million, marginally behind 2018 but comprising a £17 million increase in underlying profit before tax offset by £21 million from the impact of non-trading items such as disposals, one-off items and market valuation changes on our swaps and debt movements. These are discussed in more detail below.

Our underlying profit before tax comprises core trading profits less underlying interest (essentially interest on borrowings). This was up by £17 million, on an ex IFRS 16 basis with strong profit growth in our Food business largely offset by a fall in Funerals profits and increased Support function costs relating to investment in membership and IT. Trading performance is discussed in more detail below.

We show how we adjust profit before tax to get to our underlying profit before tax in note 1 of our interim financial statements. Our jargon buster on page 236 also explains the accounting terms we have to use.

Our profits are reported after deducting the amount our members have earned through the 5% and 1% member rewards which totalled £70 million in the year (2018: £72 million).

Last year end the results of our insurance underwriting business, CIS General Insurance Limited ('CISGIL'), were reported as a discontinued activity following the announcement of our plans to sell the business to Markerstudy and put in place a long-term arrangement to distribute insurance products under the Co-op brand. The treatment of a business segment as a discontinued operation is based on an expectation that a sale will normally complete within 12 months. However, there are exceptions to this, particularly in a case such as this where a longer period arises because of regulatory approval. We remain confident that the deal will complete and therefore continue to treat CISGIL as discontinued.

How our businesses have performed

Food sales of £7.5 billion were up 3% on 2018, with like-for-like sales up 1.9% beating the market as measured by IGD by 2%. This continued like-for-like sales growth reflects our great products, new product innovation and continued investment in both our physical estate and e-commerce solutions for customers and members.

Underlying profit in Food was £283 million in 2019 compared to £204 million in 2018. On a like-for-like basis excluding IFRS 16, profit was £235 million, up 15% on last year, reflecting the strong sales performance but also good cost control.

Our Wholesale business recorded sales of £1.4 billion in the year compared to £1 billion in 2018 which included eight months trading since acquisition. The business recorded a loss of £10m in 2019 against a (restated) £21 million loss in 2018 that included integration and acquisition costs. As noted above we identified several accounting errors relating to the reported results of Nisa at acquisition date in May 2018 and during 2018 such that the previously reported loss of £11 million for 2018 is restated at £21 million loss.

Revenue in our Funeral & Life Planning business fell by £10 million, or 3%, to £307 million reflecting both lower funeral numbers and our response to a shift in customer choice with growing demand for lower cost funeral options and choices such as cremation without ceremony. The market remains highly competitive and the unexpected fall in the death rate has been a key factor in our performance. We conducted 90,630 funerals in 2019 compared to 95,363 in 2018, a 5% reduction.

These challenges saw underlying profit fall by £13 million on an excluded IFRS 16 basis from £25 million to £12 million. On a reported basis under IFRS 16 underlying profit was £14 million. We are now implementing our turnaround plans for the business that are set out in more detail in our Chief Executive's overview on page 8.

Our Funeral & Life Planning business includes our legal services business, Co-operative Legal Services ("CLS"). CLS had an excellent year with a 13% increase in revenue to £40 million and profits up £4 million to £6 million reflecting strong growth in probate together with operational improvements that have accelerated progression of cases.

Supporting functions costs were £110 million but on a like-for-like basis (excluding IFRS 16) were £115 million, an increase of £8 million reflecting increased investment and one-off gains in 2018. In 2019 we invested more in membership initiatives, increasing our Share of Voice to raise awareness of our Co-op Values and Principles, and we invested more in IT, updating our estate and continuing to move away from datacentres into more flexible Cloud arrangements. This additional investment was partially funded by cost savings generated by our 'Fuel for Growth' programme including organisational design changes.

As noted above, CISGIL is classified as a 'discontinued operation' which means its results are included at the foot of the income statement, below profit before tax. The loss on discontinued operations this year of £16 million largely relates to additional costs relating to the sale of the business. The £230 million loss in prior year related to the write down of assets in the business, costs of selling and separating the business and £29 million of trading losses.

Property revaluations, disposals and one-off items

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

	2019 per income statement £ million	**2019** excluding IFRS 16 £ million	**2018** £ million
Change in value of investment properties	27	27	38
One-off items	(5)	(5)	9
Property and business disposals/closures	(22)	(22)	(54)
Total	**-**	**-**	**(7)**

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

The £27 million increase in the value of our investment properties relates to planning gains and market value uplifts across our investment property estate including a gain of £21 million on one site. In 2018 we had two particularly large planning gains and a development opportunity that together generated £25 million on just three sites.

One-off items

	2019 per income statement £ million	2019 excluding IFRS 16 £ million	2018 £ million
Reduction in Nisa consideration	11	11	-
Bank IT separation	13	13	(2)
Impairment of Nisa intangible asset	(29)	(29)	-
One -off pension items	-	-	11
Total	**(5)**	**(5)**	**9**

The £11 million gain in respect of Nisa consideration arises from a reduction in the creditor relating to deferred payments for the acquisition of Nisa which is payable over a number of years depending on the trade passing through Nisa from its partners. The £13 million gain on Bank IT separation relates to costs of separating our systems from those of Co-operative Bank. This was a largely IT programme that ran over several years and completed in late 2019 with final costs £13 million lower than we had provided for after reaching a final agreement on cost sharing and scope with Co-operative Bank.

In the event of making adjustments to prior year earnings we have taken a prudent view and have revised the carrying value of the intangible assets in Nisa. We remain confident in the future trading and growth of the Nisa business.

Property and business disposals

	2019 per income statement £ million	2019 excluding IFRS 16 £ million	2018 £ million
Write down of assets on loss-making stores	(44)	(34)	(12)
Sale or closure of properties	22	12	(34)
Closure of Co-op Electrical business	-	-	(8)
Total	**(22)**	**(22)**	**(54)**

The write-down of assets of £44 million in 2019 relates to goodwill, right-of-use assets and fixtures and fittings on stores, branches and other properties that are not generating enough cash to support the value of those assets. Typically these relate to loss-making sites. The increase in 2019 is largely because of IFRS 16 as we now have write-downs relating to right of use assets as well as fixtures and fittings and goodwill.

The profit on sale of property of £22 million includes a £7 million profit on the sale of Northern Ireland funerals homes and a £14 million profit on the sale of several food stores. With the introduction of IFRS 16, provisions for the cost of holding vacant properties no longer include rent as this is already shown in the lease liability. Instead, under IFRS 16, the right-of-use asset is impaired if the leased property is vacant or earning insufficient income to support the right-of-use asset value.

The £34 million loss in 2018 (prior to IFRS 16) included a provision increase of £26 million for rent and other holding costs arising from leases we are committed to on buildings that we no longer use.

We closed our online Co-op Electrical business early in 2019. £8 million of costs including property closure and holding costs, stock write-downs and redundancy were provided in 2018 when the decision to close was announced.

Financing

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

	2019 per income statement £ million	2019 excluding IFRS 16 £ million	2018 £ million
Underlying interest payable	(64)	(64)	(64)
Net underlying lease interest	(74)	-	-
Underlying interest	**(138)**	**(64)**	**(64)**
Net pension finance income	57	57	41
Fair value movement on quoted debt and swaps	(8)	(8)	26
Non-underlying finance interest	(13)	(20)	(10)
Non- underlying interest	**36**	**29**	**57**

As noted above, IFRS 16 brings interest on the lease liability into our income statement and this was £74 million relating to a total lease liability of £1.5 billion. Excluding IFRS 16 lease interest, underlying interest was in line with last year.

Pensions finance income is based on the pension scheme surplus on an accounting basis at the start of each year and the £16 million increase this year reflects a £300 million increase in the accounting surplus at the start of 2019.

Our total net debt at the year end was £2.2 billion including the IFRS 16 lease liability of £1.5 billion. Excluding the lease liability, net debt was £0.7 billion, a reduction of £100 million from the £0.8 billion at 2018 year-end (details of what is included in net debt are provided in note 21).

In the first half of 2019 we raised £300 million in the first sustainable bond issued by a UK retailer at a coupon of 5.125% maturing in May 2024. We tendered our existing £450 million 2020 Eurobond debt and repaid £274 million, leaving a principal balance of £176 million. Additionally, we rebased our interest rate swaps in relation to our bonds, and this produced a net cash inflow of £27 million due to changes in prevailing market rates since they were first taken out.

We invested £439 million of capital expenditure in 2019 principally on Food refits (£94 million) and new stores (£80 million). We also invested £29 million in our funerals business, £60 million in our Food supply chain and £53 million in technology to upgrade IT systems to improve supply chain and service to Food stores. We also made deferred payments of £32 million relating to the acquisition of Nisa where consideration is payable over several years. This capital spend was partly funded by £123 million of cash from disposals, mainly property sales.

The Trading Group is comfortably within the ratios of debt and interest agreed with our banks and our funding position is strong.

Tax

We won't be paying corporation tax in respect of the year because we've brought forward tax losses and capital allowances. In 2019 we paid £207 million (2018: £196 million) to the government in respect of VAT, business rates, Stamp Duty Land Taxes and Employers' National Insurance.

The current tax charge of £7 million shown in the accounts relates to amounts payable to CISGIL for tax on its losses. A similar tax credit of £7 million appears within CISGIL's own results and is included within the loss on discontinued operation.

There is a total tax credit of £18 million for 2019, this is due to a one-off £48 million credit adjustment in respect of prior years' deferred tax. Without this there would have been a tax charge of £30 million on the £67 million profit before tax arising from continuing operations. The £48 million credit is mainly in relation to a £43 million revision on the timing of when deferred tax is expected to come into our income statement in the future.

See notes 8 and 15 for more detail about these two issues.

We retained the Fair Tax Mark accreditation in 2019 showing that we put our Purpose, Co-operative Values and Principles into action in the way we do business. Our tax policy can be found **here**.

Our balance sheet

IFRS 16 has significantly changed our balance sheet. As with the income statement, these changes impact 2019 numbers but not the comparatives for 2018. Most notably the balance sheet includes £1.0 billion of right-of-use assets and £1.5 billion of lease liabilities but several other balance sheet items are also impacted to a lesser extent as discussed below. The impact of applying IFRS 16 at the start of 2019 was to reduce net assets by £0.2 billion. This is the key element in the reduction in retained earnings from £2.9 billion to £2.7 billion.

The £45 million reduction in property, plant and equipment ("PPE") includes a £41 million reduction relating to IFRS 16 mainly due to transferring assets we lease under a finance lease into right-of-use assets. £308 million of capital expenditure on PPE is largely offset by disposals of £43 million and depreciation of £252 million.

The actuarial surplus of our pension schemes remained at £2 billion, in line with last year. However, whilst the overall surplus was largely unchanged, there were significant movements that netted off with a £0.9 billion increase in liabilities offset by a corresponding £0.9 billion increase in assets. The liability increase largely reflected a change in the interest rate used to value pension liabilities which decreased from 3% to 2%. The interest rate we select is based on advice from our actuaries and is based on corporate bond rates at year end. The change in assets largely reflects the fact the scheme largely invests in gilts and corporate bond assets which have moved in a similar way to our liabilities. It's important to remember that the accounting valuation of pension schemes is quite different to the statutory valuation bases which drives deficit funding contribution requirements. These valuations use bases which reflect the assets that each scheme is invested in. Pace and Somerfield, our two biggest schemes, use more prudent bases, with Pace being in surplus and Somerfield broadly fully funded. Our other three schemes use slightly weaker bases and are in deficit.

Other notable movements in the balance sheet include a £133 million reduction in provisions which includes a £72 million reduction because of IFRS 16 adoption. As noted above, provisions for the cost of holding vacant properties no longer include rent because this is instead shown as write down in the value of the right-of-use asset relating to that lease. The remaining reduction is due to payments in the year including a single large lease surrender payment. Contract liabilities relating to funeral plans have increased £87 million in the year mainly reflecting £154 million of new plans sold in the year offset by £65 million of plans redeemed.

The assets and liabilities of CISGIL continue to be classified as held for sale because of the planned sale of the business to Markerstudy as noted above. Its assets are included within a single line "assets held for sale" in the balance sheet and, similarly, its liabilities, which are all included within "liabilities held for sale".

The Group continues to consolidate the Reclaim Fund Limited ('RFL') as it is a 100% owned subsidiary of the Group. However, RFL is a not-for-profit organisation whose surplus is held entirely for the benefit of Big Lottery Fund and, as a result, the Group gains no financial benefit from RFL. If the Group were to cease consolidating RFL, this would result in a one-off charge to the income statement of £74 million.

Looking ahead

As we finalise this report, the biggest challenge facing our business, and the nation as a whole, will be the scale of disruption caused by Covid-19 and the significant human and economic impact. In the immediate weeks ahead, we'll continue to focus on our response to the current crisis making sure we maintain business continuity and colleague capacity to deal with increased demands and changed ways of working. The global consequences may cause longer term issues for our food supply chain in the months ahead, and, with the Government and other retailers, we'll need to respond to this.

As social distancing and movement restrictions are lifted, we'll closely monitor longer term changes in consumer behaviour particularly around patterns of food buying and travel.

The longer the crisis continues the deeper the national economic consequences will be. It looks increasingly likely that the UK will be facing a significant economic slowdown which our members and customers will not be immune from. In light of this, we're reviewing all of our investment plans and will re-prioritise as necessary.

Key Performance Indicators (KPIs)

Financial KPIs

Why are these measures important?

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

More information on our financial performance can be found on page 46.

	2019	2019 **Excluding IFRS 16	2018 *Restated
Underlying profit before tax Underlying operating profit less underlying interest	£31m	£50m	£33m
Underlying operating profit A measure of underlying profit before one-off items and gains or losses on disposals of assets (see note 1 for more details on how it's calculated)	£169m	£114m	£97m
Net debt Bank loans and borrowings less the cash we hold (including lease liabilities)	£2,165m	£753m	£796m
Net debt (excluding leases) Bank loans and borrowings less the cash we hold (excluding lease liabilities)	£695m	£695m	£764m
Total revenue Net revenue as shown in the consolidated income statement (page 141)	£10.9bn	£10.9bn	£10.2bn
Operating profit Operating profit as shown in the consolidated income statement (page 141). Includes the underlying operating profit of our businesses as well as one-off items and gains or losses on disposals of assets	£169m	£114m	£90m
Profit before tax Total profit from continuing operations** before taxation. **The loss on discontinued operations of £16m (2018: £230m) relating to the proposed sale of our insurance underwriting business is shown below profit before tax.	£67m	£79m	£83m

* The 2018 numbers have been restated following the identification of some historical accounting errors in relation to the acquisition of Nisa in May 2018. More detail is given in our Financial Performance section on page 46 and also in Note 38 to the accounts on page 212.

** Our 2018 numbers are not restated for IFRS 16 which means understanding year-on-year performance is quite complicated so we've included an additional column in the table above to show 2019 numbers excluding IFRS 16 (so on a comparable basis with 2018).

Colleague KPI

Why is this measure important?

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

More information on colleague engagement can be found on page 30.

Colleague engagement

2019	2018
76%	76%

Colleague engagement is measured by our annual Talkback survey

Membership and Community KPIs

Why are these measures important?

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

Active members

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

4.6m 2018: 4.6m

1% reward earned for communities

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

£11m 2018: £12m

5% reward earned by members

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

£59m 2018: 60m

Member sales in Food

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

33% 2018: 33%

Risk management

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

Our risk management framework

Governance

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

Policies and control standards

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

Risk appetite

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

Roles and responsibilities

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

Our risk governance structure

How we manage risk

Our Board regularly reviews our position against our risk appetite, the principal risks to our business, and monitors management's action plans. In 2019, the Risk and Audit Committee (RAC) and Executive Risk Committee (ERC) met regularly to look at the risks affecting our Co-op and made a robust assessment of the principal risks and the activity undertaken by management to mitigate these. The ERC considers the principal risks to our strategy and our Co-op as part of our annual planning exercise. This includes:

- An evaluation of the current and target risk status.
- Considering the impact of emerging risks and external events, and revising the principal risks as required.
- Regularly assessing the impact and likelihood of each principal risk and management's progress in delivering agreed response plans.
- Reviewing our position versus our risk appetite each period and taking appropriate actions where needed.

Members of the Executive management team are individually responsible for managing the principal risks and mitigating those risks with the support of a senior leader. Senior leaders are drawn from each business unit and key support function to form the Business Risk and Assurance Committee. This committee has delegated responsibility for managing the delivery of mitigation plans and assessing emerging risks.

Our risk plan:

In 2019 we continued to strengthen our risk maturity, creating a positive culture around risk management. Important developments include work to put into practice our risk appetite across our Co-op, deliver more effective risk governance and provide better information to senior leaders and the Board.

Our 2020 continuous improvement plan focuses on:

- Increasing the ease and capability by which colleagues manage risk across our Co-op.
- Aligning our internal control environment to our risk policies, controls standards and risk appetite.
- Continuing to embed risk and risk appetite considerations into our strategic and operational decisions and monitoring processes.
- Wider use of key risk indicators in our management information.

Read more about

- Our principal risks and uncertainties on **pages 59-62**

Our approach to risk

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

Identify

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

Assess

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

Manage & Control

- Our Board, Executive and Senior leaders manage the impact of risks to our business by making sure that the appropriate mitigation and resources are in place.

Monitor & Report

- Reports are regularly provided to our governance Committees to help with the monitoring of risks.
- Business units and enabling functions review management information and assess if risk responses are progressing as intended.

Our risk appetite

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

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

Strategic and business

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

Financial and treasury

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

Operational and customer

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

Regulation and compliance

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

Brand and reputation

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

How have our principal risks developed?

Our Strategic and Business and Finance and Treasury risks have increased during 2019 driven mainly by the uncertainty around Brexit and Covid-19.

- Revenue targets have been incorporated into our principal risk on Competitiveness reflecting the commonality in management's responses to mitigate these risks.
- Supply Chain Interruption has been reclassified under the Operational Resilience principal risk, to incorporate the wider potential scope for disruption to our operations.
- Sustainability and Environment, and Pre-need Funeral plan obligations have been added as principal risks for 2020, reflecting the changing internal and external conditions and evolving risk landscape.

Nisa

Note that the Nisa financial accounting issues reported elsewhere in this report were discovered by the Nisa Finance team following a change in personnel and as a result of increased scrutiny of the balance sheet by that team. The issues identified should have been uncovered at an earlier stage, irrespective of personnel changes, but they were ultimately identified by our enhanced internal financial control processes, which have since been further improved. As a result, the financial issues identified are not considered to represent a new principal risk and the additional scrutiny and oversight in this area will prevent a recurrence of such issues.

Brexit and transition from the European Union

The December 2019 General Election results, and the sizeable majority achieved by the UK Government have changed the Brexit outlook considerably. Following a year of uncertainty and political instability, the risk of a 'No Deal Brexit' has reduced significantly, allowing our focus to shift towards delivering uninterrupted operations under any new regulatory and tax regimes. Planning and preparation work will therefore continue in 2020 and throughout the transition phase to ensure we are well positioned to adapt once the roadmap and precise regulatory requirements are defined.

Emerging risks

It is important to identify any new emerging risks that may impact us. We regularly review our emerging risks based on internal and external information, considering their potential impact and determining the best course of action.

Covid-19 and our response

The Coronavirus pandemic is a new principal risk for us. The situation with the rapidly spreading virus is evolving on a daily basis and will cause significant disruption. We are working in line with government directives and will continue to work closely with the government and industry bodies to ensure the resilience of our food supply chain and continuity of all our businesses. We're following all advice on protecting the health of our colleagues and customers. Coronavirus is having a material impact on the operations of our business and we have taken this into account when looking at our longer-term financial planning.

Principal Risks and Uncertainties

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

V – Considered in our viability assessment, see **page 123** for further details

Change[V]

Responsible Exec: **Deputy Chief Executive**		Risk Category: **Strategic and Business**		Risk trend: **Stable**
Risk description	**Reasons for risk**	**What we do**	**What has changed**	**What we plan to do**
Our five-year plan needs us to make changes in the way we operate. If our plans are not delivered in an effective way, we will not be able to see the benefits of our change programmes.	• Number and complexity of change programmes • Available resources • Dependencies between change programmes • Cost of change	• Rigorous governance and review in place, covering transformation programmes • Dedicated training and communications help manage change activities with colleagues • Five-year planning assesses transformation choices and delivery approach	• Retail Business Transformation; a multiyear programme will streamline our retail processes and ways of working • We've improved our ability to see future benefits of our change programmes within our five-year financial strategy	• Continual assessment of benefits from change activity we undertake • Revised Control Framework to be implemented for project, programme and portfolio management

Brexit & other market conditions[V]

Responsible Exec: **Chief Executive Food**		Risk Category: **Chief Executive Food**		Risk trend: **Stable**
Risk description	**Reasons for risk**	**What we do**	**What has changed**	**What we plan to do**
Brexit and its potential impact on the UK economy poses a major threat to our Food business.	• Uncertainty • Structural changes to the economy • Availability and access to labour • Supply chain pressure	• Key risks identified, and plans developed through Brexit Steering Group to minimise potential impacts • Engagement with industry working groups • Understanding the detail of new regulatory / tax regimes which will be in place post-Brexit transition period and how we may need to adapt our operations	• The nature of this risk has changed given the approval of the EU Withdrawal Agreement Bill on 31 January 2020 • Greater certainty that the transitional period will expire on 31 December 2020, at which point new regulatory and tax regimes will come into effect	• Ensuring we are ready to operate in line with new regulatory and tax regimes • Probable system revisions and changes to some aspects of our logistics operations, once greater detail is published by government

Competitiveness[V]

Responsible Exec: **Deputy Chief Exec/Chief Exec Food**		Risk Category: **Strategic and Business**		Risk trend: **Increased**
Risk description	**Reasons for risk**	**What we do**	**What has changed**	**What we plan to do**
The competitive landscape in which we operate means that we need to monitor our growth targets, market share and competitor behaviour to remain viable and innovative.	• New entrants and market competition • Innovation and market disruptions • Pricing pressures • Market cost pressures • Inefficiencies in our operations	• Monthly market share and competitor analysis • Sales monitoring and reporting • Formal horizon scanning process • Agile promotions and marketing responses • Strategic planning and budgetary monitoring processes • Market Intelligence teams in place • Frequent assessment of external conditions • Extensive due diligence for all acquisition activity	• 79 new food stores opened and 152 refits complete • First university franchise stores opened, growing younger generation of Co-op shoppers • New Funeralcare strategy and implementation plans agreed in response to changes in demand and increased regulation	• Enhance industry and competitor monitoring to ensure our proposition remains relevant • Grow our business through physical locations, channels and services that deliver a compelling proposition for customers and members • Deliver on the transformation programme for Funeralcare • Maintain dialogue with regulators in preparation for new Funeral plan regulations • Improve our data management capabilities

Brand and reputation

Responsible Exec: **Chief Membership Officer**		Risk Category: **Brand & Reputation**		Risk trend: **Stable**
Risk description	**Reasons for risk**	**What we do**	**What has changed**	**What we plan to do**
We set ourselves high standards for responsible retailing and service, as well as speaking out on the issues that matter to our members. If we don't meet those standards, or fail to demonstrate our difference from our competitors, there's a potential risk to our reputation.	• Living up to Co-operative Values and Principles • Expectations of members, customers and colleagues • Diverse nature of our businesses, product and partners	• Report our ethical priorities and sustainability progress through our Sustainability Report • Ethical Decision-Making Tool used to assess our activities and help us make better decisions • Campaign in line with our community priorities e.g. Spaces and Wellbeing. • 'Safer Colleagues, Safer Communities' campaign tackling crime against colleagues	• Increased public focus on sustainability, climate change and the need for responsible retailing • Promotion of Co-op businesses as one brand emphasising our difference on community, ethics and sustainability • Creation of Brand, Reputation and Ethics Governance Forum to focus resource on improvement	• Deliver programme of activities to drive day-to-day colleague, member and customer awareness of our brand, and our difference

Pensions obligations[V]

Responsible Exec: **Chief People Officer**		Risk Category: **Finance and Treasury**		Risk trend: **Stable**
Risk description	**Reasons for risk**	**What we do**	**What has changed**	**What we plan to do**
The measurement of our Defined Benefit liability is sensitive to changes in several factors. Adverse movements could result in lower pension surplus and may need our Coop to pay additional contributions.	• Changes in interest rates • Changes in inflation expectations • Changes in expectations of future life expectancy • Movements in market prices	• Established Pension Strategy Committee to manage our pension risk exposure • Regular monitoring of funding and risk positions • Reassess key assumptions used in the pension calculation • Review advice provided by internal and external actuaries • Use hedging strategies against increases in interest rates and inflations	• Buying insurance contracts to match our liabilities to pensioners for some of our plans, helping to limit the impact of increases in interest rates, inflation and life expectancy over time	• Explore options to further reduce pensions risk • Review pension surplus and obligations following upcoming valuations with a view to further reducing our pension exposure

IT & cyber threats[V]

Responsible Exec: **Chief People Officer**		Risk Category: **Operational**		Risk trend: **Stable**
Risk description	**Reasons for risk**	**What we do**	**What has changed**	**What we plan to do**
We hold data on our colleagues, customers, members and partners. We are reliant on technology to deliver our business operations so theft of data or a cyber-attack could significantly disrupt our operations.	• Custody of valuable data • Reliance on technology • Sophisticated and diverse cyber threat landscape • Data privacy and data protection regulations • Colleague, member and customer confidence • Processing of data through third parties	• Specialised Information Security team providing guidance and oversight • 24-hour threat monitoring capability • Patch management and penetration testing • Supplier security due diligence and assurance, and regular testing for security weaknesses • 'Future hosting' programme to migrate systems and data to cloud solutions and segregated environments	• Improved testing for security weaknesses • Programme commenced to upgrade all colleagues to Windows 10 and Office 365 software	• Complete the upgrade to Windows 10 and Office 365 • 'Future hosting' programme will continue, increasing security across our technology solutions • Upgrading of Web Application Firewall to protect digital channels. • Continued focus on Identity and Access management and improvements of Security Incident Event Monitoring Solution

People

Responsible Exec: **Chief People Officer**		Risk Category: **Operational**		Risk trend: **Stable**
Risk description	**Reasons for risk**	**What we do**	**What has changed**	**What we plan to do**
Our ability to attract and retain colleagues with relevant skills and experience is important to achieving a strong, competitive Co-op. If we do not continue to recruit talent and to invest in our colleagues, then it may impact our operations and our ability to deliver on our strategic plans.	• Ineffective selection and recruitment processes • Talent attraction • Need for greater diversity	• Pre-employment screening, culture fit assessment and induction for new hires • Continue to embed diversity and inclusion strategy • Ongoing training for all leaders and managers • Colleague performance review, engagement and recognition • Talent Management review • Pay and reward packages are reviewed regularly to ensure they remain competitive and fair	• Launched inclusion and diversity and leadership behavioural training • Launched a new Reward Framework to support consistent decision making on pay and to bring increased transparency	• Review colleague experience to create a consistent colleague experience around wellbeing • Create a common colleague proposition throughout the Co-op and across our colleagues' lifecycle • Continue to promote the leadership and capabilities framework • Review our future talent strategy • Continue to invest in our lowest paid colleagues

Misuse and/or loss of personal data

Responsible Exec: **Chief Finance Officer**		Risk Category: **Operational**		Risk trend: **Decreased**
Risk description	**Reasons for risk**	**What we do**	**What has changed**	**What we plan to do**
We hold personally identifiable data on our colleagues, customers, and members. We need to make sure we protect and manage this data.	• Member, colleague and customer confidence • Data privacy and data protection regulations • Information processed on our behalf by third parties	• Dedicated Data Protection and Information Security teams to give guidance and oversight • Role specific training packages to manage data protection risks • Data Protection Impact Assessments for any new systems, processes or business activities	• Strengthened our operating model across our Co-op through improved training and building awareness • Further improvements to our data protection governance and reporting • Enhanced our pan Co-op assurance capabilities	• Continue to test, develop and enhance key data protection controls • Build our skills and expertise • Improve oversight of data protection compliance across the Co-op • Keep colleagues up to date with key regulatory changes, to enable informed decisions about how we use personal data responsibly

Health & safety and security

Responsible Exec: **Chief Finance Officer**		Risk Category: **Operational**		Risk trend: **Stable**
Risk description	**Reasons for risk**	**What we do**	**What has changed**	**What we plan to do**
Faced with a rise in violent and abusive crime, and busy retail environments, we need processes in place to protect our colleagues, members, customers and visitors to our premises.	• Keeping our colleagues, members and customers safe • UK Health & Safety Legislation • Complexity of our business	• Co-op Health and Safety Governance Framework and Financial Crime & Security Frameworks in place • Co-op Minimum Safety Standards, oversight and assurance of Crime and Security data and compliance with standards across the Co-op	• More complete and improved quality of data from across our operating locations following introduction of the MySafety system • Gained approval and 'Assured Advice' through our Primary Authority partners for asbestos management • Improved identification of where we meet the standards we set ourselves and where we need to do more • Supported over 600 Co-op colleagues in submitting their personal testimonies under Home Office call for evidence on violence towards shop workers	• Ongoing review to ensure we meet our Co-op Minimum Safety Standards • Continue the 'Safer Colleagues, Safer Communities' campaign • Continue to develop bespoke security measures for all our locations

Operational resilience

Responsible Exec: **Chief Executive Food** | Risk Category: **Operational** | Risk trend: **Decreased**

Risk description	Reasons for risk	What we do	What has changed	What we plan to do
Failure to create the network capacity needed for future growth or an extended supply disruption event could significantly affect the availability of products and services in our stores resulting in loss of sales.	• Efficiency of logistics network process, infrastructure and resource capacity • Unpredictable external events like severe weather, pandemics and extreme criminal activity • Post-Brexit changes to the economy, trade deals and national infrastructure, • Supplier capacity and cross-border processes • Variability in customer and network demand leading to supply pressures and service instability	• Established business disruption planning and testing, including incident management processes • Regular disaster recovery testing and review of IT service levels to ensure resilience to external sources of disruption • Engagement with industry working groups, government and information exchanges to support joint responses with key stakeholders	• Post Brexit Committees in place lead our adoption of new regulatory and tax regimes that impact our supply chain • Strengthened understanding of our supplier resilience through our Brexit contingency planning • Expanded network capacity to support our Food business	• Deliver improved resilience through our multiyear Retail Business Transformation Programme

Regulatory compliance

Responsible Exec: **Group Secretary/ General Counsel** | Risk Category: **Regulatory Compliance** | Risk trend: Stable

Risk description	Reasons for risk	What we do	What has changed	What we plan to do
Our Co-op is subject to laws and regulations across its businesses. Failure to respond to changes in regulations or stay compliant could affect profitability and our reputation through fines and sanctions from our regulators and affect our licence to operate.	• New and updated regulations • Our businesses provide financial and legal products and services regulated by the Financial Conduct Authority, the Prudential Regulation Authority and the Solicitors Regulation Authority • Codes and regulations that apply to our Food business including the Groceries Supply Code of Practice and product safety regulations • Regulations for our new venture businesses	• Colleagues with expertise in financial services (including FCA and PRA approved senior managers) • Regulatory compliant controls and procedures appropriate to financial and legal product and services businesses • Processes and procedures in place and Charter to engage with external suppliers to manage compliance with Groceries Supply Code of Practice (GSCOP or "the Code"). • Established risk and compliance teams operate in our regulated business • Mandatory training on regulatory and legislative requirements for all relevant colleagues • Regular compliance monitoring and review undertaken at senior governance committees	• In March 2019 the Groceries Code Adjudicator (GCA) published the report from her 2018 investigation and found our Food business was in breach of two elements of the code • Throughout 2018 and 2019 the Co-op's Code compliance improved significantly driven by better processes and a cultural shift around compliance. In January 2020 the GCA released the Co-op from regulatory scrutiny, having satisfied the regulator that their recommendations had been met and the Co-op is compliant with the Code • The Competition and Markets Authority is continuing its investigation of the Funerals Industry and Her Majesty's Treasury has consulted on regulation of the Pre-Need Funeral plans. We are closely following any updates and supporting both bodies where asked	• Strengthen our compliance framework in response to increasing regulatory requirements across all our businesses • IT improvements to support compliance with the GSCOP and other regulatory and legislative requirements across our Co-op • Readiness for potential changes to regulation of the Funeral Industry

Pre-need funeral plan obligations[V]

Responsible Exec: **Chief People Officer** | Risk Category: **Finance and Treasury** | Risk trend: **Increased**

Risk description	Reasons for risk	What we do	What has changed	What we plan to do
The measurement of our Pre-Paid Funeral Plan obligations is sensitive to changes in several factors. Adverse movements could result in lower than expected funds being available and the business receiving a lower amount per funeral or may result in individual contracts becoming onerous.	• Changes in the cost of providing a funeral or expected inflation on funeral costs • Underperformance of assets held to meet funerals • Changes in long term interest rates	• Most funds are invested in whole of life insurance policies with guaranteed minimum returns • Regular stress testing, actuarial modelling and monitoring of funding, asset performance and risk positions versus risk appetite • Annual re-assessment of key assumptions used in the annual actuarial valuation calculations. • Monitoring and oversight by a Senior Committee of specialists, business leaders and advisors	• The investment strategy which supports a large proportion of the whole of life policies has been de-risked • Amended the pricing model including commission rates	• Evaluate the impact of expected Financial Services Authority regulation on how we invest monies • Continue to improve the methodology and assumptions in our actuarial models used for pricing

Environment and sustainability

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

Risk description	Reasons for risk	What we do	What has changed	What we plan to do
The way we chose to run our business operations and the products and services we provide impacts our environment and the future of our planet. Failure to run our operations in more sustainable manner and ready our Co-op to transition to a greener economy could contribute to more damage to our environment and increased financial cost and missed opportunities	• Changing regulations and UK government targets / policies • UK commitment to the 2015 Paris Agreement • Climate change impact on food sources, water and economic growth • Transition to a greener economy • Biodiversity loss • Living up to Co-operative Values and Principles • Expectations of members, customers and partners	• First British retailer to sign up to the UN's "Our Only Future" campaign, pledging a move to net-zero greenhouse gas (GHG) by 2050 • Across our physical estate we are focusing on continuing to use resources wisely and pursing a net positive impact on biodiversity • Our Future of Food Programme includes actions on plastics recyclability, eliminating single use plastic, sustainable sourcing across our supply chain and partnering to increase recycling rates	• The UK Government's 25-year Environment Plan is tackling climate change and environmental degradation and growing green finance • The Government is targeting net zero GHG emissions by 2050 • Financial disclosure of climate related changes is expected to increase; • New requirements have already come into force requiring pension trustees to disclose investment policy on climate change with additional proposals planned	• Establish pan-Co-op governance and future reporting to drive our sustainability plan leveraging synergies across businesses • Implement long term strategies deliver reductions of 50% GHG emissions and energy and water intensity reductions of 25% and 10%, respectively, by 2050 • Horizon scanning and preparedness for future ESG related regulations

Coronavirus Pandemic[V]

Responsible Exec: **Chief Executive**		Risk Category: **Strategic and Business**		Risk trend: **Increased** ↑
Risk description	**Reasons for risk**	**What we do**	**What has changed**	**What we plan to do**
Failure to manage the impacts of the worldwide Coronavirus pandemic for our colleagues, our customers, our suppliers and our other stakeholders leads to significant changes in the way we operate and a sustained reduction in performance.	• The spread of the novel Coronavirus Covid-19 has resulted in a worldwide pandemic • Rapid spreading of the virus causes exceptionally high absence levels and is life-threatening to many, especially the most vulnerable in society • The additional capacity required in our hospitals means that the government cannot be certain that all affected individuals can be guaranteed sufficient treatment if the pandemic continues	• We have followed UK government guidelines throughout the pandemic and continue to do so • We've introduced social distancing measures across our operations, in our food stores, logistics, depots, funeral branches and contact centres. All other colleagues are working from home where they are able to do so • We have increased operational capacity within our food and funerals businesses significantly and have recruited c.7,000 temporary colleagues • We are incurring significant additional costs on Personal Protective Equipment, colleague reward, additional resource, extra storage space and new cleaning resources for all our locations • All of our businesses have altered their mode of operation to cater for the changed circumstances • We have modelled and continue to model the financial impact of the pandemic to ensure we have the funds to react appropriately and within our financial constraints	• The pandemic has evolved rapidly since the Covid-19 virus was first identified in Wuhan province, China towards the end 2019 • The UK has moved rapidly through 'Contain' to 'Delay' phase of the pandemic response, before moving to a 'Stay at Home' policy across the UK on 23 March • These changes required urgent revisions to the ways we operate our businesses to remain within the government guidelines • Daily Incident Management Teams across our businesses coordinate our response and we have an extensive communications strategy to keep our colleagues, customers and communities informed as to the progress we are making	• We will continue to adhere to the UK government guidelines re social distancing • We will continue to serve our customers and our communities by making appropriate mitigations to protect and support them • We will provide assistance to our most vulnerable customers by using our newly launched Co-operate platform to link customers with volunteers • We will closely monitor colleague absences and recruit further colleagues where required • We will continue to model the financial impact of the pandemic on our business and will make adjustments to our expenditure as required as the pandemic continues

Governance report

Board biographies

Allan Leighton

Chair

Appointed as Independent Chair on 19 February 2015

Committee membership

- Nominations Committee (Chair)

Skills and experience

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

Steve Murrells

Group Chief Executive

Appointed as an Executive Director on 1 March 2017

Skills and experience

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

Shirine Khoury-Haq

Chief Financial Officer

Appointed as an Executive Director on 5 August 2019

Skills and experience

Shirine joined the Co-op Executive in August 2019 as our Chief Financial Officer. Before joining us, Shirine was Chief Operating Officer for the Lloyd's insurance market, which comprised more than 50 leading insurance companies operating with over 200 Lloyd's brokers. Her remit included global operations, business transformation, data, information technology and corporate real estate. She also led the modernisation programme for the wider London insurance industry.

In addition to holding senior positions at IBM, McDonald's and the insurer, Catlin Group, Shirine has worked in a number of regulated sectors in the UK and overseas including retail, IT, pharmaceuticals and consumer goods. She was also a Non-Executive Director of the Post Office. Shirine holds an MBA from Ohio State University and is a US Certified Public Accountant.

Lord Victor Adebowale CBE

Independent Non-Executive Director

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

Committee membership

- Risk and Audit Committee

Skills and experience

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

He is currently Founding Chair of Collaborate CIC, Director of Leadership in Mind, Chair designate of the NHS Confederation, Director at IOCOM, Chair of Urban Development music charity, Non-Executive Director at the Nuffield Health Group, and Co-founder and Chair of visionable.com. He is a visiting professor and Chancellor of University of Lincoln, a Court member of the London School of Economics and a Cross Bench Peer in the House of Lords. Victor was previously the CEO of the charitable social enterprise Turning Point Health & Social Care.

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

Board biographies

Hazel Blears

Member Nominated Director

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

Committee membership

- Nominations Committee
- Risk and Audit Committee

Skills and experience

Hazel was a Labour Member of Parliament from 1997 to 2015, representing Salford and Eccles. She has held a number of senior positions in government including Public Health Minister, Police and Counter Terrorism Minister and Communities Secretary. Hazel also served on the National Intelligence and Security Committee. Hazel's other roles include Chair of the Social Investment Business Foundation and Trustee of the Social Mobility Foundation.

Simon Burke

Independent Non-Executive Director

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

Committee membership

- Risk and Audit Committee (Chair)
- Nominations Committee

Skills and experience

Simon was appointed Chair of our Co-op's Risk and Audit Committee on 25 June 2015. Simon is a Chartered Accountant and is currently Chairman of Bakkavor Group Plc, The Light Cinemas (Holdings) Limited and Blue Diamond Limited. Simon was previously Chair of Majestic Wine, BathStore and Hobbycraft, and CEO for Virgin Retail, Virgin Cinemas and Virgin Entertainment Group. Simon was previously an Independent Non-Executive Director for Co-op's subsidiary, Co-operative Food Holdings Limited.

Margaret Casely-Hayford CBE

Member Nominated Director

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

Committee membership

- Remuneration Committee
- Nominations Committee

Skills and experience

Margaret is a qualified lawyer of over 30 years standing, was the Director of Legal Services for the John Lewis Partnership for nine years and on the Board of the British Retail Consortium for four years to 2014.

During her term on the Board of NHS England she was one of the directors who promoted and championed 'NHS Citizen', the new listening structure for the NHS that enables proper consultation and collaboration. Margaret is currently Chancellor of Coventry University, a member on the Institute of Directors' Governance Advisory Board, Chair of Shakespeare's Globe Theatre, and an advisor to a number of young social enterprises.

Paul Chandler

Member Nominated Director

Elected as a Member Nominated Director on 16 May 2015 and re-elected in 2017 and 2019

Committee membership

- Risk and Audit Committee

Skills and experience

Paul was the Chief Executive of Traidcraft from 2001 to 2013, and President of the European Fair Trade Association from 2005 to 2012. Drawing on his Fairtrade experience and early career in Barclays Bank, he is now focusing on promoting responsible practices in business, alongside a portfolio of charity and community focused roles.

Paul is Chair of the Durham Cathedral Council, a director of Shared Interest and he is also the Vice Chair, Treasurer and a Fellow of St Chad's College in Durham University. He is also Vice Chair of the County Durham Community Foundation and a Trustee of the Bible Society.

Until April 2020 he was also Chair of the William Leech Foundation.

Board biographies

Sir Christopher Kelly

Senior Independent Non-Executive Director

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

Committee membership

- Remuneration Committee
- Nominations Committee

Skills and experience

Chris chaired our Co-op's independent review which considered the events leading up to the re-capitalisation plan for The Co-operative Bank PLC in 2013. He is currently chair of the Oversight Board of the Office for Budget Responsibility, a Trustee of the Canal and River Trust and chair of Co-op Insurance Services Limited.

Previous roles include chairing the Kings Fund (the health and social care think tank), the Committee on Standards in Public Life, the Financial Ombudsman Service, the Responsible Gambling Strategy Board and the NSPCC.

For many years he was a senior public servant, mostly in HM Treasury, but latterly as Permanent Secretary of the Department of Health.

Sarah McCarthy-Fry

Member Nominated Director

Elected as a Member Nominated Director on 15 May 2019

Committee membership

- Risk and Audit Committee

Skills and experience

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

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

Rahul Powar

Independent Non-Executive Director

Appointed as Independent Non-Executive Director on 23 July 2018

Committee membership

- Remuneration Committee

Skills and experience

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

At Thomson Reuters he served as the Head of Advanced Products & Innovation. Previous roles include being part of the founding team and principal technical architect of Shazam. Before the launch of the iTunes AppStore, he designed and created the first Shazam iPhone App.

Stevie Spring, CBE

Independent Non-Executive Director

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

Committee membership

- Remuneration Committee (Chairman)

Skills and experience

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

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

Executive Biographies

Steve Murrells

Group Chief Executive

See Board Biographies

Shirine Khoury-Haq

Chief Financial Officer

See Board Biographies

Matt Atkinson

Chief Membership Officer

Matt joined our Co-op in January 2018 as Chief Membership Officer (CMO). Prior to joining our Co-op, Matt was CMO for SAGA where he helped transform them into a digital organisation, winning new customers and entering new markets. Before SAGA Matt held senior marketing and digital roles at Tesco, P&G and a variety of global media agencies.

Helen Grantham

Group Secretary and General Counsel

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

Executive Biographies

Helen Webb

Chief People Officer

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

Jo Whitfield

Chief Executive, Food

Jo joined Co-op as Finance Director of Retail in 2016 and is now Chief Executive of Food. Prior to this, Jo was with Asda for eight years and held senior leadership roles at George and General merchandise.
Jo is a qualified Chartered Accountant having trained with Ernst & Young and subsequently moved into industry.

Throughout her career she has worked across various industry sectors and held leadership roles with businesses such as Northern Foods, GE Capital and Matalan. Jo is passionate about inclusion and helping women reach their full potential, being an Ambassador for Girls Out Loud, and is a founder of the Grocery Girls network.
Jo is also an executive sponsor for Aspire, our internal women's network. She is also a member of the Women's Business Council.

Pippa Wicks

Deputy Chief Executive

Pippa joined Co-op in 2014 on an interim basis from the business consultants AlixPartners where she co-founded the firm's European operations in 2003. In April 2016 Pippa joined as permanent Chief Operating Officer and in March 2017 was appointed Deputy Chief Executive.
She continues to Chair AlixPartners' UK turnaround and restructuring business.

Prior to joining AlixPartners, Pippa was CEO of FT Knowledge, a division of Pearson PLC, Group CFO of Courtaulds Textiles PLC and a senior manager with Bain & Company strategy consultants. While at AlixPartners, Pippa took on a number of interim CEO and COO positions at UK and European companies.

Governance review

Chair's overview

As I write this introduction to our Governance review, the world is dealing with the extraordinary challenges created by the coronavirus pandemic. Our Co-op is also facing into these challenges, as Steve Murrells has set out in his update. During these unprecedented times we're drawing deeply on our co-operative values and our new vision: 'co-operating for a fairer world' to support our members, customers, colleagues and communities. Your Board is supporting the work of Steve and his Executive team with advice and encouragement through what's become an exceptional year.

As we work through this crisis, our high standards of governance continue to play a vital role in running our Co-op. Like everyone else, we've found new ways to do our work and are grateful for how technology is enabling us to carry out all of our responsibilities. We're confident that our governance structures remain resilient and sustainable.

Steve has also explained in his overview that the team uncovered some historical accounting errors in relation to the acquisition of Nisa which arose because of control weaknesses over some finance processes within that business. Our new finance team are working to resolve these issues.

Our Members

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

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

Our Members' Council, which is 100 strong, acts as our members' representatives, holding our Board to account for how the business performs and our commitment to Co-operative Values and Principles. We thank the Members' Council, under Nick Croft's leadership, for its ongoing support and challenge.

Our Rules require us to hold an AGM. We've therefore taken the decision to go ahead with our 2020 AGM, however we are doing things very differently this year in light of the coronavirus pandemic. Whilst we would normally encourage our members to attend and vote in person, we are telling our members that they should not attend our AGM this year. Taking care of our members and each other is our key priority right now and we know this is the right thing to do in line with our values and principles.

We still want to hear from our members and for them to have their say. Eligible members will still be able to appoint in advance of the AGM, online or by post, a voting representative to vote for them and we plan to ensure members can submit questions via an online tool. This will ensure our members continue to have a say in how our Co-op is run and can share their thoughts on key and important matters. Please take the time to do this. It really matters to us.

We hope our members are understanding and supportive of the approach we have taken. In these uncertain times, we may also need to change our plans and we will keep members updated via our website at co-operative.coop/agm.

Our Board

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

I'd like to thank Gareth Thomas who stood down at our 2019 AGM after two years as a MND. Along with Sir Christopher Kelly, I was pleased to be re-elected as an INED. I was also pleased that Rahul Powar was elected as an INED following his appointment by the Board in 2018.

We were also delighted to welcome Sarah McCarthy-Fry who was elected in May as a MND, and Shirine Khoury-Haq, our new Chief Financial Officer and Executive Director, who joined us in the summer.

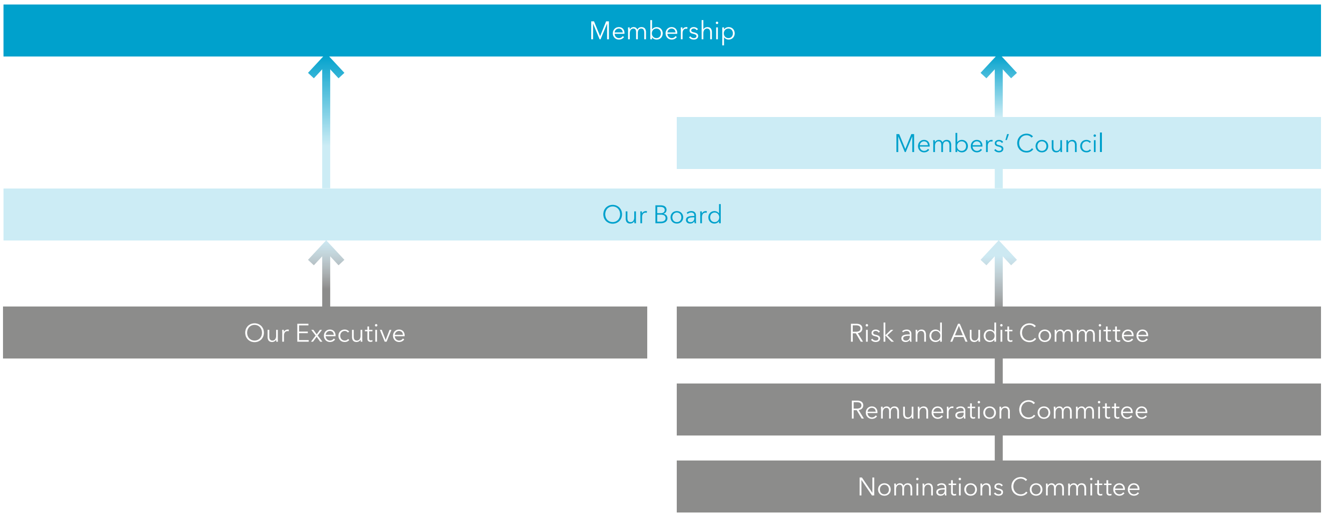
Allan Leighton,
Chair

About us

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

Our governance structure

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



Our Board leads our Co-op, and takes decisions at the highest level so our Co-op is successful in the long-term. The decisions we take are what the Directors believe to be in the best interests of our members. Our Board is supported by three standing committees. They have specific tasks which they do on behalf of the Board, set out in written terms of reference:

- Our Risk and Audit Committee watches over Co-op's financial reporting and how well we are managing risk. The Report of our Risk and Audit Committee can be found on **page 86**.
- Our Remuneration Committee ensures our executive are fairly and appropriately rewarded and that we have the right pay policy in place for our colleagues. The Report of our Remuneration Committee can be found on **page 97**.
- Our Nominations Committee ensures we have the right Board in place and that it works well. It also plans for our future Board, leads on Board appointments and looks at the fees we pay to our Chair, INEDs and MNDs. The Report of our Nominations Committee can be found on **page 117**.

The Board has also appointed an Administration and Finance Committee to deal with routine business that needs Board approval.

Our Members' Council, a democratically elected body of 100 of our members, acts as our members' representative, holding our Board to account for how the business performs. It also acts as a guardian to our Co-op's Purpose and Values and Principles. Council highlights from 2019 can be found in your Council's Annual Statement on **page 132**.

Our Directors, alongside Council members, also participate in a number of informal working groups and advisory forums, such as the Stakeholder Working Group. Such forums, whilst not part of our formal Board governance, allow for open discussion between our Board and Council. They help make sure members' views and needs are considered when making decisions. Further detail can be found on **page 79**.

Our Board

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

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

Director biographies can be found on **pages 64-66**. Members are able to see copies of the Directors' appointment letters by asking the Group Secretary.

Role of our Directors

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

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

Steve Murrells, our **Chief Executive:**

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

Sir Christopher Kelly, our **SID**:

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

- Regularly liaises with our Members' Council and sits on our Stakeholder Working Group

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

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

Helen Grantham, our **Group Secretary**:

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

Division of Responsibilities

The roles and responsibilities of the Chair and the Chief Executive are clearly set out - the Chair's role is detailed in his appointment letter and the Chief Executive's role is set out in his contract of employment.

Appointments to our Board

INEDs

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

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

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

Following Director appointments, the Council Scrutiny Committee considers a report from the Nominations Committee and checks the right process has been followed for appointing an INED (or the Chair). The Report of the Scrutiny Committee can be found on page 139.

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

- In 2019 no new INEDs were appointed to the Board. Rahul Powar was elected at the AGM following his appointment to the Board in July 2018 and Sir Christopher Kelly (INED and SID) and Allan Leighton (Chair) were re-elected
- At our 2020 AGM Lord Victor Adebowale, Simon Burke and Stevie Spring are standing for re-election

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

Executive Directors

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

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

- In 2019 the Nominations Committee recommended to the Board the appointment of Shirine Khoury-Haq as an Executive Director.
- At our 2020 AGM Shirine Khoury-Haq (Executive Director and CFO) is standing for election and Steve Murrells (Executive Director and CEO) is standing for re-election.

Member Nominated Directors (MNDs)

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

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

- In 2019 Paul Chandler was re-elected as an MND and Sarah McCarthy-Fry was elected for the first time following a contested election
- For 2020 the MNDJC has led on the MND election process supported by Saxton Bampfylde, an executive search firm. Margaret Casely-Hayford has indicated she wishes to stand for re-election for a further three-year term and the MNDJC have approved her inclusion on the ballot form. Details of all the candidates for the one vacancy are set out in the 2020 AGM Booklet.

As with the motions at our 2020 AGM, this year we will be encouraging our members to vote in the MND election process online.

The Membership and Eligibility Criteria for our Directors has been reviewed by the Nominations Committee who have confirmed that these have been met for all of the Directors seeking election/re-election in 2020. In addition, our Board is satisfied that these Directors continue to show a strong commitment to Co-operative Values and Principles and have enough time to give to their duties as Directors. The Board recommends the election/re-election of all the Directors standing for election/re-election at the 2020 AGM.

Terms of office

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

Our Board's skills and expertise

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

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

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

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

The Director biographies on pages 64-66 summarise their key skills and experience.

Board succession plans

The Board maintains a Board Succession Plan which was reviewed and updated during the year. See the Nominations Committee's Report on page 117 for more detail. The Board is satisfied that the Board Succession Plan remains sufficiently robust. Executive succession is a matter for the Chief Executive in consultation with the Board. This has been delegated to the Remuneration Committee to review in the first instance.

Board effectiveness and evaluation

It is good governance that the Board regularly reviews its own performance. It is also a requirement set out in our Rules. The Nominations Committee oversees a Board effectiveness review every year. Our Rules say this review should be done by an external firm every second year unless the Nominations Committee and the Chair agree a good reason why that shouldn't happen. For 2018 we reported on our internal review. For 2019, the Nominations Committee and Chair agreed that it was right to carry out another internal review, in line with the review cycle set out in the UK Corporate Governance Code. The process was led by our SID. Detail on the 2019 review and our plans for 2020 can be found in the Nominations Committee report on page 117.

How our Board operates

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

The Board met ten times during the year with meetings held in Manchester. During the year our Board:

- Held three strategy sessions – these focused on developing our strategy and vision and looking in detail at key business areas
- Held closed sessions between the INEDs, CEO and Group Secretary and the INEDs alone – this is in line with good governance
- Attended Board dinners the evening prior to each Board meeting – time was used to discuss papers in advance and engage with our Executive in a more informal setting

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

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

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

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

While we are all complying with the Government's "Stay at Home" measures we are having to adapt from physical to digital meetings and continue to hold meetings as planned and with relevant access to papers and minutes.

Board attendance

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

The numbers in brackets show how many meetings each Director could have been at. Some Directors have fewer meetings they could have attended because they were either appointed during the year or stepped down part way through the year.

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

Director	Board	Risk and Audit Committee	Nominations Committee	Remuneration Committee
Allan Leighton (Chair)	10(10)		4(4)	
Victor Adebowale	8(10)	4(5)		
Hazel Blears	10(10)	5(5)	4(4)	
Simon Burke	10(10)	5(5)	4(4)	
Margaret Casely-Hayford	10(10)		1(1)	4(4)
Paul Chandler	10(10)	5(5)		
Ian Ellis*	4(4)			
Sir Christopher Kelly	10(10)		4(4)	4(4)
Shirine Koury-Haq**	4(4)	2(2)		
Sarah McCarthy-Fry***	6(6)			
Steve Murrells	10(10)			
Rahul Powar	10(10)			2(2)
Stevie Spring	10(10)			4(4)
Gareth Thomas*	4(4)		3(3)	1(1)
Nick Crofts	n/a	n/a	4(4)	n/a

*resigned 18 May 2019
**appointed 5 August 2019
***appointed 15 May 2019

Time commitment and conflicts of interest

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

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

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

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

Independence

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

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

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

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

Diversity

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

Diversity of thought brings a richness of debate that is vital to an effective Board and those values are found within our Board Diversity Policy, which can be found on our **website**. The policy was reviewed during the year by the Nominations Committee. **See page 117**.

Our Board is currently made up of five women (42%) and seven men (58%). Four of those Directors identify as Black, Asian and Minority Ethnic (BAME). It is pleasing that our gender diversity exceeds the findings of the 2019 Hampton-Alexander Review which indicated 32.4% of FTSE 100 board positions were held by women.

Decisions of our Board

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

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

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

Our Board looks at the interests, views and needs of our wider stakeholders when making decisions of substance and our contact with them (as detailed on **page 79**) helps our Board understand these views.

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

Managing our risks

Our Board oversees our risk management framework through the Risk and Audit Committee. It regularly reviews and agrees risk mitigation plans and responses. Our Board ensures that policies and practices are consistent with our Purpose and Co-operative Values and Principles. For more information on Risk Management at Co-op and our Principal Risks and Uncertainties, please see **page 55**.

Delegated authorities framework and matters reserved for the Board

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

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

Communicating with our Stakeholders

We have a wide range of important stakeholders. In the following section we have provided examples of how we have continued to engage and communicate with them during the year.

Our Members' Council

In addition to formal routes there are many informal ways our Board, Chair and individual Directors interact with the Members' Council, its committees, working groups and members. During 2019 this included:

- Attendance at Members' Council meetings (held six times per year)
- Answering specific questions from the Members' Council, either in writing or verbally
- The use of working groups with the Members' Council, particularly when our Board, the Executive or colleagues feel input would be useful and add value
- Regular discussions between the Group Secretary and Council Secretary to make sure there is a good flow of information between the Board and Members' Council
- Our Board and Members' Council provided reports on their meetings to each other

We also have the non-governance **Stakeholder Working Group** (SWG), which is made up of four Co-op Board members and four Members' Council members (the Council President, the two Vice Presidents and one other). This meets as required if any potentially contentious issues arise so our Board and Members' Council can have an open debate and better understand the views of the other.

The **Member Nominated Directors Joint Selection and Approval Committee** (MNDJC) has the task of vetting candidates for the ballot which is put forward to our members to choose who they'd like to vote onto our Board as MNDs. It's a committee which is made up of Board Directors and Members' Council members.

During 2019, our Members' Council updated its **Co-op Compass** which is used to hold our Board to account under four themes; Member Value, Member Voice, Ethical and Sustainable Leadership and Co-operative Leadership.

Our wider membership

We take the view that as a co-operative, engagement with our members should always be at the heart of what we do.

Wherever it makes sense to do so, we ask members to connect with us on projects, where their input can make a real difference. During 2019, our **Join In** online activity and our Join In Live events have engaged over 149,000 members and enabled our members to put questions to our Council Members and Directors. Since their launch in September 2018 the Join In activities have engaged over 250,000 members.

In 2019 we saw the number of our **Member Pioneers** increase to over 600 individuals around the country and we are constantly adding to them - by 2020 we aim to have a Member Pioneer in every community. Our Member Pioneers help put like-minded people in touch with one another, offer practical advice and help to get people involved with community-based initiatives. They also engage with members locally on our Co-op and encourage members to become more actively involved. They have been a key resource for our Co-op and our communities during the coronavirus pandemic.

Whilst 2020 is an unprecedented year in which we are telling members not to attend our AGM, we ordinarily encourage members to come to our **AGM**, where they can find out more about our products and provided they have met the required eligibility criteria, vote on motions which are either put forward by our members, our Members' Council, or our Co-op. Our eligible members will be able to appoint, online (or by post) in advance of our 2020 AGM a voting representative to vote for them at our 2020 AGM. In addition we are planning for our members to be able to submit questions using an online tool. We may need to adapt our plans due to unforeseen circumstances and we will keep members updated via our website at co-operative.coop/agm

All motions are voted for on a 'one member, one vote' basis, except for Independent Society Members, who have their voting entitlement calculated by reference to the amount of trade they do with our Co-op.

Each year we publish a '**You Said, We Did**' Report which outlines the actions our Board and Executive have taken in response to motions voted for at our AGM.

We continue to interact with members through social media channels including Facebook and Twitter. In September 2019 we launched our new Co-op Food app.

Colleagues

Our Board recognises the importance of engaging our colleagues. We have not adopted one of the methods set out in the UK Corporate Governance Code to do this (a colleague appointed director, a workforce advisory panel or a designated non-executive director). However, our Directors are of the view they are all responsible for hearing what our colleagues have to say and making sure these views are considered when making decisions. There are lots of formal and informal ways that this happens including through communicating with our colleague members (see more about how we communicate with members in the above section) and the examples detailed in this section.

Throughout 2019, we have continued to develop our means of communication through our **Colleague Voice** initiative, a forum of 35 colleague representatives from across our Co-op whose aims are to develop colleague focused initiatives and look into things that impact colleagues.

We also added to our existing communication channels through the introduction of **Yammer**. This is a communication platform, used internally by our Co-op and available to approximately 15,000 of our colleagues, with the intention we roll it out to more.

Throughout 2019, we continued with our cycle of **Talkback Pulse** surveys, to help us understand what colleagues really thought about our Co-op and to help us identify potential development areas. These surveys were reported to the Board by the Chief People and Services Officer to ensure it gets a real sense of our colleagues' views and culture.

Our Members' Council has a keen interest in our colleagues, and we have a number of colleague members on this group. Council regularly holds the Board to account on colleague issues.

Customers

Our relationship with our non-member customers is extremely important and all areas of our business listen to customer feedback. In 2019 our customer communications focused on the message that choosing Co-op means choosing to do good in your community and around the world. We actively promote the Co-op difference and that it is possible to do business in a better way through the co-operative model. In 2019 we're proud that our Food business has been awarded The Grocer Gold award for Convenience Retailer of the Year and Consumer Business of The Year at The London Evening Standard Awards.

Other Co-ops

We recognise the benefits of working closely with other co-operatives.

We are the major shareholder in Federal Retail and Trading Services Limited (FRTS), which is collectively owned by our Co-op and Independent Society Members (ISMs). Through FRTS our Co-op collaborates with ISMs on the management and operation of its centralised buying function, while observing competition law requirements. FRTS has an independent Chair and holds six formal meetings a year.

ISMs are members of our Co-op and are also represented on our Members' Council.

We are a member of Co-operatives UK, a network of Britain's thousands of co-operatives. In November 2019, Co-operatives UK published a revised version of the Co-operative Corporate Governance Code, a tool to help co-operatives of all sizes chart what good governance looks like. Before the code was published, we had the opportunity to provide feedback to Co-operatives UK on the draft version and were pleased to have participated in sharing our view.

We provide funding to a number of organisations which support the co-operative movement.

Fairtrade partners

Our commitment to Fairtrade spans over 25 years when we first stocked Café Direct and predates the launch of the Fairtrade mark by two years. In 1998 we became the first supermarket in the UK to start selling Fairtrade products in all our Co-op stores. Since then, our relationship with Fairtrade has continued to grow and in 2015 we became the largest seller of Fairtrade wine in the world. Since 2017 all the cocoa used as an ingredient in Co-op products is Fairtrade and we use Fairtrade bananas, tea and coffee as ingredients wherever we can. You can read more about our food sustainability plans to 2030 in our separate Future of Food publication available on our website.

Our communities

During 2019 we returned a huge £17 million to 4,000 local causes through our Local Community Fund. We went on tour, with the Big Co-op Payout Bus, giving our colleagues the opportunity to visit causes in their local area and give them the great news.

Our relationship with these community causes means we stay true to the founding principles of the Rochdale Pioneers; we measure our success in the way we create value for our members and our Co-op as a whole and not just in purely commercial terms.

Through our Wellbeing Index, and our research with members and communities, we've identified three priorities for our community work: Community Spaces; Physical and Mental Wellbeing; and Education and Skills. This is set out in more detail on **page 38** of the strategic report.

Co-op Academies Trust

Education is really important to us and we have continued to sponsor the work of the Co-op Academies Trust and ensure our Board is continuing to talk to our colleagues as well as the teachers and students within the Trust.

During 2019:

- Our CEO attended our two Bradford Academies to discuss leadership and the importance of empowering our colleagues.
- Our Board held one of its meetings at Connell Co-op Colleague in Manchester which provided an opportunity to interact with the academy.
- The Chair hosted a dinner with various colleagues including representatives from our Co-op Academies.

For more information on the Co-op Academies Trust, please see **page 39** in the strategic report.

Suppliers

The Board recognises the importance our suppliers play in delivering an excellent service to our customers. We aim to treat all suppliers fairly. We admittedly fell short of the required standards in our Food business early in 2018, but since then have worked hard on getting our processes right and ensuring our performance in this area continues to improve. For more information please see the section on Compliance with Groceries Supply Code of Practice on **page 127** in the Directors' Report.

Co-operative Values and Principles are the fundamental basis upon which we do all of our business and manage all of our relationships as we look to balance commerciality with community. In 2019, we launched our new Goods and Services Not for Resale (GNFR) Sustainability Strategy which builds on our Ethical Trade programme and is aligned to our central sustainability plans, with focus on environment, protecting workers and skills development. We also launched our Shared Value Supplier Charter to provide a call to action for suppliers to identify social value activities aligned with our community plans. We've focused on the roll-out of our local sourcing programme across all counties in the UK, bringing local suppliers to our members, customers and communities. You can read more about our approach to responsible procurement within our **Sustainability Report**. The way we approach modern slavery can be viewed in our **Modern Slavery Statement**. Both reports are available on our website.

Additional Governance Information

Whistleblowing

Our Board remains comfortable that there are sufficient processes in place which enable colleagues to raise any issues which they feel uncomfortable about or which are not in line with Co-operative Values and Principles. See page 86 for further detail.

Board code of conduct

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

Directors' and Officers' liability insurance

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

Independent professional advice and Board support

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

Our subsidiaries

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

There are three subsidiaries which are treated slightly differently - CIS General Insurance Limited (CISGIL), Co-operative Insurance Services Limited (CISL) and Co-operative Legal Services Limited (CLSL). They are regulated (CISGIL by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA)), CISL by the FCA and CLSL by the Solicitors Regulation Authority (SRA)). This means they have particular areas of responsibility for which they are accountable to their Regulator(s). Our Co-op retains general oversight of these businesses, but in order to satisfy their Regulatory obligations, they need to keep a higher level of independence for their conduct and every-day operational decisions.

Our compliance with the UK Corporate Governance Code

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

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

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

Board leadership and purpose

A successful business is led by an effective and entrepreneurial Board who should promote long-term sustainable success, general value for members and contribute to the wider society. See **page 75**.

The Board should establish purpose, values and strategy and make sure these align with culture. See **page 78**.

The Board should make sure sufficient resource is available to meet and measure performance against its goals and that risks can be properly assessed and managed through effective controls. See **page 55**.

The Board should ensure effective engagement with all stakeholders. See **page 79**.

The Board should make sure policies and practices across the business are consistent with our values and support long term sustainable success. Colleagues should be able to raise any concerns. See **page 83**.

Division of responsibilities

The Chair should lead the Board, demonstrate objective judgement, set the tone for the culture, encourage constructive director debate and ensure directors receive accurate timely and clear information. See **page 73**.

There should be an appropriate mix of Executive Directors and Independent Non-Executive Directors (INEDs) and a clear division between the roles of the Executive Team and Board. See **page 72**.

INEDs should give sufficient time to their role and hold the Executive Team to account. **See page 77**.

The Board should have sufficient policies, processes, information, time and resource to function effectively and efficiently. See **pages 76** and **83**.

Composition, Succession and Evaluation

Appointments to the Board should be subject to a formal, rigorous and transparent procedure and an effective succession plan should be maintained for the Board and Executive. Appointments and succession plans should be based on merit and objective criteria, and should promote diversity of general, social and ethnic backgrounds, cognitive and personal strengths. See **page 117**.

The Board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of services of the Board as a whole and membership regularly refreshed. See **pages 75**, **78**, and **117**.

An annual evaluation of the Board should consider composition, diversity and how effectively members work together. Individual evaluation should demonstrate whether each director continues to contribute effectively. See **pages 75** and **119**.

Audit, risk and internal control

The Board needs to put in place formal and transparent policies and procedures to make sure that external auditors and our internal audit function are independent and effective, with the result that our published accounts give a fair reflection of our Co-op's financial position. **See page 86**.

The Board needs to satisfy itself that our Co-op's position and prospects are presented in a fair, balanced and understandable way. See **page 86**.

The Board needs to identify an acceptable level of risk and make sure that financial controls across the business are appropriate so that financial decisions are taken in line with that identified level of risk. See **page 86**.

Remuneration

Our pay policies should link to and support our stated purpose and promote long-term sustainable success. See **page 101**.

No Director should be involved in setting their own pay and procedures for developing the policy relating to Executive Director pay should be transparent. See **page 115**.

Directors should apply independent judgement by looking at our Co-op's business performance, Directors' performance and any other relevant circumstances when authorising Executive pay. See **page 108**.

Our Compliance with The Co-operative Corporate Governance Code

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

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

The report of the Risk and Audit Committee

The report of the Risk and Audit Committee

Introduction from your Committee Chair

During 2020, the Committee once again tackled a wide range of topics. However, a major focus for us has been the quality of the Co-op's control environment. Following work to examine the robustness of financial control in Funeralcare, we supported management in an overhaul of the finance function in Funeralcare as part of the wider turnaround work on that business. The result is an improving picture, but we are in no doubt about the work which remains to be done.

This has led us to look more broadly at financial controls in the Society, how they are managed and how we can ensure that they are being performed. We are working with the new finance team to devise some regular reporting which will allow the Committee to monitor the operation of controls and identify early any symptoms of a problem.

It was against this background that the issues with accounting in Nisa were discovered. The facts are covered elsewhere in the Annual Report. It was clearly concerning to us to find that both the balance sheet and the trading results of Nisa had been misstated in both the first half of 2019 and 2018, and in the years prior to our acquisition.

Our initial priority has been to ascertain the correct numbers, to ensure that the Nisa business could be properly reported to members in the annual accounts, and to enable the auditors to conclude their work to report on the accounts.

An external investigation has already examined the causes, nature and amount of the accounting errors as part of our year end process. The Committee intends to investigate this matter further to understand how the Co-op ended up in this place, what action we should take as a consequence, and what we can learn from what has happened here. We will also examine how our own programme of work can be improved to identify sooner, and if possible prevent, misstatements of this kind.

We were heavily engaged in debating the re-interpretation of IFRS 15 proposed by our external auditors in relation to our Funeral plans. This issue is a highly judgemental matter and is also explained in our Financial Performance section in the Annual Report. We supported management in providing data to the auditors to make the case for the Co-op's proposed accounting treatment and we provided briefings and guidance to the Board in reaching a decision on this subject. It was a difficult decision to disagree with our auditors knowing that this would lead to a qualified audit opinion. We thought that our members would rightly expect us to prepare our accounts in a clear way that best reflects the commercial nature of our Funeral Plan business, which we have done.

We also oversaw the implementation of IFRS 16 which has a profound effect on the financial reporting of our businesses.

We also had to ensure that there was enough quality data to allow the Board to give its assurances on going concern and longer-term viability in the wake of the Covid-19 outbreak, and to satisfy the external auditors in this regard.

A number of other matters were in focus during the year:

Groceries Supply Code of Practice where we saw improved reporting of our practices and an improving picture of our performance. We were particularly pleased to see the Co-op released by the Regulator from its remediation programme following last year's investigation.

Our Retail Business Transformation where we have been monitoring progress with the project and keeping focus on the flow of benefits to ensure the Co-op gets value for money from this very substantial investment.

Risk management which has grown in sophistication and scope during the year. A particular focus remains the level of crime affecting store colleagues and the steps being taken to manage it.

Sale of CISGIL where we have kept the protracted process under review, ensured proper accounting treatment and heard from members of the CISGIL board about the maintenance of good accounting and control standards whilst it continues.

In the following sections of the report you will find listed a range of other topics considered by the Committee during the year. As before, we have benefited greatly from the input and support of fellow Committee members Hazel Blears, Victor Adebowale and Paul Chandler and also of Sarah McCarthy-Fry, our new Member-nominated director, whom we welcomed to the Committee in May 2019.

Simon Burke
Chair of the Risk and Audit Committee

Risk and Audit Committee membership and attendance

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

The UK Corporate Governance Code ('the UK Code') recommends that there are at least three independent directors on the Committee and we met this recommendation during 2019. This year the Committee welcomed Sarah McCarthy-Fry as its newest member. All Committee members are considered by our Board to be independent under the UK Code providing objectivity and independent scrutiny. Three members are Member Nominated Directors – Hazel Blears, Paul Chandler and Sarah McCarthy-Fry – and two are Independent Non-Executive Directors – Lord Victor Adebowale and Simon Burke. Our Board is satisfied that Simon Burke's relevant and recent financial experience means he is qualified to Chair the Committee.

Details of attendance by Committee members at meetings held during 2019 are on page 77.

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

What the Risk and Audit Committee does

The main areas the Committee looks after includes the following:

Financial and regulatory reporting

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

Internal controls

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

Internal audit

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

External audit

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

Risk

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

Sustainability reporting

- To review and recommend to our Board the approval of our Sustainability Report
- To ensure that we have someone independent check the accuracy of our Sustainability Report

Other

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

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

In 2019, our Committee's main activities included reviewing:

- That the financial information we provide to our members is prepared honestly; especially that the Annual and Interim Reports are fair, balanced and understandable and the key judgements and assumptions are reasonable
- How well the risk and control systems are designed and working
- Internal Audit's work, plans and reports, including the completion of actions by managers on a timely basis
- How we comply with the UK Code that was updated in 2018
- The approach we take to key judgements and significant matters when producing our financial information
- Compliance with the new accounting standard for leases and assessing its impact on the financial information we provide to our members
- Updates on emerging and our priority risks, together with how we're reducing risks and ensuring compliance with applicable regulations
- How our Co-op uses and protects personal information; including how we continue to comply with the General Data Protection Regulation (GDPR)
- Risks and controls around cyber security and our IT infrastructure
- Risk updates including changes to risks to our Co-op and progress with defining and operationalising the risk appetite across our Co-op
- Financial control and the operating standards within our Funeralcare and Life Planning business and Funeralcare's investment strategy
- The progress of key programmes and projects including:
  - separating our Co-op's IT systems from those of The Co-operative Bank and CIS General Insurance Limited (CISGIL)
  - the successful set up of Co-operative Insurance Services Limited (CISL),
  - Leading the way - which aims to deliver simple, meaningful and sustainable change for our store colleagues
  - Logistics transformation - which is a multi-programme portfolio of activity to provide a safe, secure and cost-effective logistics operation
  - Retail Business Transformation (RBT) which is the multi-year programme set up to simplify and streamline our retail processes, systems and ways of working, to support more effective decision making
- How we work with suppliers, so we comply with the Groceries Supply Code

of Practice (GSCOP) and go above and beyond the Code's expectations

- How good our systems are at spotting risks and then controlling them and the steps being taken by each of the businesses against targets for further improvement
- The independence and effectiveness of our external auditors
- Approval of our external auditor's non-audit fees
- Co-operate: It's what we do. Our Sustainability Report 2019 and providing input on it
- Reports on our whistleblowing arrangements and activity
- The annual review of our Co-op's pension schemes
- Who can approve what level of financial spend within our Co-op, ensuring these limits were aligned to our new leadership structure
- Progress towards the development of our Co-op's Shared Value framework

Significant issues relating to the financial statements

When our Committee looked at the 2019 financial statements, it considered the following key areas of judgement. In all cases, it discussed them with management and the external auditor:

Areas of focus	What was done
Going concern Management continue to monitor our borrowings, facilities and banking covenants to ensure that we have enough financial headroom to continue to run our business as a going concern.	The uncertainty caused by the Covid-19 outbreak is having a material impact on the operations of our businesses. Our Committee reviewed management's assumptions of the key impacts of Covid-19 on the financial projections and the results of stress tests. Our Committee agreed that our Co-op is a going concern.
IFRS 15 Revenue Recognition IFRS 15 is an accounting standard that sets out how revenue is recognised. Our Co-op adopted this for the first time in 2018. The biggest impact for Co-op was on the accounting for funeral plans. The Committee discussed a key judgement area in IFRS 15, particularly relevant to a funeral plan sale, which is whether the transaction contains a "significant financing component". Co-op's assessment on adoption in 2018 was that a plan sale did not contain a significant financing component and it was proper to revisit this in the light of wider adoption of IFRS 15 since Co-op first adopted it.	Our Committee considered the impact on the clarity of our accounts of adopting a different approach. The Committee remained of the view the current treatment remained appropriate given the particular features and terms of a Co-op funeral plan. This position was different to that taken by our auditors and so the Committee guided our Board to the implications of being given a qualified audit report in respect of our application of this standard.
New accounting standard: IFRS 16 Leases IFRS 16 Leases is the new accounting standard that sets out how leases should be accounted for. Our Co-op adopted and complied with this standard in 2019 which required us to recognise assets and liabilities arising from all applicable leases. This required a degree of judgment on the valuation and impairment of these 'Right of Use' assets and also impacts on the value of our onerous lease provisions. Due to significant cost and complexity involved in restating previous year's figures to support comparability, management has applied the 'cumulative catch up' method in which the standard is recognised retrospectively but with the cumulative effect shown in reserves.	Our Committee reviewed the impact of the adoption of the standard on our financial statements. We also reviewed the key judgements and assumptions made by management underpinning the calculations for the underlying leased assets; the impairment of these and liabilities representing our obligation to make lease payments; and management's reasons for not restating previous year's figures for comparability.
Restatement of Nisa results Our Co-op acquired the Nisa business in May 2018. From acquisition the assets and liabilities of Nisa including goodwill are included in the consolidated results of our Co-op. An error in Nisa's results means that prior period results have had to be restated.	During 2019, Co-op's Internal Audit team reported to management that Nisa's financial controls were not effective and not operating as intended. Our Committee considered the findings of the internal audit and management's responses to it in light of the discovery of historic accounting errors in early 2020 by our Nisa Finance team. Our Committee reviewed management's analysis of the nature of the errors and their impact on the consolidated results. An independent review has looked into the background to these errors and further work will be undertaken to ensure that lessons are learnt for the future and to decide on any appropriate action.

Areas of focus	What was done
Goodwill and fixed asset impairment Our Co-op's Balance Sheet includes significant goodwill, intangible assets and property, plant and equipment balances. The most significant of these are in the Food and Funeralcare businesses.	Our Committee reviewed the impact on our Balance Sheet of the recognised leased assets following adoption of the IFRS 16 standard. Our Committee also reviewed management's revised model for impairment reviews and discussed the key judgments, assumptions and volatility underpinning the calculations. Our Committee also received external advice on the judgments involved in the capitalisation of costs incurred on the RBT programme.
Property and other provisions Our Co-op makes provisions for likely future liabilities. Management must apply judgement to determine whether, and how much, we should account for a provision, notably in relation to onerous leases which require significant judgement.	Our Committee reviewed key management judgements regarding significant provisions. These were assessed for consistency of approach compared with previous years, against our accounting policies and the impact of IFRS 16 Leases.
Pension scheme IAS19 Valuation Our Co-op has a number of defined benefit pension schemes, of which the PACE scheme is the largest. Management must make assumptions (about things like the future growth rate of investments and the death rate of members of the scheme), which can materially affect the valuation of the pension schemes.	Our Committee assessed the key assumptions that underpinned the pension calculations. It also reviewed advice provided by internal and external actuaries, including market benchmarking.
Revenue recognition: Supplier income Management must ensure that income from suppliers is accounted for in line with supplier agreements, at an appropriate level and in the relevant period.	Given the complexity of this figure, which includes bonus income, promotional income and long-term agreements, the terms of which can be complex or varied, our Committee sought continued assurance from the Food and Wholesale business that the controls were operating effectively.
Sale of CISGIL As the sale of CISGIL is expected to complete later this year, management needed to ensure that CISGIL continues to be appropriately accounted for in our Co-op's Balance Sheet.	Our Committee assessed the impact of the sale of CISGIL and the relevant disclosures.

Review of the Committee's effectiveness

In 2019 the Committee undertook a self-assessment of its effectiveness which concluded that whilst the Committee was working well, it could have a more detailed debate and discussion when required if it managed the time within meetings more effectively.

External audit activities

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

EY are our Co-op's auditors. They also provide our Committee with relevant reports, reviews, information and advice throughout the year. All these activities are set out in their engagement letter. During the year the Committee conducted a review of potential providers of external audit services and recommended to the Board that EY be retained.

Independence, objectivity and fees

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

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

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

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

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

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

Effectiveness of auditors

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

Internal audit

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

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

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

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

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

Internal control

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

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

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

Our review of the Executive's self-assessments forms an important part of the annual review of the systems of risk and control. An external investigation into the accounting errors at Nisa has already examined the causes, nature and amount of the errors as part of our year end process. The Committee intends to investigate this matter further to understand how the Co-op ended up in this place and to ensure that lessons learnt form part of Nisa's improvement plans.

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

Culture

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

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

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

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

Planning

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

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

During 2019, we received updates on our Co-op's priority risks, emerging risks and the process to embed our risk appetite across the businesses.

Doing

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

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

Informing

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

Reviewing

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

Whistleblowing procedure

To ensure our Co-op follows best practice and Co-operative Values and Principles, a whistleblowing procedure has again been in place during the year to allow colleagues to pass on information about suspected wrongdoing. This includes a service known as 'Speak Up', which is managed by an external independent company and allows colleagues to raise concerns confidentially should they not wish to talk to someone within our Co-op. This procedure also allows suppliers to report on any suspected wrongdoing.

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

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

Other activities

Audit actions

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

Brexit

Brexit is a key risk to our Co-op and our Committee has paid close attention to changes in the political landscape, emerging developments and considered the implications for our customers, colleagues and members; to ensure that the business is able to plan and respond accordingly.

Sustainability report and change in oversight of this

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

Groceries Supply Code of Practice (GSCOP)

During 2019 our Co-op continued to engage positively with the Groceries Code Adjudicator, who acknowledged that significant changes have been made following their investigation. The GCA Annual Survey 2019 also concluded that our Co-op was the most improved retailer over the past 12 months.

The Committee has kept under review how our Food business is improving its levels of compliance and improving supplier engagement through our GSCOP Compliance Programme. This included updates from the Code Compliance Officer and the Supplier Relationship programme and our review of the Supplier Engagement Compliance dashboard. Our governance arrangements in this area have also been independently reviewed by KPMG.

The Committee approves the Annual Compliance Report for submission to the Competition and Markets Authority as required by the Groceries (Supply Chain Practices) Market Investigation Order 2009. A summary of progress in the year is on page 127.

GDPR and Cyber Security

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

Retail Business Transformation and retail change activities

RBT is the multi-year programme set up to simplify and streamline our retail processes, systems and ways of working. Our Committee has considered updates about the progress of the programme and challenged management to ensure that the programme delivers the desired outcomes and quality within the allocated resources.

Report of the Remuneration Committee

Report of the Remuneration Committee

Introduction from the Committee Chair

I am pleased to introduce to you my fifth Remuneration Report as Chairman of the Remuneration Committee ('the Committee'). I am doing this with the backdrop of the coronavirus pandemic. I am not planning to repeat what Allan and Steve have already covered on the challenges we and others face, but these are unprecedented and uncertain times.

My statement and the report reflects the arrangements we put in place, and were approved by our AGM, in 2019. We have not revisited our policy in light of the coronavirus pandemic but will obviously keep this under review to any changing circumstances.

The Committee knows that this report contains a lot of information, but we have tried to make it as clear as possible. In addition to this statement, which provides the key highlights, there are two further sections:

i. Part I – Executive Pay Policy. We have included a summary of our pay policy.
We asked our members to vote on our policy at the 2019 AGM and 84.66% voted in favour.

ii. Part II – Annual Report on Remuneration. We pay our Executive in line with the policy and how this has been applied by the Committee in 2019 is set out on **page 108**.

We have also included a Pay at a glance section on **page 101**, where we pull together the key information we believe you will want to see in a simplified format.

Our approach

Executive pay remains in the spotlight with scrutiny on pay arrangements that are not aligned to long-term strategy or values, as well as inconsistencies with the wider workforce. As a Committee we are committed to making the decisions relating to pay for our most senior colleagues clear and we fully support the reporting requirements under the UK Corporate Governance Code, even though we are not a public company with traded shares.

In 2019 we have again ensured that how we pay our Executive team fully reflects our values and principles and we want all colleagues' pay to follow this approach. Getting the balance right in executive pay is not easy and not all members will agree with the choices we make, but our Committee continues to focus on what it believes is right and fair for our Co-op and allows colleagues to share in our success.

We do need to be able to compete for talented executives with the right skills and values for our Co-op. We also need to reward high-performing colleagues for a job well done, supporting our purpose, values and strategy. We explain our strategy and business model on **page 21** and we have shown the clear link between that and our 2019 pay outcomes in the Pay at a glance section on **page 101**.

Our responsibilities

We are a co-op owned by millions of members who are also our customers. Our members have given the Committee the role of deciding what we pay our Executive, but we always listen to their concerns.

We believe in being open and clear with our members and we choose to go beyond the reporting rules for large companies with traded shares, for example providing pay information for our full Executive, compared to just for board directors in large public companies, which in our case would just be our Chief Executive and Chief Financial Officer.

We also canvas Council's views via a small group they have set up for this purpose and those of the wider UK co-op movement. We also engage with our wider membership at our AGM.

Our performance

In a challenging and highly competitive market our Co-op has continued to grow. We've expanded our product ranges and service offerings through new technology, as well as launching in new markets. You'll see in Allan's statement on page 5 that there's more to success at the Co-op than making profit. We are going even further to support the communities we work and live in and we are committed to do all we can to help our members, customers and colleagues, as we play our part in responding to the coronavirus crisis. How we run our business is important to us and we ensure this is reflected in the way we set objectives, performance is evaluated and ultimately pay our Executive team.

Our pay outcomes

Bonus

Our Co-op performed well in 2019, against an extremely challenging market backdrop, and I'm delighted that most of the targets in the 2019 Bonus Plan (BP) were achieved. More information on the balanced scorecard measures can be found on page 109.

As a result, awards under the 2019 BP for our Executive were between 55.58% and 65.58% of their maximum opportunity, with 50% held back for two years' time, as per our new scheme. Further details of the amounts paid and deferred can be found on pages 108 and 110.

The final Long Term Incentive Plan (LTIP) covering the years 2017-19 had a financial underpin of the level of company debt compared to the level of profit achieved at the end of the period, which was narrowly missed. There are no payouts under this plan and it's now closed.

Pay

The Committee increased the salary for two members of the Executive during 2019:

- Jo Whitfield was appointed as CEO Food in 2017 for a trial period and on an "acting up" salary. She was confirmed in post on a salary of £550k reviewable after one year. Since then, the business has continued to grow and Jo's performance has been excellent. The Committee increased her salary to £650K with effect from 1 July 2019.
- Helen Webb - Delivering our people agenda is central to ensuring the long-term future of our Co-op, and we believe that our people culture should be valued as highly as our corporate brand. The role has grown to include accountability for the Co-op Service Centre and Helen is now Chief People and Services Officer. Taking Helen's performance and these factors into account, the Committee increased Helen's salary from £350K to £450K with effect from 1 July 2019 to match our Chief Membership Officer.

Changes to the Executive

Ian Ellis stepped down at the 2019 AGM and no termination payments have been made.

We were pleased to welcome Shirine Khoury-Haq as Chief Financial Officer in August 2019. Shirine has relocated to the North West from London and the Committee agreed a relocation package to support the move. Further details can be found on page 108. She joined on a salary below Ian Ellis's, reflecting the more stable business we now have.

Our colleagues

Our Committee and Board regularly discuss how we pay our colleagues across our Co-op for the great job they do and we were pleased to see the approach taken to thanking our frontline colleagues for the amazing job they are doing during the coronavirus crisis.

We have made good progress with increasing customer-facing colleague reward in recent years, but we want to do more, always balancing our investment in members, customers and colleagues.

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

We are committed to improving customer-facing colleague pay. We increased hourly pay rates for Customer Team Members (CTMs) in Food stores by 5% in 2019 meaning our minimum wage for all colleagues was £8.38 an hour. We have further increased the rate for all CTMs to £9 an hour from 1 April 2020, which is an increase of another 7%. We have also removed the new starter rate, so now all our CTMs are paid the same. This means that we will have increased hourly pay rates for our new CTMs by 25% in the last five years.

We continue to pay above National Living Wage (NLW) and apply our rates to all colleagues, including younger colleagues and apprentices. We still provide paid breaks in Food stores and a generous package of colleague support programmes.

For colleagues in support roles, we launched our One Co-op Reward Framework in 2019; the framework included new salary ranges, guidelines and education to support managers in making fair and consistent pay decisions. The purpose of the framework is to bring greater transparency and consistency to how colleagues are rewarded across our Co-op. By introducing a transparent and fair reward framework, we want to encourage open and honest discussions about pay and support an inclusive approach to career progression at our Co-op.

In Logistics we launched new contracts for Warehouse and Driver colleagues across our network. These contracts agreed with our Trade Unions allow us to recruit a more flexible and diverse workforce ensuring we continue to deliver great service to our stores.

We want all our colleagues to feel valued and recognised for the part they play in our success. Our People plan aims to give our colleagues a great experience whilst working here and Wellbeing is one of the key priorities. In 2019 we extended the range of initiatives to help colleagues manage their health and financial wellbeing in a way that works for them, whilst creating the open culture where wellbeing becomes a part of all that we do.

We continue to offer colleagues access to an independent and confidential Employee Assistance Programme which offers colleagues free 24/7 support across a range of areas, including health and wellbeing, work and personal issues, legal and financial wellbeing.

In 2019 we launched a range of materials to increase awareness of mental health and help colleagues to both better understand and talk about this subject. These will be rolled out across our Co-op in 2020.

We have a long tradition of supporting and promoting Co-op Credit Unions, which will continue. Last year we introduced a debt consolidation service which gives colleagues access to low-cost, responsible borrowing and an alternative to sources like payday lending.

We know that issues around mental and physical health and financial wellbeing will always be important to our colleagues and we're committed to doing even more to support them. We want to be recognised as a leader in this space. 2020 will see us do more to support financial wellbeing; launching a range of educational materials and products that will help our colleagues manage money in a way that's right for them.

42,000 colleagues are active members of our pension scheme. Our pension offer exceeds the minimum required, and we also give colleagues who do not meet automatic enrolment criteria the opportunity to join and receive the same level of benefit.

Gender pay reporting

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

The Committee

The Committee has worked hard this year and made a strong contribution. We said farewell to Gareth Thomas who was not re-elected as a MND in 2019. Gareth served on this Committee for 2 years and I'd like to personally thank Gareth for his valued contribution whilst in post.

We welcomed Rahul Power, who attended his first Committee meeting in September 2019.

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

AGM

Our AGM will be very different this year, as we ensure we comply with "Stay at Home" measures introduced by the government. Members will not be able to attend in person but they will be asked to give their vote prior to the meeting, including on a motion to approve the Annual Report on Remuneration. The vote is advisory.

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

Stevie Spring
Chairman of the Remuneration Committee

2019 Pay at a glance

This section provides an overview of our Executive Pay Policy and summarises the pay that our executives received in respect of their 2019 performance. Further details are set out on page 108.

Executive Pay Policy

The key elements of pay for our Executive are:

Total Pay	Salary	Benefits	Pension	Bonus Plan	LTIP
Salary and benefits are fixed BP and LTIP are variable and depend on performance	Our Executive receives a salary which reflects their core role	The benefits provided are in line with the offering across the Co-op and could include a car or car allowance, fuel in certain cases, relocation assistance, healthcare and life cover	Opportunity to participate in Co-op's pension plan or receive a cash allowance instead	Payments are based on a combination of business and individual performance 50% of the award is deferred for 2 years	The 2017-19 LTIP is the final award under this arrangement The cash payment is based on performance over the 3 year performance period

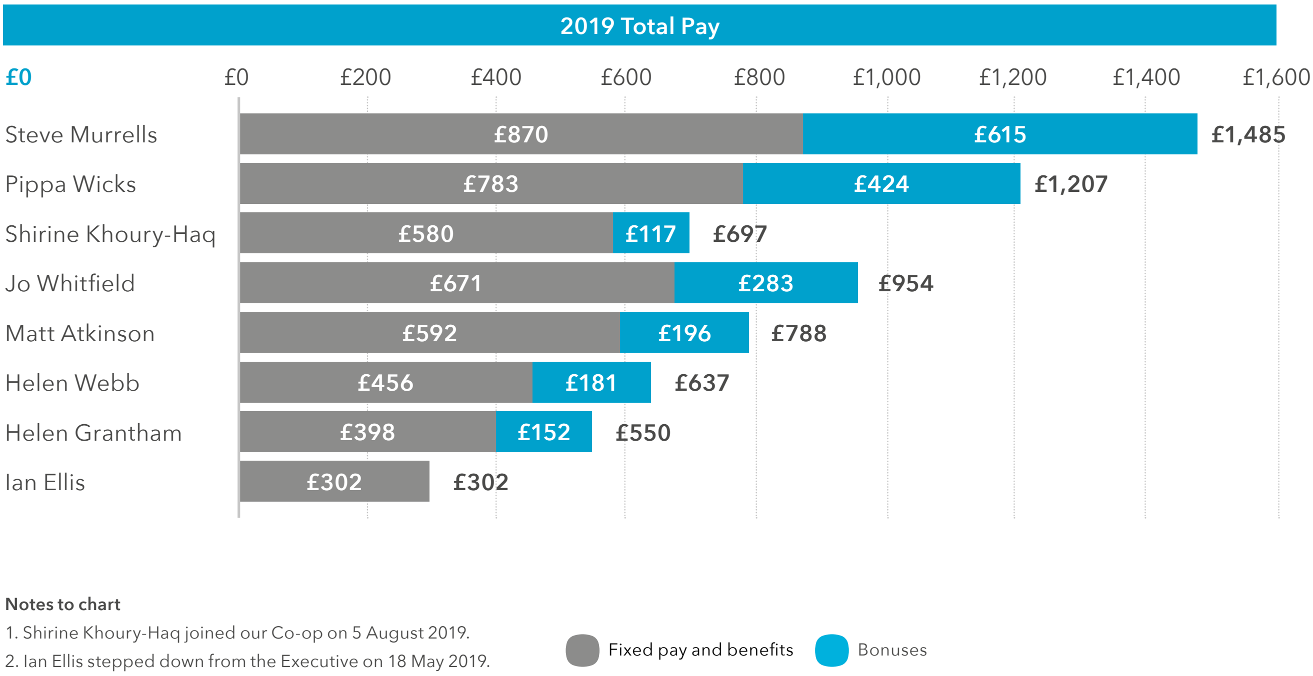
How our approach links to our strategy

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

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

2019 pay outcomes

The chart below shows the pay which our Executives received in 2019 and full details can be found in the Annual Report on Remuneration which starts on page 108.



Notes to chart

1. Shirine Khoury-Haq joined our Co-op on 5 August 2019.
2. Ian Ellis stepped down from the Executive on 18 May 2019.

Executive Pay Policy

How we look at Executive pay

We are committed to the following approach to pay:

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

Summary of Executive Pay Policy

Our current Executive Pay Policy is summarised below.

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

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

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

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

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

Policy for Executive recruitment

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

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

- **Relocation.** The Committee will consider contributing towards relocation costs for an Executive who needs to move home to be closer to their place of work or stay close to their place of work during the working week. When applicable, this is provided under a relocation policy that seeks to provide appropriate financial assistance based on the nature of the move and individual circumstances, without encouraging people to spend long periods away from family

- **Giving up of outstanding incentive awards.** Under absolutely exceptional circumstances, the Committee may consider compensating a new executive for incentive awards lost as a direct result of leaving their previous employer to join the Co-op. The exact type and amount of compensation will vary depending on the incentive plans operated by the previous employer. Any payments agreed under this policy will be no more generous than the arrangements lost, will mirror the original terms as far as possible, and will typically be subject to relevant performance criteria

Policy for Executive leavers

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

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

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

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

Comparison

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

Fees for Non-Executive directors

Fees for non-executive Board directors are determined by the Non-Executive Fees Committee of Council. Fees are described in the section Annual Report on Remuneration on page 115.

Implementation of the Executive Pay Policy in 2020

Base salary

Annual base salaries for our Executive are set out below.

Executive member	2019 £000	2020 £000	Comments
Steve Murrells	750	750	Joined Executive 16 July 2012, promoted to Chief Executive 1 March 2017
Pippa Wicks	700	700	Joined Executive 1 April 2016, promoted to Deputy Chief Executive 1 March 2017
Shirine Khoury-Haq	-	610	Joined Executive 5 August 2019
Jo Whitfield	550	650	Interim appointment to Executive 1 March 2017, promoted to Chief Executive Food 17 July 2017. Salary increased from 1 July 2019
Matt Atkinson	450	450	Joined Executive 16 October 2017
Helen Webb	350	450	Joined Executive 18 April 2017. Salary increased from 1 July 2019
Helen Grantham	350	350	Joined Executive 11 January 2016, promoted to Group Secretary and General Counsel 1 July 2017

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

Benefits and pension

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

Bonus Plan

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

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

The 2020 BP balanced scorecard measures and weightings will be consistent with those used for the 2019 plan, as set out in more detail on page 109. To ensure payments are affordable under the plan the scheme will again have a financial underpin which must be achieved for any payments to be made.

The Committee will look at performance at the end of 2020 and assess the BP outcomes. It can provide a BP payment between nil and the maximum opportunity for each Executive depending on performance. The Committee has discretion to adjust targets, performance results or payments (up to the maximum or down to zero) for exceptional events which they were not aware of at the time of granting the award.

Annual report on remuneration

What did our Executives earn in total during the year?

The table below shows the pay received by our Executives while appointed to our Executive during the 2019 financial year.

Table 1a – 2019 pay for our Executives in post at 4 January 2020

Name of Executive	Period	Basic salary £000	Taxable benefits (Note 2) £000	Pension benefits (Note 3) £000	BP (Note 4) £000	LTIP (Note 5) £000	Other (Note 6) £000	Total £000
Steve Murrells	**2019** 2018	**750** 750	**45** 44	**75** 75	**615** 696	**0** 330	**0** 0	**1,485** 1,895
Pippa Wicks	**2019** 2018	**700** 700	**13** 15	**70** 70	**424** 525	**0** 284	**0** 28	**1,207** 1,622
Shirine Khoury-Haq[1]	**2019**	**258**	**6**	**24**	**117**	**0**	**292**	**697**
Jo Whitfield	**2019** 2018	**602** 550	**15** 15	**54** 48	**283** 306	**0** 68	**0** 72	**954** 1,059
Matt Atkinson	**2019** 2018	**450** 443	**15** 14	**45** 44	**196** 227	**0** 0	**82** 144	**788** 872
Helen Webb	**2019** 2018	**402** 350	**14** 14	**40** 35	**181** 182	**0** 65	**0** 0	**637** 646
Helen Grantham	**2019** 2018	**350** 350	**13** 13	**35** 35	**152** 182	**0** 0	**0** 0	**550** 580

Notes to Table 1a

1. Shirine Khoury-Haq joined the Executive on 5 August 2019.
2. Taxable benefits include car, fuel, car cash allowance and healthcare (where applicable).
3. Pension includes Co-op Defined Contribution pension plan or cash allowance in lieu of pension provision.
4. BP amounts shown represent 50% of the earned award which is payable in May 2020. The other 50% is deferred for two years and paid subject to still being employed by our Co-op and not under notice and the Rules of the BP.
5. No LTIP payments were made under the 2017-19 LTIP.
6. Other payments in 2019 financial year, which were agreed at the date of appointment, include:
   - Matt Atkinson received £37k for giving up share awards at his previous employer that would have vested during 2019.
   - Matt Atkinson received £45k under the relocation policy to assist staying close to the workplace during the working week.
   - A payment of £300k was made to Shirine Khoury-Haq to support a permanent relocation to the North West. £292k was paid via the payroll and £8k was reimbursed via expenses. The payment was made on the condition of providing receipts for costs relating to the purchase of a property near to Angel Square and are repayable if she is not employed by us in 2021.

Table 1b – 2019 pay for Executives who left our Executive during the 2019 financial year

Name of Executive	Period	Basic salary £000	Taxable benefits (Note 1) £000	Pension benefits (Note 2) £000	BP (Note 3) £000	LTIP (Note 4) £000	Other £000	Total £000
Ian Ellis	**2019**	**269**	**6**	**27**	**0**	**0**	**0**	**302**
	2018	700	16	70	436	308	–	1,530

Notes to Table 1b

1. Taxable benefits include car, fuel, car cash allowance and healthcare (where applicable).
2. Pension includes Co-op Defined Contribution pension plan or cash allowance in lieu of pension provision.
3. No 2019 BP payment has been made to Ian Ellis.
4. No LTIP payments were made under the 2017-19 LTIP.

How were the 2019 BP payments calculated?

2019 Balanced scorecard measures	Weighting	Performance
Stronger Co-op	% of maximum weighting	Summary
Co-op Operating Profit	50%	**Target +** Overall as a business we performed well and we exceeded the financial target set
Colleague – measures focused on building and maintaining colleague engagement	10%	**Threshold** We've maintained good engagement levels with our colleagues and our colleague engagement score remained flat with 2018
Stronger Communities		
Member – measures focused on our membership proposition	10%	**Miss threshold** While good progress has been made on our membership proposition, the targets set for 2019 were challenging and were not met
Community – measures focused on championing co-operation and engagement with community activities	10%	**Target +** A record-breaking year for our Local Community Fund Cause selection and high Member Pioneer recruitment means we've performed extremely well on this measure
Personal performance		
Assessment of how each Executive performs against their job requirements and our Co-op 'Ways of Being'.	20%	Determined in reference to individual performance

Key requirement

Underlying profit before tax is an important performance measure for us to enable us to deliver strategic objectives of our Co-op. 90% of our 2019 profit target had to be met in order for payments to be made under this plan.

How were the 2017-19 LTIP payments calculated?

The threshold Net debt/EBITDA ratio at the end of 2019 was not achieved so no payments were made.

What deferred BP awards do our Executives hold?

Awards are made annually under the BP, and any payments due are made in cash, with 50% of all awards paid in two years' time. The table below shows the value of the deferred award held by executives in post at 4 January 2020.

Table 2a – deferred BP awards held by our Executives in post at 4 January 2020

Name of Executive	BP Award Year	Value of BP Award deferred £000
Steve Murrells	**2019** 2018	**615** 696
Pippa Wicks	**2019** 2018	**424** 525
Shirine Khoury-Haq	**2019**	117
Jo Whitfield	**2019** 2018	**283** 306
Matt Atkinson	**2019** 2018	**196** 227
Helen Webb	**2019** 2018	**181** 182
Helen Grantham	**2019** 2018	**152** 182

Table 2b - LTIP awards held by our Executives in post at 4 January 2020

Name of Executive	Award	Notes	Maximum award opportunity at start of the year £000	Awards vested in year £000	Awards lapsed in year £000	Maximum award opportunity at the year end £000
Steve Murrells	2017-19	1	750	0	750	0
Pippa Wicks	2017-19	1	692	0	692	0
Jo Whitfield	2017-19	1,2	155	0	155	0
Helen Webb	2017-19	1,2	148	0	148	0
Helen Grantham	2017-19	1	175	0	175	0

Notes to Table 2b

1. The 2017-19 LTIP awards were subject to performance conditions and the measures were:
   - Net debt to EBITDA ratio (50% weighting)
   - Membership spend as a percentage of total sales value (25% weighting)
   - Co-op colleague engagement (25% weighting)
2. LTIP grants were made while employed in previous roles in our Co-op which were not on our Executive.
3. 2017-19 LTIP grants were not made to Matt Atkinson or Shirine Khoury-Haq due to starting after the cut-off to join the plan.

Table 2c – LTIP awards for Executives who have left our Executive

Name of Executive	Award	Maximum award opportunity at start of the year £000	Awards vested in year £000	Awards lapsed in year £000
Alistair Asher	2017-19	259	0	259
Ian Ellis	2017-19	554	0	554

What pension benefits are our Executives entitled to?

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

Table 3a – Pension entitlements for Executives in post at 4 January 2020

Name of Executive	Date appointed to Executive	Years of Group Service	Period	Employer Contributions to Defined Contribution Pension £000	Payment in lieu of pension benefit £000	Total Pensions Benefits £000
Steve Murrells	16 Jul 2012	7	2019	-	75	75
			2018	-	75	75
Pippa Wicks	1 Apr 2016	3	2019	-	70	70
			2018	-	70	70
Shirine Khoury-Haq	5 Aug 2019	0	2019	2	23	25
Jo Whitfield	1 Mar 2017	4	2019	6	54	60
			2018	7	48	55
Matt Atkinson	16 Oct 2017	2	2019	-	45	45
			2018	-	43	43
Helen Webb	17 Apr 2017	6	2019	-	40	40
			2018	-	35	35
Helen Grantham	11 Jan 2016	4	2019	-	35	35
			2018	-	35	35

Notes to Table 3a

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

Table 3b – Pension entitlements for Executives who left our Executive during the 2019 financial year

Name of Executive	Date retired from the Executive	Years of Group Service	Period	Employer Contributions to Defined Contribution Pension £000	Payment in lieu of pension benefit £000	Total Pensions Benefits £000
Ian Ellis	18 May 2019	4	2019	–	27	27
			2018	–	70	70

What arrangements have been agreed for former executives?

No additional arrangements have been agreed for Ian Ellis. No other Executive left during the 2019 financial year.

Pay ratio

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

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

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

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

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

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

The government pay ratio calculation is based on actual pay received. It therefore can change a lot as bonus payments are likely to vary each year given that they are linked to both business and personal performance. The reduction in this year's pay ratio is largely due to no payment being made under the 2017-19 LTIP, whereas last year a payment was made under the 2016-18 LTIP.

In addition, for the last 3 years we have shared our pay ratio based on target earnings rather than actual as this approach makes sense to us and we believe it will make it easier for members to compare progress over time. We will continue to provide the ratio on this basis, and the ratio between our highest paid executive and lowest paid colleague for 2017 to 2020 on base pay and for base pay plus target bonuses is set out below.

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

No changes were made to the Chief Executive's on target earnings in 2019, whereas we increased the pay of the comparator role, which is a CTM, by 5%.

Non-executive directors' remuneration

This section of the report includes details of the payments made to the non-executive directors (NEDs) in office during 2019.

What are the fees for the NEDs for 2020?

NED Role	Fees
Chair	• The basic fee for the Chair role is £250,000 per annum. There has been no change in annual fee between 2015 and 2019. No additional fees are paid
Independent Non-Executive Directors (INEDs)	• The basic fee for an INED is £60,000 per annum • The following additional fees apply: • Senior Independent Director £15,000 • Chair of Risk and Audit Committee £15,000 • Chair of Remuneration Committee £15,000 • There is no additional fee for the Chair of Nominations Committee or for being a member of any committee
Member Nominated Directors (MNDs)	• The basic fee for an MND is £60,000 per annum • The same additional fees for the INEDs apply to MNDs who are Chairs of a committee. There is no additional fee for being a member of any committee

Since his appointment date, the Chair has waived his fee of £250,000 per annum. Instead this is paid direct by our Co-op to charity. In 2019, it was paid to The Co-operative Community Investment Foundation. The Chair also has access to a pool car and driver for Co-op business if required. No other benefits will be provided for the Chair or any other NED member of our Board.

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

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

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

How long are directors appointed to our Board for?

Appointments to our Board are for the following periods:

- The INEDs (including the Chair) were initially appointed for two-year terms subject to election and re-election in accordance with the Rules. We amended our Rules in 2018 so that all INEDs and Executive Directors have to retire from office at each third AGM following their election/re-election. Our Board and the Council have the right to agree otherwise in order to avoid a situation where more than half of the other Directors (excluding the Member Nominated Directors) would be retiring from office at the same AGM
- On this basis, any new appointments or re-appointments for INEDs are generally for three year terms, subject to INEDs being able to serve a maximum of nine years. Executive Directors do not have a maximum term of office

What did the NEDs earn during the year?

The table below shows the fees paid to our NEDs during the 2019 financial year.

Table 4a – Non-executive members of our Board at 4 January 2020

	Notes	Board	Risk and Audit Committee Chair £000	Remuneration Committee Chair £000	Senior Independent Director £000	2019 Total £000	2018 Total £000
Allan Leighton (Chair)	1	See note 1	-	-	-	-	See note 1
Chris Kelly	2, 3	60	-	-	15	75	75
Simon Burke	2	60	15	-	-	75	75
Stevie Spring	2	60	-	15	-	75	75
Lord Victor Adebowale		60	-	-	-	60	60
Hazel Blears		60	-	-	-	60	60
Margaret Casley-Hayford		60	-	-	-	60	60
Paul Chandler		60	-	-	-	60	60
Rahul Powar		60	-	-	-	60	24
Sarah McCarthy-Fry	4	38	-	-	-	38	-

Notes to Table 4a

1. Since his appointment date, the Chair has waived his fee of £250,000 per annum. Instead this is paid direct by our Co-op to charity. In 2019, it was paid to The Co-operative Community Investment Foundation.
2. The Risk and Audit Committee Chair, the Remuneration Committee Chair and the Senior Independent Director each receive an additional fee of £15,000 per annum.
3. Chris Kelly receives an additional £39,000 fee as the Chair of the Board of Co-op Insurance Services Limited.
4. Sarah McCarthy-Fry was appointed a Member Nominated Director on 18 May 2019.
5. No additional fee is paid to the Chair of the Nominations Committee.

Table 4b - Former Non-Executive members of our Board who left during 2019 financial year

	Notes	Board	Risk and Audit Committee Chair £000	Remuneration Committee Chair £000	Senior Independent Director £000	2019 Total £000	2018 Total £000
Gareth Thomas	1	22	-	-	-	22	60

Notes to Table 4b

1. Gareth stepped down from our Board on 18 May 2019 following the result of the MND elections

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

Role of the Committee

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

Terms of reference

The terms of reference of the Committee are available on our **website**.

Members of the Committee

Details of the Committee members and their attendance at meetings during 2019 are provided on **page 77**.

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

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

Independent advice

In carrying out its responsibilities, the Committee has access to independent advice as required. During 2019 the Committee retained Deloitte as its independent remuneration adviser. The fees paid to Deloitte during this period totalled £28,000 excluding VAT.

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

The Committee takes legal advice from our Co-op's internal legal team and also from external legal advisers where appropriate. No external lawyers were used during 2019.

Report of the Nominations Committee

Introduction from the Committee Chair, Allan Leighton

This year marks my fifth year as Co-op Chair and Chair of the Nominations Committee. I'm pleased to report that the Committee remains confident that we have in place a strong team of Directors that have continued to successfully support and challenge our Executive and lead our Co-op.

This report summarises the work undertaken by the Committee during 2019. The Committee met in January, March, April, June and November and focused on areas including:

- Leading further development of Board succession planning
- Overseeing the selection and appointment of a new Executive Director
- Undertaking an Internal Board Effectiveness Review
- Reviewing the composition of the Board Committees

In addition, the Committee continued to deal with all of its routine matters. This included checking the eligibility and membership criteria for Directors, recommending the election/re-election of INEDs at our 2019 AGM and reviewing the Committee terms of reference.

There were two Director changes during the year. One of which was overseen by this Committee and the other being under the oversight of the joint Council and Board Member Nominated Director Joint Selection and Approval Committee (MNDJC).

We welcomed Sarah McCarthy-Fry who was elected as a Member Nominated Director for the first time in 2019. A committed co-operator for over 25 years, Sarah also has extensive financial experience most recentlyas Finance Director at GKN Aerospace. Sarah replaced Gareth Thomas who had held the position of MND for two years.

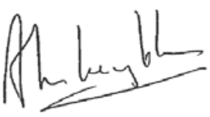
In August 2019 we welcomed a new Executive Director to our Board. Shirine Khoury-Haq was appointed as our Chief Financial Officer, succeeding Ian Ellis who retired in May. Shirine brings a wealth of knowledge and experience to our Co-op gained from senior positions across a number of regulated sectors both in the UK and overseas.

I reported last year that our search for an Independent Non-Executive Director with CEO experience remained ongoing. Given recent Brexit uncertainty, the search has been placed on hold. The Committee will continue to review the position during 2020.

As part of the 2019 Internal Board Effectiveness Review, the Committee's effectiveness was considered. I am pleased to report that the Directors were content that the Committee continued to operate satisfactorily and is effective in its role of supporting the Board. Two opportunities were identified to increase effectiveness in 2020:

- Ensure the roles and responsibilities of the Committee are fully understood.
- Review the approach to planning for future Board recruitment activity and update the Board.

Board succession planning will remain a key focus for the Committee in 2020.



Allan Leighton
Chair of the Nominations Committee

What does our Nominations Committee do?

Our Nominations Committee:

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

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

The Committee's Terms of Reference were reviewed in July 2019 and are available on our **website**.

2019 focus areas

Board succession planning

During the year, the Committee spent time considering the important topic of Board succession planning, particularly in light of recent Board changes. The Board Succession Plan was refreshed including updates to:

- The Emergency Succession Plan. This is used to ensure the Board is prepared for sudden or unexpected loss to key Board members; and
- The Board Skills Matrix. This is used to help assess the current skills, knowledge and experience of the Board and any potential gaps that could be addressed in future appointments.

The Committee was satisfied that the Board Succession Plans remain sufficiently robust.

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

At our 2020 AGM, Simon Burke, Stevie Spring, Lord Victor Adebowale and Steve Murrells will again be subject to re-election by our Members with Shirine Khoury-Haq subject to election. The biographies of each of our Directors can be found on **pages 64 to 68**. Margaret Casely-Hayford's term of office as an MND is also coming to an end this year and she is seeking re-election as part of the process led by the MNDJC.

The Committee will continue to focus on Board succession planning during 2020. The Committee is particularly mindful that a number of Board members will be required to retire within a relatively short space of time in 2024.

Appointment of Directors

During the year the Committee oversaw the appointment of Shirine Khoury-Haq as Chief Financial Officer and Executive Director. The search was led by our CEO and Chief People and Services Officer. The Committee considered factors including Shirine's skills and experience, commitment to our Co-operative Values and Principles and whether she met relevant eligibility and membership requirements.

Shirine's appointment as an Executive Director was recommended to the Board for approval and Shirine assumed the roles of CFO and Executive Director in August 2019.

The MNDJC was responsible for the MND election process which saw Paul Chandler being re-elected for an additional term, and the election of Sarah McCarthy-Fry.

Internal Board effectiveness review

2019 saw an internal Board effectiveness review process, facilitated by Sir Christopher Kelly. Whilst our Rules indicate that an external review should be undertaken at least every two years (unless there is good reason for not doing so), the Committee decided in 2018 that there would be no significant merit in holding an external review in 2019. The Committee further agreed that the external review should be undertaken every three years. This is in line with the recommendations of the UK Corporate Governance Code and on consideration of the cost involved. An external evaluation is scheduled for 2020.

The Internal review process in 2019 was based on a questionnaire and Board members were asked to rate their degree of satisfaction with different aspects of performance on a five-point scale. The results were discussed by the Directors, in the absence of the Chair and Chief Executive and separately with the Chair and Chief Executive to cross-check the results from an Executive perspective. The Council President and the Group Secretary were also consulted and Sir Christopher shared the outputs with the Council's Governance Committee.

The review focused on the development areas agreed by the Board arising from the 2018 external Board Evaluation and the Committee noted good progress with a number of the areas identified:

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

The general conclusion from the 2019 review was that our Board had continued to work effectively and had many strengths. The Board was deemed to have broadly the right composition, evidencing diversity of perspective and experience. The Board was deemed to be well chaired, have open and honest relationships with evidence of mutual respect and openness amongst Board members.

There is understanding from the Board of the need to always strive for further opportunities to increase effectiveness. Such opportunities were identified and collated into an action plan for 2020. These include:

- Increasing focus and debate on fewer (key) issues
- Continuing to ensure the right balance of time is spent on monitoring of performance of all business areas
- Identifying opportunities to further develop data provided in Board papers
- Ensuring greater transparency of Board and Executive succession planning
- Building further on improving ways of working with the Council

Diversity

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

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

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

During the year, the Committee reviewed the Board Diversity Policy, and remained satisfied that it was aligned to our colleague Diversity and Inclusion Policy. Minor updates were recommended following recent Board changes and to reflect that, whilst our aim remains to at least maintain the 2017 levels of diversity on the Board (33% Women and 16% BAME), we aim to do better than that if possible. In 2019, we have achieved increased representation in both areas. Our Board Diversity Policy can be found **here**.

Board Committee composition

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

Following the review, the Committee approved the following appointments:

- Rahul Power as a member of the Remuneration Committee
- Sarah McCarthy-Fry as a member of the Risk and Audit Committee
- Margaret Casely-Hayford as a member of the Nominations Committee

Details of each of our Board committees' members and their attendance at meetings held during 2019 are shown on **page 77**.

Review of INEDs' and Executive Directors' qualification and commercial experience

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

Review of non-executive Director fees

The Committee considered the fees of the Co-op Chair, SID, INEDs and MNDs. Following consideration of published benchmark data for FTSE 100 and FTSE 250 companies and an informal view expressed by our current remuneration advisors, the Committee recommended that no changes should be made to the level of fees.

Focus areas for 2020

For 2020 the focus areas for the Committee will include:

- Continuing to develop our Board Succession Plan
- Conducting an externally facilitated Board evaluation and progressing any actions arising
- Considering whether and when it is appropriate to progress with the appointment of an additional INED with current CEO experience

Directors' report

The directors present their report, together with the audited financial statements for the period ended 4 January 2020.

Results and distributions

The profit before taxation (from continuing operations) was £67 million (2018: Profit £83 million). No interim dividend has been paid for 2019 and the members are not being asked to approve any distribution of profits for the year.

Going concern

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

In assessing the appropriateness of the going concern basis of preparation, the directors have considered the going concern position and outlook of the Group. In particular the Group has included in its assessment that, following the recent announcement that CISGIL will repay £70m of sub-debt to external investors, the Group is supporting a £70m Ancillary Own Funds ("AOF") instrument in favour of CISGIL which is being proposed to ensure CISGIL continues to meet its solvency capital requirement should it be required in the future.

In making their assessment the directors have considered a wide range of information relating to present and future conditions, including future forecasts of profitability, cash flow and covenant compliance, and available capital resources.

As we report on going concern, Covid-19 is having a material impact on the operations of our businesses and we are incurring significant additional costs, particularly in payroll as we recruit additional colleagues to meet demand and cover the work of those colleagues who are absent and being paid.

In undertaking our assessment we included assumptions on the key impacts of Covid-19 on the financial projections including (but not limited to) impacts on:

- Food store and funeral branch payroll
- Logistics payroll
- Investment in protective equipment
- Increased cleansing and sanitation costs within store costs
- Front line colleague reward
- Type and size of funeral in response to restrictions on number of attendees (placed by government guidelines and in some cases even stricter restrictions by some crematoria) and people not being able to attend due to self-isolation
- The impact on demand in our Food business, taking into account a prudent but realistic view of the experience of the last few weeks

- The impact of government support for businesses – particularly business rates and VAT reliefs
- The Group's ability to control the level and timing of its capital expenditure programme (c£600m over the going concern timeframe)

In summary the business rates support provided by government combined with the increased sales demand assumed within our Food business goes some way to limiting the significant incremental costs highlighted above.

As it is impossible to predict with a high degree of certainty the full impact of Covid-19, we have also undertaken reverse stress testing on all of our key assumptions relating to Covid-19. This allows the directors to have a reasonable expectation that the Group has access to adequate resources, under a severe but plausible stress test, to enable it to continue in operational existence for the foreseeable future. Additional information on the impact of Covid-19 is provided in the Chief Executive's introduction.

For the purposes of going concern, prior to the Covid-19 pandemic, we assumed that no new facilities from re-financing were required or needed. We do not anticipate any change in this assumption, but this will be kept under review.

In addition, the Group has an accordion option with the banking syndicate to obtain £100m of additional revolving credit facilities. Whilst available to the Group, this has prudently not been included in our assessment.

Further information relevant to the directors' assessment is provided within the General Accounting Policies section of the financial statements (page 214).

Longer term viability

The directors have assessed whether we will have enough money to continue in business over the longer term. In making that assessment the directors have considered the Group's current position and the potential impact of our principal risks as set out on pages 59-62. We have specifically assessed the projected impact of Covid-19 including key assumptions as described in more detail in the Going concern section above.

We believe that a three-year period to 31 December 2022 is an appropriate period over which to provide this longer term viability statement. Food is our largest business and the directors have therefore determined the three year assessment period given the dynamic nature of the retail sector. This is consistent with other major food retailers and in line with the period reviewed by the Group board in the strategic planning process.

As part of the strategy process, the directors make a number of assumptions and judgements about business performance. We then flex a number of the main financial assumptions to check that we still comply with the terms of our facilities, even if some of our principal risks happen. These include risks around Brexit, our Change activity, competitiveness and other market conditions.

In July 2020 we will repay the remaining balance of £176m, of our 2020 bond. In carrying out this review, the directors are confident that, and anticipate that, these facilities are capable of replacement in full over the longer term. We are aware of the uncertainty that Covid-19 brings and, after discussions with our key banking partners, we are not aware of any reasons why either they or our wider investor base would not support us.

It is worth noting that the Group has over £770m of facilities that are committed and extend to at least 2025. The Group has £400m of facilities that will need replacing in that period. The Group has a reasonable expectation that this will be achievable on normal commercial terms when the markets return to normal.

During the Viability timeframe the Group has projected capital expenditure in excess of £1bn. The Group has control over the timing and quantum of the vast majority of this expenditure. If, for whatever reason, re-financing was not achievable, the Group would limit its capital expenditure programme.

Following their review, the directors have therefore concluded that they have a reasonable expectation that the Group will have enough money to continue in business over the period to 31 December 2022.

Post balance sheet events

The Trustees of the Co-operative Group Pension Scheme (Pace) entered into pension insurance buy-in contracts with Aviva in January 2020, and Pension Insurance Corporation (PIC) in February 2020, each worth about £1,000 million. As a result of this transaction, the scheme will receive regular payments from Aviva and PIC to fund all future pension payments for approximately 14,000 current pensioners.

Coronavirus (Covid-19)

On 11 March, subsequent to the balance sheet date, the World Health Organisation ('WHO') declared Covid-19 as a pandemic. Shortly after this announcement, the UK Government has taken action including implementing social distancing measures and advising people to stay at home. Given the recent escalation of Covid-19, this is considered as a non-adjusting post balance sheet event.

We are currently seeing Covid-19 impact our cost base in areas such as front line and logistics payroll, investment in protective equipment, increased cleansing and sanitation costs within store costs and this is estimated at between £200m and £275m.

We are also seeing impacts on the type and size of funerals we can conduct in response to restrictions on number of attendees placed by government guidelines and in some cases even stricter restrictions by some crematoria. We have also seen an impact on demand in our Food business, taking into account a prudent but realistic view of the experience of the last few weeks.

It is clearly impossible at this stage to accurately predict the impact on 2020 results but in summary the business rates support provided by government combined with the increased sales demand assumed within our Food business goes some way to limiting the significant incremental costs highlighted above.

Within this report on page 122, we provide further detail on the key impacts of Covid-19 on our financial projections in our assessment of the going concern of the Group.

Further information is provided in note 37 of the notes to the financial statements on page 211.

Governance report

The governance report is on page 63. This includes information on director appointments, directors' conflicts of interest, directors' indemnities and stakeholder engagement.

Employees and employment of people with disabilities

We have a number of policies to support people with disabilities in the workplace. This includes our Supporting people with disabilities into work policy which outlines our commitment to providing meaningful work experience placements and recruiting individuals with disabilities into direct employment with us wherever we can. We're a member of the Disability Confident scheme which helps employers in making the most of the talents disabled people can bring to the workplace.

Community, campaigns and sustainability

Information on our community and campaigns can be found on **page 34** and on sustainability on **page 31**. More information can also be found in our Sustainability Report which has been published alongside this report.

Greenhouse gas emissions

Since 2016, our total direct greenhouse gas (GHG) emissions have reduced by 39% as detailed in the table below. Total direct GHG emissions decreased by 9% in 2019. This is due to using less energy, a decrease in emissions from fugitive refrigerant gases and the UK grid electricity mix being less carbon intensive in 2019.

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

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

This year we're reporting our full end-to-end footprint of our business, including indirect emissions from the products we sell. A complete and detailed breakdown of this can be found in our separate Sustainability Report.

Direct greenhouse gas emissions since 2006 – location based

2006 tCO_2e	2016 tCO_2e	2017 tCO_2e	2018 tCO_2e	**2019** tCO_2e
1,204,760	652,689	542,480	435,980	**396,842**

Direct greenhouse gas emissions since 2006 – market based

2006 tCO_2e	2016 tCO_2e	2017 tCO_2e	2018 tCO_2e	**2019** tCO_2e
1,204,760	652,689	296,714	247,417	**231,931**

Scope 1 and 2 GHG emissions by source – location based

	tCO_2e
Scope 1 – Refrigeration	95,405
Scope 1 – Transport	109,736
Scope 1 – Heating / Generation	26,790
Scope 2 – Electricity	164,911
Total	**396,842**

Scope 1 and 2 GHG emissions by source – market based

	tCO_2e
Scope 1 – Refrigeration	95,405
Scope 1 – Transport	109,736
Scope 1 – Heating / Generation	26,790
Scope 2 – Electricity	-
Total	**231,931**

Carbon intensity

	2016	2017	2018	2019
Tonnes CO2-equivalent (location-based) GHG emissions per £m gross income	63.5	52.8	42.7	**36.4**

Energy efficiency

We've invested in technology to remotely monitor and control our energy-using assets. We're also investing in more efficient buildings, equipment and processes including energy efficient LED lighting in our Food stores and depots.

Political donations

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

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

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

We made donations totaling £625,600 (2018: £625,600) to The Co-operative Party, which is our financial subscription to the Party for 2019, in line with our members' approval at the Annual General Meeting in 2018. The Co-operative Party reports donations to the Electoral Commission in accordance with its reporting obligations as a registered political party under the Political Parties, Elections and Referendums Act 2000.

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

A motion will be put to our members at the 2020 Annual General Meeting regarding future political donations, including subscriptions.

Compliance with Groceries Supply Code of Practice

On 25 March 2019, the Groceries Code Adjudicator (the GCA) completed her investigation and published her report into Co-op. The GCA set down five recommendations for Co-op to follow:

1. Co-op must have adequate governance to oversee and manage its compliance with the Code;
2. Legal, compliance and audit functions must have sufficient co-ordinated oversight of Co-op systems to ensure Code compliance;
3. Co-op IT systems must support Code compliance;
4. Co-op must adequately train on the Code all employees who make decisions which affect a supplier's commercial arrangements with it; and
5. Co-op must in any potential de-listing situation communicate with affected suppliers to enable the retailer to decide what is a significant reduction in volume and reasonable notice.

We have continued to improve and sustain the big changes we started to make in 2018 and we are pleased that the GCA recognises the significant work that the Co-op has undertaken. In January 2020 she published her view on the progress made by the Co-op towards following the recommendations set out in her investigation report. We note that she said that our detailed implementation plan had met her requirements, that our approach to following her recommendations was appropriate, and that future monitoring would continue on the basis of business as usual.

In 2019, with direction from the GCA we also developed a suite of dashboards that demonstrate at all levels within our organisation how we ensure compliance with the Code. These are reviewed and monitored by various governance fora including the Co-op's Risk and Audit Committee.

We are committed to delivering long term, sustained behavioural change, and the focus of the Supplier Engagement team as it moves into 2020 will increasingly be about supporting colleagues to embed and sustain this culture of self-sufficiency and self-regulation.

We value the positive engagement with the GCA. She attended our annual supplier conference. We shared our whole organisation approach to compliance at her meeting with the compliance officers from the other designated retailers. Our Code Compliance Officer (CCO) actively and visibly encourages suppliers to share their experiences of dealing with the Co-op and to report any Code related concerns. The Code Compliance Officer reports regularly to the Risk and Audit Committee on the programme of compliance activity.

In 2019 we trained 1,093 colleagues across Buying, Finance, Supply Chain and other functions. Our training is a mixture of face to face training as well as online learning.

During 2019, suppliers formally raised 27 Code related complaints with us. This includes one issue raised by a supplier where information was requested by Co-op but nothing further was provided. We have therefore considered this issue withdrawn by the supplier. We resolved the other concerns through discussion with suppliers, Buying, Finance, Supply Chain and other relevant functions, sometimes with the involvement of the CCO. Five issues were still under review at the end of the reporting period.

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

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

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

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

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

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

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

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

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

Each of the directors listed on page 64-66 confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report and Governance Report contained in the Annual Report and financial statements include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

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

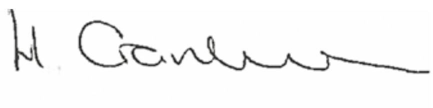
Financial statements

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

Auditors

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

By Order of the Board



Helen Grantham
Group Secretary and General Counsel

23 April 2020

Members' Council annual statement

co op National Members' Council

Our Council's annual statement for 2019

The National Members' Council is elected by you, our members.

In 2019, we have been focusing on our effectiveness, our future plans and the influence Council has in championing co-operative Values and Principles. Here, we'll report on the progress we have made in 2019 and highlight our plans for continuing to make a difference in 2020 and beyond.

Reporting on Council activities

Council's role is to represent our members, hold our Board to account and champion our co-operative Values and Principles. This requires effective communication with our members, Board and Executive, regular dialogue and constructive challenge.

Council has continued to develop positive relationships with Board members and senior managers, enabling the exchange of views and opinions. Directors and members of the Executive attend every Council meeting.

Throughout 2019, we have also engaged with the Board and management through various committees and forums, both formally as part of our governance structure and on an informal basis. This enables Council members to provide input and feedback about our Co-op's future ambitions and focus on our business performance and plans in more detail.

Communication

A key priority in 2019 has been Council communications, particularly our communication with members and increasing awareness of Council. We have made progress in this area and will continue to prioritise this.

Digitally, we've been working closely with our Member Participation team to gain members' views through Council-led opportunities to 'Join in'. In 2019, we covered a range of topics, such as: our Safer Colleagues, Safer Communities campaign, mental health and wellbeing and bringing our 2019 AGM motions to life.

By improving our Council webpages, we now have a clearer and more engaging online presence. We've also started using blogs and social media as a way of updating on our work, sharing highlights from our meetings and promoting our events and campaigns.

In 2020, we'll be looking at how we can better engage with members locally and raise our profiles as Council Members, helping us to become a regular link to the business for members and their views.

Join in Live events

In 2019, Council held 12 large and 16 local Join in Live events in communities across the UK. These events enabled members to hear about our business performance, meet and put questions to Council representatives and Board directors, input into our Food range and our Endangered Spaces campaign and join us in celebrating the 25 year anniversary of our commitment to Fairtrade.

Members also joined an online Q and A session with our Council President and Chief Executive Officer.

It's really important for us to be able to connect with members locally in their communities and in 2020, we'll be increasing the number of locally delivered events to help more members get involved.

Campaigns

Council members have worked closely with our Community team to provide input into the development of our Community plan, 'Co-operate 2022', which focuses on the areas of spaces, skills and wellbeing.

In April, Council approved our Endangered Spaces campaign which has seen our Co-op partnering with the Co-op Foundation and Locality, the national network for community organisations to help save, improve and protect 2,000 spaces by 2022.

Council was also pleased to approve our charity partnership with Mind, the Scottish Association for Mental Health (SAMH) and Inspire to bring communities together to improve mental wellbeing. We aim to raise £6 million through the partnership by engaging colleagues, members and customers in national and local fundraising.

We've continued to promote our Safer Colleagues Safer Communities campaign, approved by Council in December 2018, the safety of our colleagues remains a key priority for Council.

Co-operative Member Education Training and Information

Throughout 2019 Council has also been carrying out research into best practice in Co-operative Member Education, Training and Information (CMETI), in partnership with Co-operatives UK, Coop Press and Coop College.

This research is looking at how a range of co-operatives and membership organisations in the UK and internationally have approached this topic and will help us identify best practice and understand the impacts and benefits that these programmes can have for membership organisations.

We will be sharing the insights from this research with the Board and our Co-op in 2020 to inform and influence work in this area.

Diversity

It is important that our Council composition reflects diversity in its broadest sense.

Throughout 2019, Council members have participated in a Diversity and Inclusion Discussion Group to develop a Statement and actions to increase the diversity of our Council. Council also agreed changes to our Council Election Regulations and processes in 2019, which we hope will increase diversity on Council through our Council Elections.

There is still more to do in this area and we will continue to explore ways to ensure we are truly representative of the membership and communities we serve.

Council effectiveness

A key area of focus over the last 18 months has been reviewing Council's effectiveness. Led by our Governance Committee, we've looked at our structures and ways of working to see how they can be developed and improved.

We carried out a comprehensive review, seeking out the views of Council members, Board members and other key stakeholders. A wide range of areas were considered and we have identified and implemented improvements, changing how we conduct our Council meetings, introducing more participative and interactive workshop sessions to encourage ideas, discussion and debate.

We will continue to develop our ways of working and trial and implement changes over the coming years to ensure we are as effective as possible in fulfilling our roles and responsibilities to you, our members.

Our future plans

In the latter half of 2019, Council started the process to develop a new Three Year Plan, informed by the priorities we know are important to our members.

In 2020, we will further develop this plan in consultation with the Executive and will use this as a strategic document to set out our ambitions, guide our work and monitor our performance over the coming years.

In 2019, Council have also provided input and feedback into the Board and Executive's thinking around the vision and future plans of our Co-op through a series of interactive workshops and look forward to seeing the result of this work in 2020.

Reviewing the Board - our Co-op Compass

A key role of our Council is to hold the Board to account and influence strategic and operational initiatives. The Council has a role in reporting to members on the performance of our Co-op Board.

The Co-op Compass is the framework designed by Council to hold the Board to account and has four lenses:

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

These Compass lenses are the focus for our discussion with directors and senior management, which takes place throughout the year.

Member Value

Despite continued challenging market conditions in increasing competitive pressure and change, our Co-op remains commercially successful and Council is pleased this has been achieved in 2019.

Council's Member Value & Business Performance Committee reviews our Co-op's financial performance.

Council robustly challenges our Board to ensure investment in the business creates member value and continues to assess member rewards and benefits alongside long-term financial impacts.

Our Food business has continued to outperform the market and this is extremely positive with new products and services introduced in 2019 such as the development of online delivery capability which is helping meet the needs of more members and customers.

The Funerals' market is incredibly tough and Council has been keen to ensure our Funeralcare business continues to lead the market and provide the best service to customers and members. We received an update on the future plans for our Funeralcare business and will continue to monitor our Funeralcare performance.

Council welcomes the success of Co-op franchise stores, particularly our new partnership with NUS and the opening of stores on university campuses, attracting young customers and members to our Co-op. Council continues to monitor the performance of our Wholesale business, which enables more consumers around the UK to access our fantastic Co-op products.

We were also pleased to see our Co-op growing in new areas such as Co-op Health and Legal Services.

Goal: Create sustain and develop Member Value

Member Value Lens

Member Voice

Our Council Member Voice Committee work closely with our Member Participation team and is pleased to see the wide range of opportunities delivered through our Join in platform in 2019. Members were able to participate and share their views on everything from our Co-op products and services, to the shaping of our community campaigns and our approach to addressing environmental challenges such as plastic recyclability. We also enabled members to get involved in our Council meetings and raise their questions with our Board.

In 2019, Council commissioned a research project into member participation to better understand participation across our Co-op and the approaches taken by other organisations in this area. We look forward to seeing the findings and outputs from this work in 2020.

Our Annual General Meeting (AGM) and elections are a key part of our Co-op democracy and Member Voice. In 2019, there was a decrease in the total number of members voting. It's crucial that we make our democracy as engaging and relevant as possible to help us increase participation in future, so Council have been involved in shaping a number of proposals to raise awareness of our AGM and elections amongst our membership and increase voting.

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

Member Voice Lens

Ethical and Sustainable Leadership

2019 was a year which saw ethical and sustainable issues receiving increased attention and interest from the public and media. Our Co-op has a long history of commitment to ethical values, sustainability and leadership on key environmental and social issues and we know this is really important to our members.

The Council Ethical and Sustainable Leadership Committee examines Co-op's ethical and sustainable business practices, policies and performance. The committee also reviews and comments on our sustainability report, on behalf of Council. In 2019, the committee provided a range of feedback and amendments to the draft report and continues to work with the business to ensure our Co-op maintains and develops its leadership position on sustainability reporting.

Some of the committee's key focus areas in 2019 were: Fairtrade and responsible sourcing, following Council motions in these areas at our AGM; climate change and our ambitious new targets for cutting Co-op's greenhouse gas emissions; data ethics and how our Co-op is working with members to ensure we are transparent and trusted with data.

Council has also been keen that our Co-op demonstrates leadership in increasing recyclability of plastic and welcomed the exciting news that 100% of our own-brand packaging will be recyclable by summer 2020.

Goal: Demonstrate leadership in ethical and sustainable performance

Ethical and Sustainable Leadership Lens

Co-operative Leadership

As a champion of co-operation, it's important for our Co-op to play an active role in the wider co-operative movement in the UK and internationally.

During the year, Council have engaged and partnered with a number of organisations from across the co-operative movement. We worked with Co-operatives UK, Co-op Press and Co-op College to carry out research into Co-operative Member Education, Training and Information. Our Senate commissioned research alongside our Co-op to look at developments in the area of co-operative legislation in partnership with Mutuo, with contributions from a wide range of other co-operative societies and organisations.

Council has also sent delegations to the ICA General Assembly in Rwanda, Co-op Congress, Co-op Retail Conference, Co-op Party Conference and the UK Society of Co-operative Studies Conference.

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

Co-operative Leadership Lens

Looking forward to 2020

The Council continues to work hard to be as effective as possible in carrying out its roles, representing our members and passionately promoting our collective belief that co-operation is a better way of doing business.

We thank our directors, Executive management and our Secretariat for their time and willingness to work together on our shared vision to secure our Co-op's future success. We thank all our colleagues for their hard work in bringing this vision to life and members for your engagement and support for our Co-op.

Report of the Scrutiny Committee

Our review of Board appointments and elections in 2019

After any Non-Executive Director is appointed or elected, our Co-op has an extra level of checking so members can be sure we've done everything fairly and openly in line with our Values and Principles.

This checking is done by the Scrutiny Committee of the Members' Council and we're pleased to present our report to members for 2019.

It was confirmed that all Directors met our Co-op's trading requirement of 1,000 points. Also we've received assurances that all Independent Non-Executive Directors and Member Nominated Directors are 'independent' for the purposes of our Rules.

How directors are appointed

All our directors need to show their commitment to Co-op Values and Principles.

There are two types of directors who don't work day-to-day as Executives for our Co-op: Independent Non-Executive Directors and Member Nominated Directors.

Independent Non-Executive Directors

These are those chosen specifically for their skills and experience, and to add diversity and balance to the Board. At the 2019 AGM Rahul Powar was appointed as an Independent Non-Executive Director following his appointment by the Board in July 2018. The scrutiny of Rahul's appointment was undertaken and reported to members in the 2018 Scrutiny Committee report. The re-appointment of Allan Leighton and Sir Christopher Kelly for three year terms were also approved at the AGM.

Member Nominated Directors

Our Co-op also has Directors directly elected by members. These individuals need to have the necessary skills and experience of a substantial organisation and awareness of the strategic and operational challenges of a business of the size and complexity of our Co-op. They also need to show very clearly their commitment to bringing the voice of members to the boardroom.

The Scrutiny Committee checks:

- That the selection process for the ballot is fair, transparent and objective
- The background information gathered on the candidates is satisfactory

Our findings

The Member Nominated Directors Joint Selection and Approval Committee has the primary responsibility for the selection process of MND candidates and is made up of both members of the Members' Council and Board. We interviewed the Chair of this committee and carefully scrutinised the decision making process. As a result, the committee can confirm that the selection process in the 2019 election was fair, transparent and objective and that proper background checks were made.

We're pleased there was a contested election of Member Nominated Directors and hope that a greater number of qualified candidates will come forward in future and be accepted on to the ballot.

Financial statements

Consolidated income statement
for the period ended 4 January 2020

What does this show? Our income statement shows our income for the year less our costs. The result is the profit that we've made.

Continuing Operations	Notes	2019 £m	2018 (restated**) £m
Revenue	2	**10,860**	10,162
Operating expenses	3	**(10,700)**	(10,082)
Other income	5	**9**	10
Operating profit	1	**169**	90
Finance income	6	**61**	78
Finance costs	7	**(163)**	(85)
Profit before tax	1	**67**	83
Taxation	8	**18**	(17)
Profit from continuing operations		**85**	66
Discontinued Operation			
Loss on discontinued operation, net of tax	9	**(16)**	(230)
Profit / (loss) for the period (all attributable to members of the Society)		**69**	(164)

Non-GAAP measure: underlying (loss) / profit before tax***

What does this show? The table below adjusts the operating profit figure shown in the consolidated income statement above by taking out items that are not generated by our day-to-day trading. This makes it easier to see how our business is performing.

Continuing Operations	Notes	2019 £m	2018 (restated**) £m
Operating profit (as above)		**169**	90
Add back / (deduct):			
One-off items	1	**5**	(9)
Property, business disposals and closures	1	**22**	54
Change in value of investment properties	26	**(27)**	(38)
Underlying segment operating profit	1	**169**	97
Less underlying loan interest payable	7	**(64)**	(64)
Less underlying net interest expense on lease liabilities***	6,7	**(74)**	-
Underlying (loss) / profit before tax		**31**	33

* The Group has initially applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. This means that 2019 and 2018 numbers above are not directly comparable. **On a like-for-like basis as if IFRS 16 had not been applied) our 2019 underlying profit before tax of £31m becomes £50m compared to £33m last year.** To further help the reader we've also included additional tables in 'Our financial performance' section (page 46) showing 2019 results on both a reported basis (prepared under IFRS 16) and a like-for-like with 2018 (excluding IFRS 16). For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 214.

** For more details on the restatement, refer to the general accounting policies section on page 214.

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

Consolidated statement of comprehensive income
for the period ended 4 January 2020

What does this show? Our statement of comprehensive income includes other income and costs that are not included in the consolidated income statement on the previous page. These are usually revaluations of pension schemes and some of our financial investments.

	Notes	2019 £m	2018 (restated*) £m
Profit / (loss) for the period		**69**	(164)
Items that will never be reclassified to the income statement:			
Remeasurement (losses) / gains on employee pension schemes	27	**(99)**	178
Refinement of the derecognition of pension surplus attributable to The Co-operative Bank	27	**-**	31
Related tax on items above	8	**17**	(36)
		(82)	173
Items that are or may be reclassified to the income statement:			
Gains less losses on fair value of insurance assets**		**8**	(8)
Fair value losses on insurance assets transferred to the income statement**		**(2)**	(1)
Related tax on items above	8	**(1)**	1
		5	(8)
Other comprehensive (losses) / income for the period net of tax		**(77)**	165
Total comprehensive (loss) / income for the period (all attributable to members of the Society)		**(8)**	1

* For more details on the restatement, refer to the general accounting policies section on page 214.

** Our Insurance business has been classified as a discontinued operation in the Consolidated income statement with assets and liabilities transferred to held for sale in the Consolidated balance sheet.

Consolidated balance sheet
as at 4 January 2020

What does this show? Our balance sheet is a snapshot of our financial position as at 4 January 2020. It shows the assets we have and the amounts we owe.

	Notes	2019 £m	2018 (restated*) £m
Non-current assets			
Property, plant and equipment	11	**2,001**	2,046
Right-of-use assets**	12	**1,045**	-
Goodwill and intangible assets	13	**1,087**	1,094
Investment properties	26	**16**	42
Investments in associates and joint ventures		**3**	3
Funeral plan investments	14	**1,271**	1,223
Derivatives	30	**-**	27
Pension assets	27	**1,973**	1,984
Trade and other receivables	17	**111**	81
Finance lease receivables**	12	**40**	-
Contract assets (funeral plans)	18	**54**	47
Reclaim Fund assets	35	**206**	209
Total non-current assets		**7,807**	6,756
Current assets			
Inventories	16	**454**	458
Trade and other receivables	17	**445**	528
Finance lease receivables**	12	**11**	-
Contract assets (funeral plans)	18	**4**	4
Cash and cash equivalents	20	**308**	278
Assets held for sale	19	**1,090**	1,113
Reclaim Fund assets	35	**478**	410
Total current assets		**2,790**	2,791
Total assets		**10,597**	9,547
Non-current liabilities			
Interest-bearing loans and borrowings	21	**803**	976
Lease liabilities**	12	**1,277**	28
Trade and other payables	22	**183**	214
Contract liabilities (funeral plans)	23	**1,435**	1,353
Derivatives	30	**1**	-
Provisions	24	**95**	215
Pension liabilities	27	**109**	125
Deferred tax liabilities	15	**134**	223
Reclaim Fund liabilities	35	**540**	473
Total non-current liabilities		**4,577**	3,607
Current liabilities			
Interest-bearing loans and borrowings	21	**200**	66
Lease liabilities**	12	**193**	4
Income tax payable		**7**	8
Trade and other payables	22	**1,520**	1,469
Contract liabilities (funeral plans)	23	**137**	132
Provisions	24	**62**	82
Liabilities held for sale	19	**1,015**	1,045
Reclaim Fund liabilities	35	**70**	73
Total current liabilities		**3,204**	2,879
Total liabilities		**7,781**	6,486
Equity			
Members' share capital	25	**73**	73
Retained earnings	25	**2,654**	2,902
Other reserves	25	**89**	86
Total equity		**2,816**	3,061
Total equity and liabilities		**10,597**	9,547

* For more details on the restatement, refer to the general accounting policies section on page 214.

** The Group has initially applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of the IFRS 16 (Leases), refer to the general accounting policies section on page 214.To further help the reader we've also included additional tables in 'Our financial performance' section (page 46) showing 2019 results on both a reported basis (prepared under IFRS 16) and a like-for-like with 2018 (excluding IFRS 16).

Board's certification
The financial statements on pages 141 to 223 are hereby signed on behalf of the Board pursuant to Section 80 (1) (a) of the Co-operative and Community Benefit Societies Act.

Allan Leighton - Chair
23rd April 2020

Steve Murrells - Chief Executive

Helen Grantham - Group Secretary

Consolidated statement of changes in equity
for the period ended 4 January 2020

What does this show? Our statement of changes in equity shows how our net assets have changed during the year.

	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 5 January 2019 (restated*)		**73**	**2,902**	**86**	**3,061**
Impact of adoption of IFRS 16 on opening reserves as at 6 January 2019*		**-**	**(286)**	**-**	**(286)**
Tax impact of IFRS 16 on reserves as at 6 January 2019	8	**-**	**49**	**-**	**49**
Balance at 6 January 2019 (after impact of IFRS 16)		**73**	**2,665**	**86**	**2,824**
Profit for the period		**-**	**69**	**-**	**69**
Other comprehensive income:					
Remeasurement losses on employee pension schemes	27	**-**	**(99)**	**-**	**(99)**
Gains less losses on fair value of insurance assets		**-**	**-**	**8**	**8**
Fair value gains on insurance assets transferred to the income statement		**-**	**-**	**(2)**	**(2)**
Tax on items taken directly to other comprehensive income	8	**-**	**17**	**(1)**	**16**
Total other comprehensive income		**-**	**(82)**	**5**	**(77)**
Revaluation reserve recycled to retained earnings	25	**-**	**2**	**(2)**	**-**
Contributions by and distributions to members:		**-**	**-**	**-**	**-**
Balance at 4 January 2020	25	**73**	**2,654**	**89**	**2,816**

For the 52 weeks ended 5 January 2019 (restated*)	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 6 January 2018		73	2,886	101	3,060
Loss for the period (restated*)		-	(164)	-	(164)
Other comprehensive income:					
Remeasurement gains on employee pension schemes	27	-	178	-	178
Refinement of derecognition of pension surplus attributable to The Co-operative Bank	27	-	31	-	31
Gains less losses on fair value of insurance assets		-	-	(8)	(8)
Fair value gains on insurance assets transferred to the income statement		-	-	(1)	(1)
Tax on items taken directly to other comprehensive income	8	-	(36)	1	(35)
Total other comprehensive income		-	173	(8)	165
Revaluation reserve recycled to retained earnings	25	-	7	(7)	-
Contributions by and distributions to members:	25	-	-	-	-
Balance at 5 January 2019 (restated*)		73	2,902	86	3,061

* Details of the restatement are given in the General Accounting Policies section of this report (see page 214).

** The Group has initially applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application.

For more details on the impact of the IFRS 16 (Leases), refer to the general accounting policies section on page 214. To further help the reader we've also included additional tables in 'Our financial performance' section (page 46) showing 2019 results on both a reported basis (prepared under IFRS 16) and a like-for-like with 2018 (excluding IFRS 16).

Consolidated statement of cash flows
for the period ended 4 January 2020

What does this show? Our statement of cash flow shows the cash coming in and out during the year. It splits the cash by type of activity - showing how we've generated our cash then how we've spent it.

	Notes	2019 £m	2018 (restated*) £m
Net cash from operating activities	10	**626**	313
Cash flows from investing activities			
Purchase of property, plant and equipment		**(352)**	(335)
Proceeds from sale of property, plant and equipment		**123**	81
Purchase of intangible assets		**(55)**	(50)
Acquisition of businesses, net of cash acquired		**(32)**	(29)
Disposal of businesses		**15**	-
Net cash used in investing activities		**(301)**	(333)
Cash flows from financing activities			
Interest paid on borrowings		**(86)**	(63)
Interest paid on lease liabilities (2018: Interest paid on finance lease liabilities)*		**(78)**	-
Interest received on subleases**		**4**	-
Interest received on deposits		**1**	1
Repayment of corporate investor shares	21	**(2)**	(2)
Repayment of borrowings	21	**(343)**	(34)
Proceeds from new borrowings	21	**299**	-
Settlement of interest rate swaps	30	**27**	-
Payment of lease liabilities (2018: Payment of finance lease liabilities)**		**(115)**	(5)
Net cash used in financing activities		**(293)**	(103)
Net increase / (decrease) in cash and cash equivalents		**32**	(123)
Net cash and overdraft balances transferred to held for sale	9	**(2)**	8
Cash and cash equivalents at beginning of period		**278**	393
Cash and cash equivalents at end of period		**308**	278
Analysis of cash and cash equivalents			
Cash and cash equivalents (per balance sheet)	21	**308**	278

* For more details on the restatement, refer to the general accounting policies section on page 214. Included in the above are cash flows from discontinued operations. An analysis of these can be found in note 9. Refer to note 20 for details of the Cash and Cash Equivalent accounting policy.

Group Net Debt	Notes	2019 £m	2018 (restated*) £m
Interest-bearing loans and borrowings:			
- current		**(200)**	(66)
- non-current		**(803)**	(976)
Total Interest-bearing loans and borrowings		**(1,003)**	(1,042)
Lease liabilities:**			
- current		**(193)**	(4)
- non-current		**(1,277)**	(28)
Total lease liabilities		**(1,470)**	(32)
Total Debt		**(2,473)**	(1,074)
- Group cash		**308**	278
Group Net Debt	21	**(2,165)**	(796)
Add back fair value / amortised cost adjustment	21	**33**	46
Group Net Debt (pre fair value / amortised cost adjustment)	21	**(2,132)**	(750)
Group Net Debt (interest bearing loans and borrowings only)		**(695)**	(764)
Add back fair value / amortised cost adjustment	21	**33**	46
Group Net Debt (interest bearing loans and borrowings only and pre fair value / amortised cost adjustment)	21	**(662)**	(718)

** The Group has initially applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of the IFRS 16 (Leases), refer to the general accounting policies section on page 214. To further help the reader we've also included additional tables in 'Our financial performance' section (page 46) showing 2019 results on both a reported basis (prepared under IFRS 16) and a like-for-like with 2018 (excluding IFRS 16). See note 20 for a full reconciliation of the movement in net debt.

Notes to the financial statements

Section A - where do our profits come from?

1 Operating segments

What does this show? This note shows how our different businesses have performed. This is how we report and monitor our performance internally. These are the numbers that our Board reviews during the year.

2019

	Revenue from external customers (e)	**Underlying segment operating profit / (loss) (a)	Operating profit / (loss)	Additions to non-current assets (d,e)	**Depreciation and amortisation
	£m	£m	£m	£m	£m
Food	**7,505**	**283**	**274**	**342**	**(299)**
Wholesale	**1,423**	**(10)**	**(39)**	**6**	**(10)**
Funeral and Life Planning	**307**	**14**	**5**	**29**	**(33)**
Other businesses (c)	**12**	**(8)**	**(9)**	**-**	**-**
Federal (f)	**1,613**	**-**	**-**	**-**	**-**
Costs from supporting functions	**-**	**(110)**	**(62)**	**30**	**(37)**
Total	**10,860**	**169**	**169**	**407**	**(379)**

2018 (restated*)

	Revenue from external customers (e)	**Underlying segment operating profit / (loss) (a)	Operating profit / (loss)	Additions to non-current assets (d,e)	**Depreciation and amortisation
	£m	£m	£m	£m	
Food	7,274	204	186	326	(214)
Wholesale	983	(21)	(21)	2	(6)
Funeral and Life Planning	317	25	19	41	(23)
Other businesses (c)	56	(4)	(12)	-	-
Federal (f)	1,532	-	-	-	-
Costs from supporting functions	-	(107)	(82)	38	(28)
Total	10,162	97	90	407	(271)

* For more details on the restatement, refer to the general accounting policies section on page 214.

** The Group has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 214.

a) Underlying segment operating profit is a non-GAAP measure of segment operating profit before the impact of property and business disposals (including individual store impairments), the change in the value of investment properties, our share of the profits or losses from our associates and joint ventures, and one-off items.

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

c) The Group identifies its operating segments based on its divisions, which are organised according to the different products and services it offers its customers. The operating segments (and the captions) reported above are based on the periodic results reported into the Chief Operating Decision Maker which is the Board and whether the respective division's results meet the minimum reporting thresholds set out in IFRS 8 (Operating Segments). The results of our Insurance business have been classified as discontinued operations from 2018 following the announcement of the proposed sale of CISGIL and are no longer shown in the tables above. See note 9 (Loss on discontinued operations, net of tax) for further details. The 'Other businesses' segment includes activities which are not reportable per IFRS 8. 'Other businesses' is mainly Co-op Electrical which ceased trading in the second quarter of 2019. Our Financial Services entities which are mainly holding and support companies, and Reclaim Fund Limited are included within costs from supporting functions.

Notes to the financial statements continued

1 Operating segments continued

d) Additions to non-current assets are shown on a cash flow basis.

e) The Group's external revenue and non-current assets arise primarily within the United Kingdom. The Group does not have a major customer who accounts for 10% or more of revenue. There are no material transactions between the main operating segments.

f) Federal relates to the activities of a joint buying group that is operated by the Group for itself and other independent co-operative societies. The Group acts as a wholesaler to the other independent co-operatives and generates sales from this. This is run on a cost recovery basis and therefore no profit is derived from its activities.

g) Transactions between operating segments excluded in the analysis are £nil (2018: £3m) sales of electrical goods by Co-op Electrical to Food and £1m (2018: £1m) sales of legal cover on insurance policies by Funeral and Life Planning to Insurance.

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

2019	Food	Wholesale	Funeral and Life Planning	Other businesses	Costs from supporting functions	Total
	£m	£m	£m	£m	£m	£m
Underlying segment operating profit / (loss)	**283**	**(10)**	**14**	**(8)**	**(110)**	**169**
One-off items	**-**	**(29)**	**-**	**-**	**24**	**(5)**
Property, business disposals and closures	**(9)**	**-**	**(9)**	**(1)**	**(3)**	**(22)**
Change in value of investment properties	**-**	**-**	**-**	**-**	**27**	**27**
Operating profit / (loss)	**274**	**(39)**	**5**	**(9)**	**(62)**	**169**

One-off items totalling £5m charge (2018: £9m gain) comprises an £11m gain following a reduction in the contingent consideration payable that was originally recognised as part of the Nisa acquisition and a further £13m gain in relation to a reduction in the expected costs required to achieve final IT separation from the Co-op Bank off-set by a £29m impairment charge to reduce the carrying value of the intangible assets (customer relationships) recognised on the Nisa acquisition. Prior period figures included £11m of pension items (net credit) less £2m of other non-trading costs.

2018 (restated*)	Food	Wholesale	Funeral and Life Planning	Other businesses	Costs from supporting functions	Total
	£m	£m	£m	£m	£m	£m
Underlying segment operating profit / (loss)	204	(21)	25	(4)	(107)	97
One-off items	-	-	-	-	9	9
Property, business disposals and closures	(18)	-	(6)	(8)	(22)	(54)
Change in value of investment properties	-	-	-	-	38	38
Operating profit / (loss)	186	(21)	19	(12)	(82)	90

* For more details on the restatement, refer to the general accounting policies section on page 214.

Notes to the financial statements continued

1 Operating segments continued

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

	Notes	2019 £m	2018 (restated*) £m
Underlying segment operating profit**		**169**	97
Underlying loan interest payable	7	**(64)**	(64)
Underlying net interest expense on lease liabilities**	6, 7	**(74)**	-
Underlying profit before tax		**31**	33
One-off items	1	**(5)**	9
Loss on property, business disposals and closures (see table below)	1	**(22)**	(54)
Change in value of investment properties	26	**27**	38
Finance income (excluding any lease interest shown net above)	6	**57**	78
Other non-cash finance costs	7	**(21)**	(21)
Profit before tax		**67**	83

* For more details on the restatement, refer to the general accounting policies section on page 214.

** The Group has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 214.

Loss from property, business disposals and closures	**2019** £m	**2019** £m	2018 £m	2018 £m
Disposals, closures and onerous contracts				
- proceeds	**123**		77	
- less net book value written off	**(94)**		(77)	
- provisions recognised	**(7)**		(42)	
		22		(42)
Impairment of property, plant and equipment, right-of-use assets and goodwill**		**(44)**		(12)
Loss on disposal		**(22)**		(54)

On 15 November 2019 the Group sold 100% of the share capital of Funeralcare Northern Ireland Limited. The consideration received on the date of completion was £13m. Included within the total above is a £7m profit in relation to this sale.

Impairment charges are split £19m (Food), £15m (Funeral and Life Planning) and £10m (Costs from supporting functions).

Notes to the financial statements continued

2 Revenue

What does this show? This note shows our net revenue (which excludes VAT) across our different businesses.

	2019 £m	2018 £m
Sale of goods	**7,570**	7,384
Member reward (5%) earned on sale of goods	**(53)**	(54)
Provision of services	**313**	323
Member reward (5%) earned on provision of services	**(6)**	(6)
Wholesale sales	**1,423**	983
Federal sales	**1,613**	1,532
Net revenue (as shown in the consolidated income statement)	**10,860**	10,162

Accounting policies
Revenue is recognised in line with IFRS 15 (Revenue from Contracts with Customers). IFRS 15 defines performance obligations as a 'promise to provide a distinct good or service or a series of distinct goods or services'. Revenue is recognised when a performance obligation has been delivered which reflects the point when control over a product or service transfers to a customer. Revenue is measured based on the consideration set out in the contract with the customer and excludes amounts collected on behalf of third parties.

Sale of goods
The Group recognises revenue when it transfers control over a product to a customer. For the sale of goods, revenue is recognised at the point of sale. Any rebates, VAT and other sales tax or duty items are deducted from revenue.

Provision of services
Provision of services relates to activities in Funeral and Life Planning. Revenue is recognised when separate performance obligations are delivered to the customer. For funeral sales ('at need') and funeral plan sales ('pre need') the only separable performance obligation is the funeral itself and therefore revenue is only recognised when the funeral is performed (or the plan is redeemed and the funeral is performed). See note 30 (Financial Instruments) for further details of the accounting policies relating to prepaid funeral plans, funeral benefit options (FBOs) and low cost instalment plans (LCIPs). Revenue from legal services is recognised as distinct performance obligations are delivered to the customer.

Contract Liabilities
A contract liability is presented in the balance sheet where a customer has paid an amount of consideration prior to us undertaking the service for the customer. Amounts received from customers in respect of funeral plans are invested in individual whole-of-life policies, trusts or life assurance products. These are held as investments on the balance sheet and attract interest and bonus payments throughout the period dependent upon market conditions.
The corresponding obligation to deliver the funeral is shown in the consolidated balance sheet as a contract liability until the funeral is performed (at which point the revenue is recognised). See note 23 (Contract Liabilities) for further details.

Contract Assets
A contract asset is recognised when our right to consideration is conditional on something other than the passage of time. For funeral plans, fulfilment costs (which are costs relating directly to the plan sale which otherwise wouldn't have been incurred) are deferred and shown in the consolidated balance sheet as a contract asset. The costs are then recognised in the consolidated income statement at the point that the funeral is performed and in line with when the revenue is recognised. See note 18 (Contract Assets) for further details.

Member rewards
The 5% member rewards earned as part of the membership offer are recognised as a reduction in sales at the point they are earned with a corresponding liability being held on the balance sheet. The liability is reduced and the sale recognised when the rewards are redeemed. The 1% community reward is recognised as an operating expense in the income statement when it is earned.

Notes to the financial statements continued

3 Operating expenses

What does this show? This note shows the costs we have incurred during the period. It splits costs into key categories such as trading activities and employee benefits.

Operating profit is stated after (charging) / crediting the following:

	2019 £m	2018 £m
Cost of inventories recognised as an expense	**(7,637)**	(7,094)
Employee benefits expense (see below)	**(1,433)**	(1,399)
Distribution costs	**(489)**	(439)
Gain/(loss) on property, business disposals and closures (before impairments)	**22**	(42)
Impairment of plant, property, equipment and goodwill	**(22)**	(12)
Impairment of right-of-use assets*	**(25)**	-
Impairment reversal on subleases*	**3**	-
Net gain on other plant and equipment disposals	**-**	2
Change in value of investment properties	**27**	38
Operating lease rentals*	**(1)**	(164)
Depreciation of plant property and equipment	**(252)**	(256)
Depreciation of right-of-use assets*	**(110)**	-
Amortisation	**(17)**	(15)
Subscriptions and donations	**(3)**	(4)
Community reward (1%) earned	**(11)**	(12)

* The Group has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 214.

Employee benefits expense

	2019 £m	2018 £m
Wages and salaries	**(1,299)**	(1,280)
Social security costs	**(71)**	(67)
Pension costs - defined benefit schemes	**(4)**	(5)
Pension costs - defined contribution schemes	**(59)**	(47)
	(1,433)	(1,399)

Employee benefits expense includes discontinued operations.

The average number of people employed by the Group in the UK (including discontinued operations) was:

	2019 Number	2018 Number
Full-time	**21,395**	21,430
Part-time	**41,528**	41,356
	62,923	62,786

Remuneration of key management

For details regarding remuneration of the Board and the Executive refer to pages 97 - 116.

Notes to the financial statements continued

3 Operating expenses continued

Auditor remuneration and expenses	2019 £m	2018 £m
Audit of these financial statements	**1.1**	0.7
Amounts receivable by the Society's auditor in respect of:		
- Audit of financial statements of subsidiaries in respect of the Society	**0.8**	0.6
Services relating to:		
- Audit related assurance services	**0.1**	0.1
- All other services	**0.2**	0.3
Total	**2.2**	1.7

Accounting policies

Operating expenses

Operating expenses are analysed by nature, as defined by IAS 1 (Presentation of Financial Statements). Payments to equity shareholders (our members) in their capacity as customers or colleagues (rather than as members), or membership payments to non-members such as charitable organisations, are treated as charges in the income statement.

4 Supplier income

What does this show? Sometimes our suppliers give us money back based on the amount of their products we buy and sell. This note shows the different types of income we've received from our suppliers based on the contracts we have in place with them. This income is taken off operating expenses in the income statement.

Supplier income	2019 £m	2018 (restated*) £m
Food - Long-term agreements	**139**	142
Food - Bonus income	**148**	142
Food - Promotional income	**330**	325
Total Food supplier income	**617**	609
Wholesale supplier income*	**130**	37
Total supplier income	**747**	646
Percentage of Food's Cost of Sales before deducting Supplier income	**%**	%
Long-term agreements	**2.4%**	2.5%
Bonus income	**2.5%**	2.5%
Promotional income	**5.8%**	5.7%
Total Food supplier income percentage	**10.7%**	10.7%
Wholesale supplier income percentage	**10.3%**	4.9%

* For more details on the restatement, refer to the general accounting policies section on page 214.

** Supplier income in Wholesale relates to Nisa following acquisition on 8 May 2018, so does not reflect a full year in 2018.

Notes to the financial statements continued

4 Supplier Income continued

Accounting policies

Supplier income
Supplier income is recognised as a deduction from cost of sales on an accruals basis, based on the expected entitlement that has been earned up to the balance sheet date for each relevant supplier contract. The accrued incentives, rebates and discounts receivable at year end are included within trade and other receivables (note 17). Where amounts received are in the expectation of future business, these are recognised in the income statement in line with that future business. There are three main types of income:

1. Long-term agreements: These relate largely to volumetric rebates based on agreements with suppliers. They include overriders, advertising allowances and targeted income. The income accrued is based on the joint buying group's latest forecast volumes and the latest contract agreed with the supplier. Income is not recognised until confirmation of the agreement has been received from the supplier.

2. Bonus income: These are typically unique payments made by the supplier and are not based on volume. They include payments for marketing support, range promotion and product development. These amounts are recognised when the income is earned and confirmed by suppliers. An element of the income is deferred if it relates to a future period.

3. Promotional income: Volumetric rebates relating to promotional activity agreed with the supplier. These are retrospective rebates based on sales volumes or purchased volumes.

5 Other income

What does this show? This note shows what we have earned during the period from activities that are outside our normal trading activities. This is mainly from rental income we earn on properties that we own.

	2019 **£m**	2018 £m
Rental income from non-investment property	**8**	8
Rental income from investment property	**1**	2
Total other income	**9**	10

Accounting policies
Rental income from investment and non-investment properties
Rental income arising from operating leases on both investment and non-investment properties is accounted for on a straight-line basis over the lease term. For accounting policies relating to investment property, refer to note 26.

Notes to the financial statements continued

6 Finance income

What does this show? Finance income arises from the interest earned on our pension scheme, interest earned on monies held on deposit and the interest income earned on our subleases. We also include the movement in the fair value of some elements of our debt and our interest rate swap positions (which are used to manage risks from interest rate movements) if these are gains. If they are losses, they are included in Finance costs (see note 7).

	2019 £m	2018 £m
Net pension finance income	**57**	41
Fair value movement on quoted Group debt (see note 21)	**-**	37
Underlying interest income from finance lease receivables*	**4**	-
Fair value gains on funeral plan investments**	**-**	-
Total finance income	**61**	78

* The Group has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 214.

** Fair value gains of £11m (2018: £92m) received in the year on funeral plan investments (see note 14) are treated as deferred income and reflected in the consolidated balance sheet as an increase in contract liabilities (see note 23) until the funeral is performed at which point the revenue is recognised. See note 30 for further details of the accounting policy for funeral plans.

7 Finance costs

What does this show? Our main finance costs are the interest that we've paid during the year on the bank borrowings (that help fund the business) and the interest payments we incur on our lease liabilities. We also include the movement in the fair value of some elements of our debt and our interest rate swap positions (which are used to manage risks from interest rate movements) if these are losses. If they are gains, they are included in Finance income (see note 6).
Other finance costs also include the non-cash charge we incur each year on long-term provisions as the payout moves one year closer (the discount unwind) and the impact of unwinding the discounted lease liability.

	2019 £m	2018 £m
Loans repayable within five years	**(30)**	(28)
Loans repayable wholly or in part after five years	**(34)**	(36)
Underlying loan interest payable	**(64)**	(64)
Underlying interest expense on lease liabilities*	**(78)**	-
Total underlying interest expense*	**(142)**	(64)
Fair value movement on quoted Group debt (see note 21)	**(7)**	-
Fair value movement on interest rate swaps (see note 30)	**(1)**	(11)
Non-underlying finance interest	**(13)**	(10)
Other finance costs	**(21)**	(21)
Total finance costs	**(163)**	(85)

* The Group has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 214.

Non-underlying finance interest includes the impact of discount unwind on payables and provisions (see note 24).

Total interest expense on financial liabilities that are not at fair value through the income statement was £49m (2018: £38m).

Notes to the financial statements continued

8 Taxation

What does this show? Our tax charge is made up of current and deferred tax - this note explains how those items arise. Additional explanatory footnotes are included to explain the key items. We were re-accredited with the Fair Tax Mark during 2019 and the additional disclosures we provide are in line with best practice guidance.

	Footnote	2019 £m	2018 (restated*) £m
Current tax charge - current period	(i)	(7)	(5)
Current tax credit - adjustment to group relief payable owed to The Co-operative Bank	(ii)	-	4
Current tax credit / (charge) - adjustment in respect of prior periods	(iii)	1	2
Net current tax (charge) / credit		**(6)**	1
Deferred tax charge - current period	(iv)	(24)	(24)
Deferred tax credit - adjustments in respect of prior periods	(v)	48	6
Net deferred tax credit / (charge)		**24**	(18)
Total tax credit / (charge) - in respect of continuing operations		**18**	(17)

The tax on the Group's net loss before tax differs from the theoretical amount that would arise using the standard applicable rate of corporation tax of 19% (2018: 19%) as follows:

	Footnote	2019 £m	2018 (restated*) £m
Profit before tax from continuing operations		67	83
Loss before tax from discontinued operation		(23)	(236)
Total profit / (loss) before tax		**44**	(153)
Tax (charge) / credit at 19% (2018: 19%)		(8)	29
Deferred tax reconciliation:	(iv)		
Expenses not deductible for tax (including one-off costs)	(vi)	(5)	(4)
Depreciation and amortisation on non-qualifying assets	(vii)	(8)	(3)
Non-taxable profits / (losses) arising on business disposals	(viii)	1	(39)
Associated company profits	(ix)	-	-
Capital gains arising on property disposals	(x)	(5)	(4)
Adjustment in respect of previous periods	(v)	48	6
Restatement of deferred tax to blended rate (2018:17.1%)	(xi)	1	(2)
Subtotal of deferred tax reconciling items		**32**	(46)
Current tax reconciliation:			
Adjustment in respect of previous periods	(iii)	1	2
Adjustment to group relief payable	(ii)	-	4
Subtotal of current tax reconciling items		**1**	6
Tax credit / (charge) at the effective rate of -58% (2018: -7%)		**25**	(11)
Tax charge reported in the income statement		18	(17)
Tax credit attributable to a discontinued operation		7	6
Total tax credit / (charge)		**25**	(11)

* For more details on the restatement, refer to the general accounting policies section on page 214.

The net tax credit of £25m on a profit before tax of £44m gives an effective tax rate of -58%, which is -77% lower than the standard rate of 19%. The effective tax rate is negative as normally a profit before tax would lead to a tax charge rather than a tax credit. The main reason for this difference is the adjustment of deferred tax from previous years, being a credit of £48m, see footnote (v) on the following page for more detail.

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

	2019 £m	2018 £m
Actuarial gains and losses on employee pension scheme	17	(36)
Insurance assets held at fair value through other comprehensive income	(1)	1
	16	(35)

Of the tax taken directly to the consolidated statement of comprehensive income, £17m credit (2018: £36m charge) arises on the actuarial movement on employee pension schemes. There is also a £1m charge representing the movement in deferred taxation on insurance assets held at fair value through other comprehensive income (2018: £1m credit).

In 2019 a further £49m credit was recognised in the consolidated statement of changes in equity. This arises from the impact of the adoption of IFRS 16 on leased assets and Right of Use Assets, see note 15 footnote (vii) for more details. In 2018 a further £10m charge was recognised in the consolidated statement of changes in equity arising from the impact of the adoption of IFRS 9 on liabilities. This is reflected in the £2,886m balance of retained earnings at 6 January 2018 as disclosed in the Statement of Changes in Equity on page 144.

Notes to the financial statements continued

8 Taxation continued

The Finance Act 2016 was to reduce the main rate of corporation tax to 17% from 1 April 2020. Following the Budget, on 11 March 2020, the Chancellor has enacted with effect from 16 March 2020 that the previous enacted rate reduction will be revoked. Under IFRS it is the rate(s) actually enacted at the balance sheet date that determine the amount of deferred tax to be recognised. Accordingly, each deferred tax balance has been measured individually based on the enacted tax rate(s), as at 4 January 2020, at which the deferred tax was expected to unwind in the future (either 19% or 17%). This results in a blended deferred tax rate of 17.0% (2018: 17.1%) at the balance sheet date. However, for subsequent reporting the Co-op will use the newly enacted 19% rate throughout for determining the amount of deferred tax to be recognised. If this 19% rate had been applied instead of the previously enacted rate(s) the impact on the balance sheet would have been to restate all deferred tax to 19% meaning the net liability per note 15 would increase by the £17m.

Tax policy

We publish our tax policy on our website (https://www.co-operative.coop/ethics/tax-policy) and we have complied with the commitments set out in that policy.

Footnotes to taxation note 8:

i) The Group is not tax-paying in the UK in respect of 2019 due to the fact it has a number of brought forward capital allowances (£272m gross claimed in 2019) and tax losses (£5m gross utilised in 2019) that are in excess of its taxable profit for the period. These allowances and losses are explained in more detail in note 15. The current tax charge of £7m is matched by £7m credit within discontinued tax and represent the payment for losses surrenderable by the discontinued companies to the rest of the Group. It should be noted our Isle of Man resident subsidiary, Manx Co-operative Society, a convenience retailing business in the Isle of Man showed a one-off loss in 2019, so had no current tax liability (2018: £218k). The loss arose due to the invoicing of past services provided by Co-operative Group Food Ltd to The Manx Co-operative Society Ltd which were never invoiced. This is the Group's only non-UK resident entity for tax purposes, which employs 261 out of our total Group headcount figure. All other colleagues are employed in the UK. The unaudited 2019 revenue of Manx Co-operative Society is £36m and all other revenue reflected in the consolidated income statement is generated by UK trading activities. Other than the loss arising in Manx Co-operative Society all other income in the consolidated income statement is generated by UK trading activities. The unaudited net assets of Manx Co-operative Society at 6 January 2020 were £11m, compared to net assets of the consolidated Group of £2,835m. The Manx assets represent the only overseas assets within the Group. A full copy of the most recent accounts is available here https://www.co-operative.coop/investors/rules. The presence of this IOM resident subsidiary has not resulted in any additional tax charge in 2019 due to the one-off loss. If these activities had been carried out in the UK, these losses would have reduced the Group's taxable profit prior to the availability of capital allowances and tax losses. In addition the Group has one company registered in the Cayman Islands, Violet S Propco Limited. This dormant company is UK resident for tax purposes as it is managed and controlled entirely within the UK. All tax obligations in respect of this company are therefore reported in the UK.

ii) The Group holds a creditor balance in relation to group relief claimed from The Co-operative Bank ('the Bank') (see note 22). Group relief is the surrender of tax losses made by one group company to another which made taxable profits. In 2012 and 2013, the Bank had tax losses that it was able to surrender to a number of Group companies which had taxable profits during those two years. This group relief payable is linked to and held at prevailing tax rates. The timing of the total group relief payable has not changed so as to impact the tax rate used to determine this liability. If the changes, as noted above, resulting from the 2020 Budget had been enacted at the balance sheet date the impact would have been to restate this entire creditor balance to 19% meaning the creditor balance would increase by £15m.

iii) The current tax credit of £1m represents tax recoverable from a loss carry-back in one of our entities in 2018. As we did not have a debtor for this amount it creates a credit this year.

iv) Deferred tax is an accounting concept that reflects how some income and expenses can affect the tax charge in different periods to when they are reflected for accounting purposes. These differences are a result of tax legislation. The current year charge primarily relates to deferred tax arising on movements on our pension assets and fixed assets. Note 15 explains how each deferred tax balance has moved in the year. As the Group is not tax-paying in respect of 2018, the reconciling items between the tax credit at the standard rate and the actual tax charge mostly affect deferred tax as they will result in us having more capital allowances or losses to offset against future profits.

v) The £48m credit for adjustment to deferred tax in respect of previous periods is primarily due to the review of the method used to determine the temporary differences arising in respect of accelerated tax depreciation on fixed assets and has resulted in a revised estimation technique as noted in the 2019 interim statements. This review has now been concluded with a cumulative impact of £43m (HY 2019 £31m) credit to the income statement. This creates a debit on the balance sheet within deferred tax on fixed assets and will be released to the income statement in the current and future years in line with the revised method and so represents a timing impact only. In addition, a net £5m tax adjustment to tax charges in earlier years arises because the tax charge in the financial statements is an estimate that is prepared before the detailed tax calculations are required to be submitted to HMRC, which is 12 months after the year end. Also, HMRC may not agree with a tax return some time after the year end and a liability for a prior period may arise as a result. Our position on the level of uncertain tax positions has remained constant during the year, as small reductions for increased certainty gained through correspondence with HMRC during 2019, equalled new provisions for uncertain tax position arising during 2019. It should be noted that the introduction of IFRIC 23 with effect from 1 January 2019 on uncertain tax provisions has not impacted the quantum of our provisions.

vi) Some expenses incurred by the Group may be entirely appropriate charges for inclusion in its financial statements but are not allowed as a deduction against taxable income when calculating the Group's tax liability. Examples of this include some repairs, entertaining costs and legal costs.

vii) The accounting treatment of depreciation differs from the tax treatment. For accounting purposes an annual rate of depreciation is applied to capital assets. For tax purposes the Group is entitled to claim capital allowances, a relief provided by law. Some assets do not qualify for capital allowances and no relief is available for tax purposes on these assets. This value represents depreciation arising on such assets (primarily Land and Buildings).

viii) In 2019 the Group disposed of its shareholdings in Funeral Services Northern Ireland Limited. No tax arose on the accounting profit due to the availability of the Substantial Shareholding Exemption. This is a legislative exemption from capital gains for corporate entities who sell more than 10% of their shares in a trading entity. In 2018, re-measurement adjustments have been recognised in arriving at the fair value of our insurance underwriting business following the decision to sell the business. We are not permitted to deduct the re-measurement adjustments when calculating our profits for tax purposes. Further information is provided about the re-measurement in note 9 (Loss on discontinued operations, net of tax).

Notes to the financial statements continued

8 Taxation continued

ix) This represents the share of post-tax profits from associated companies that are not included in the Group's tax charge, as tax is already included in the accounts of the associate. The amounts are below £1m so are disclosed as £nil.

x) During the year a number of properties were sold, where the taxable profit is in excess of the accounting profit.

xi) It is a requirement to measure deferred tax balances at the substantively enacted corporation tax rate at which they are expected to unwind. This figure represents the change in the tax rate at which these deferred tax balances are expected to unwind.

Accounting policies

Income tax on the profit or loss for the period is made up of current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in reserves, in which case it is recognised in other comprehensive income. Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

9 Loss on discontinued operation, net of tax

What does this show? We classify any of our business segments as discontinued operations if they have been disposed of during the year or if they are held for sale at the balance sheet date (which means they are most likely to be sold within a year). This note shows the operating result for these segments as well as the profit or loss on disposal.

Discontinued operation - Insurance

Co-op Insurance has been classified as a discontinued operation in both 2018 and 2019 as the sale of the business was highly probable at each reporting date. The assets and liabilities have been remeasured at fair value less costs to sell and are shown separately in the balance sheet. The result for Co-op Insurance is shown in a separate line at the bottom of the consolidated income statement under Discontinued Operation and includes the charge resulting from remeasuring the assets and liabilities of the business to fair value less costs to sell.

On 18 January 2019, the Co-op announced it had exchanged contracts for the sale of CISGIL to Markerstudy. The deal involved a 13 year distribution agreement with Markerstudy to distribute motor and home insurance products. Co-op continues to pursue regulatory approval for the sale of CISGIL, which is expected to occur in 2020. After the sale the Group will be focussed on marketing and distributing insurance products instead of underwriting them and the performance will be reported as a separate operating segment in 2020. Changes to the transaction structure are anticipated but this will not change the substance of the transaction or the disposal accounting. Of the £185m of income expected from a deal, £101m will be allocated against assets and liabilities of the disposal group and included in arriving at the remeasurement charge of £181m. The remaining £84m will be included as deferred income because the Co-op group will be being remunerated for future services. Post sale the Co-op group will provide marketing and distribution services to CISGIL and Markerstudy.

The calculation of assets held for sale includes incremental costs to sell and the estimate of the migration and other costs that may be incurred in a transitional period after selling the business (providing regulatory approval is obtained).

Results of discontinued operation - Insurance	2019 £m	2018 £m
Revenue	**315**	323
Operating expenses	**(423)**	(410)
Other income	**68**	67
Remeasurement adjustments recognised in arriving at fair value less costs to sell	**26**	(207)
Operating loss from discontinued operation	**(14)**	(227)
Finance costs	**(9)**	(9)
Loss before tax from results of discontinued operation	**(23)**	(236)
Tax - relating to the pre-tax loss on discontinued operation	**7**	6
Loss for the period from discontinued operation	**(16)**	(230)

Relevant accounting policies covering the results of discontinued operations can be found in the 2017 Annual Report: Revenue (note 2), Operating expenses (note 3), Other income (note 5) and Finance costs (note 7). Details of accounting policies for insurance contracts are also shown in note 28 to this report.

Notes to the financial statements continued

9 Loss on discontinued operations, net of tax continued

Segmental analysis - Insurance	Revenue from external customers	Underlying segment operating (loss)/profit	Operating loss	Additions to non-current assets	Depreciation and amortisation
	£m	£m	£m	£m	£m
52 weeks ended 4 January 2020	**315**	**(10)**	**(14)**	**56**	**(58)**
52 weeks ended 5 January 2019	323	(1)	(227)	60	(61)

Co-op Insurance has been classified as a disposal group that is held for sale at the balance sheet date. The assets and liabilities of Insurance are recorded at fair value less costs to sell. Any remeasurements that have been identified have been attributed to relevant assets and liabilities (as shown in the table below) in accordance with IFRS 5.

Disposal group at fair value less costs to sell	2019 £m	2018 £m
Non-current assets		
Other investments (Insurance assets)	**438**	449
Reinsurance assets	**36**	34
Current assets		
Trade and other receivables	**207**	206
Other investments (Insurance assets)	**374**	382
Reinsurance assets	**25**	20
Current tax assets	**7**	8
Total Insurance assets classified as held for sale	**1,087**	1,099
Non-current liabilities		
Interest-bearing loans and borrowings	**69**	68
Lease liabilities	**1**	-
Insurance contract liabilities	**281**	362
Deferred tax liabilities	**4**	3
Current liabilities		
Insurance contract liabilities	**458**	373
Other payables and provisions	**196**	229
Overdraft	**6**	8
Total Insurance liabilities classified as held for sale	**1,015**	1,043
Net assets of disposal group classified as held for sale	**72**	56

IFRS 5 exempts certain assets and liabilities from the requirement for re-measurement and this includes the Insurance assets noted in the table above in Other investments. The intangible assets in scope of IFRS 5 have been remeasured to fair value and IFRS 9 expected losses provisioning has been applied to trade receivables. The remaining re-measurement adjustment of £152m that is required to write down the disposal group to its overall fair value less costs to sell has been reflected as a provision in the other payables and provisions line. The closing carrying value of the net assets of the disposal group is therefore recorded at fair value less costs to sell of £72m in the above table. This £72m fair value is comprised of £117m of expected sales proceeds from the sale of Co-op insurance less costs to sell of £43m and the impact on discounting deferred consideration of £2m. The costs to sell of £43m include legal and professional costs and necessary IT migration costs. There has also been £15m of costs incurred during 2019, the majority of which is legal and professional costs, as well as IT migration costs.

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

	2019 £m	2018 £m
Cash flows (used in) / from discontinued operations:		
Net cash used in operating activities	**(24)**	(6)
Net cash used in financing activities	**(8)**	(8)
Net cash (used in) / from discontinued operations	**(32)**	(14)

Cash flows from investing activities were not significant for the discontinued operation in 2019 or 2018.

Notes to the financial statements continued

9 Loss on discontinued operations, net of tax continued

Accounting policies

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Discontinued operations are those operations that can be clearly distinguished from the rest of the Group, both operationally and for financial reporting purposes, that have either been disposed of or classified as held for sale and which represent a separate major line of business. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the balance sheet. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

Notes to the financial statements continued

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

What does this show? This note shows how we adjust our operating profit, as reported in the income statement, to get to the net cash from operating activities which is the starting position in the cash flow statement. Non-cash items are added back to or subtracted from the operating profit figure to show how much cash is generated from our operating activities.

	2019 £m	2018 (restated*) £m
Operating profit (note 1)	**169**	90
Depreciation and amortisation charges (excluding deferred acquisition costs)	**379**	271
Non-current asset impairments	**73**	12
(Profit) / loss on closure and disposal of businesses and non-current assets	**(22)**	40
Change in value of investment properties	**(27)**	(38)
Non-cash gain in relation to past service pension costs	**-**	(11)
Retirement benefit obligations	**(46)**	(46)
Increase in inventories	**(7)**	(13)
Increase in receivables	**(14)**	(189)
Increase in contract assets (funeral plans)	**(7)**	(7)
Increase in contract liabilities (funeral plans)	**87**	206
Increase in payables and provisions	**67**	4
Net cash flow from operating activities before net cash operating inflow from discontinued activities	**652**	319
Operating loss from discontinued activities	**(14)**	(230)
Impairment of assets held for sale	**(26)**	207
Fair value through income statement movement	**(1)**	51
Fair value through other comprehensive income movement	**23**	(12)
Movement in deferred acquisition costs	**2**	1
Reinsurance assets	**(9)**	5
Insurance and other receivables	**3**	-
Insurance and participation contract provisions	**5**	(17)
Insurance and other payables	**(9)**	(11)
Net cash flow from operating activities relating to discontinued operations	**(26)**	(6)
Net cash flow from operating activities	**626**	313

* For more details on the restatement, refer to the general accounting policies section on page 214.

Accounting policies
Refer to note 20 for details of the accounting policy for Cash and Cash Equivalents.

Notes to the financial statements continued

Section B - what are our major assets?

This section of the accounts (notes 11 - 20) outlines the key assets that we hold at the balance sheet date.

11 Property, plant and equipment

What does this show? Property, plant and equipment is the physical assets we use in our business such as our buildings, equipment and vehicles. This note shows how the amount we include on our balance sheet for these assets has changed over the period.

For the period ended 4 January 2020	Property £m	Plant and equipment £m	Total £m
Cost or valuation:			
At 5 January 2019	1,472	2,373	3,845
Impact on adoption of IFRS 16*	-	(120)	(120)
Additions	46	262	308
Transfer from investment property (see note 26)	1	-	1
Reclassified as assets held for sale (see note 19)	(3)	(1)	(4)
Disposals	(53)	(77)	(130)
At 4 January 2020	**1,463**	**2,437**	**3,900**
Depreciation:			
At 5 January 2019	578	1,221	1,799
Impact on adoption of IFRS 16*	-	(79)	(79)
Charge for the period	25	227	252
Impairment	6	9	15
Reclassified as assets held for sale (see note 19)	(1)	-	(1)
Disposals	(20)	(67)	(87)
At 4 January 2020	**588**	**1,311**	**1,899**
Net book value:			
At 4 January 2020	**875**	**1,126**	**2,001**
At 5 January 2019	894	1,152	2,046
Capital work in progress included above	30	65	95

* The Group has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 214.

The impairment charge of £15m (2018: £10m) primarily relates to loss-making stores in Food and funeral branches (see also Critical accounting estimates and judgements section of this note for further detail on impairment).

Notes to the financial statements continued

11 Property, plant and equipment continued

For the period ended 5 January 2019

	Property £m	Plant and equipment £m	Total £m
Cost or valuation:			
At 6 January 2018	1,452	2,147	3,599
Additions	16	327	343
Acquisition of subsidiaries	25	1	26
Reclassified as assets held for sale (see note 19)	(7)	(1)	(8)
Transfer to intangible assets	-	(50)	(50)
Disposals	(14)	(51)	(65)
At 5 January 2019	1,472	2,373	3,845
Depreciation:			
At 6 January 2018	560	1,025	1,585
Charge for the period	24	232	256
Impairment	2	8	10
Reclassified as assets held for sale (see note 19)	(2)	(1)	(3)
Disposals	(6)	(43)	(49)
At 5 January 2019	578	1,221	1,799
Net book value:			
At 5 January 2019	894	1,152	2,046
At 6 January 2018	892	1,122	2,014
Capital work in progress included above	29	75	104

Plant and equipment includes assets held under finance leases as follows:*	2019 £m	2018 £m
Cost	-	120
Accumulated depreciation	-	(87)
Net book value	-	33

* The Group has initially applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 214.

Notes to the financial statements continued

11 **Property, plant and equipment** continued

Critical accounting estimates and judgements

Impairment
The key estimates for value in use calculations are discount rates and expected changes to future cash flows.

The value in use of an asset is estimated by projecting future cash flows into perpetuity and discounting the cash flows associated with that asset at a pre tax rate of between 7-9% dependent on the business.

Cash flows are projected using the relevant business' five year plan, the results of which are reviewed by the Board. Cash flow projections beyond five years (and therefore outside of the five year plan period) use a steady or declining growth rate dependent on the business. These long term average growth rates range from 1-2%.

Fair value less costs to sell are measured using internal valuations based on the rental yield of the property.

Because the majority of our impairment reviews are conducted on a CGU basis, this is the basis on which our sensitivity analysis has been performed. See note 13 for further details.

Accounting policies
Where parts of an item of property, plant and equipment have materially different useful economic lives, they are accounted for as separate items of property, plant and equipment. Cost includes purchase price plus any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is provided on the cost or valuation less estimated residual value (excluding freehold land) on a straight-line basis over the anticipated working lives of the assets. The estimated useful lives are as follows:

Property
Freehold buildings - 50 years
Leasehold property - shorter of period of lease or 50 years
All properties are measured at cost less accumulated depreciation and impairment losses.

Plant & equipment
Plant and machinery - 3 to 13 years
Vehicles - 3 to 9 years

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

Impairment
At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss. Impairment losses are recognised in the income statement.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. For Foodstores, the CGU is deemed to be each trading store. For Funeralcare, the CGU is deemed to be a local network of interdependent branches. Where an individual branch within a local network is to be closed, the individual branch is defined as the CGU, rather than being included with the network of interdependent branches. This is because the branch is no longer expected to contribute to the business through cash generated through its operating activities but instead through any proceeds on disposal.

An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount is returned to what it would have been, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the financial statements continued

12 Leases

What does this show? This note shows the value of our leased assets and the corresponding value of our lease liabilities that have been brought onto our Balance sheet in 2019 as a result of the new IFRS 16 'Leases' accounting standard. Prior to the adoption of IFRS 16, leases were classified as either operating leases or finance leases, with only finance leases being included on our Balance sheet. We have adopted the new standard from 6th January 2019 and the methodology we have opted to transition to IFRS 16 has meant that we have not restated our comparatives. As a result, the disclosures on our leased assets and liabilities below do not include comparatives.

A. As a lessee

Right-of-use assets	Property £m	Plant and equipment £m	Total £m
Assets held under finance leases (previously recognised)	-	33	33
On adoption of IFRS 16	1,011	12	1,023
Balance at 6th January 2019	**1,011**	**45**	**1,056**
Depreciation charge for the year	(98)	(12)	(110)
Additions	100	33	133
Disposals	(9)	-	(9)
Impairment	(25)	-	(25)
Balance at 4th January 2020	**979**	**66**	**1,045**

The Group leases many assets, principally it leases properties for its food retail stores and funeral branches as well as some vehicles and other equipment. The leases of retail stores are typically between 1 and 20 years in length, and leases of funeral branches are typically between 1 and 8 years in length. Vehicle and equipment leases are typically between 1 and 4 years in length and in some cases the Group has options to purchase the assets at the end of the contract term.

Lease liabilities	2019 £m
Current	(193)
Non-current	(1,277)
Lease liabilities included in the statement of financial position at 4 January 2020	**(1,470)**

	Total £m
Finance lease liability (previously recognised)	(32)
Additional lease liabilities on adoption of IFRS 16	(1,450)
Lease liabilities as at 6 January 2019	**(1,482)**
Additions	(145)
Disposals	42
Interest expense	(78)
Payments	193
Lease liabilities as at 4th January 2020	**(1,470)**

The Group recognised rent expense from short-term leases of £1m for the period ended 4 January 2020.

Extension and termination options
Some leases of retail stores contain extension or termination options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension and termination options in new leases to provide operational flexibility. The extension and termination options held are typically exercisable only by the Group and not by the lessors.

The Group assesses at lease commencement whether it is reasonably certain to exercise the extension or termination options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

As at 4 January 2020, potential future cash outflows of £124m (discounted) have not been included in the lease liability because it is not reasonably certain that the Group will exercise the extension option. Included within the lease liability are future cash outflows of £135m (discounted) where the group holds termination options but it is not reasonably certain to execute those termination options.

* The Group has initially applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 214.

Notes to the financial statements continued

12 Leases continued

A. As a lessee continued

Sale and leaseback

During the year the Group completed sale and leaseback transactions on some of its freehold buildings used within food retail and funeral business. Aggregate consideration of £30m was received, a net lease liability of £7m was recognised and net book value of £19m disposed creating a profit on disposal of £4m.

B. As a lessor

Lease income from lease contracts in which the Group acts as a lessor is as below:

	2019 £m
Operating lease (i)	
Lease income	**9**
Finance lease (ii)	
Finance income on the net investment in the lease	**4**

i. Operating lease

The Group leases out its investment property. The Group classifies these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

	2019 £m
Less than one year	**8**
One to five years	**21**
More than five years	**77**
Total undiscounted lease payments receivable	**106**

ii. Finance lease

The Group also sub-leases some of its non-occupied leased properties. The Group classifies the sub-lease as a finance lease, where the period of the sublease is for substantially the remaining term of the head lease.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

	2019 £m
Less than one year	**12**
One to five years	**36**
More than five years	**38**
Total undiscounted lease payments receivable	**86**
Less: Unearned finance income	**(24)**
Present value of minimum lease payments receivable	**62**
Impairment loss allowance	**(11)**
Finance lease receivable (net of impairment allowance)	**51**

Impairment of finance lease receivable
The Group estimates the loss allowance on finance lease receivables at an amount equal to lifetime expected credit losses. The lifetime expected credit losses are estimated based upon historical defaults on subleases, the credit quality of current tenants and forward looking factors.

* The Group has initially applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 214.

Notes to the financial statements continued

12 Leases continued

Accounting policies (applicable from 5 January 2019)*

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e. below £5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Accounting policies (applicable prior to 5 January 2019)*

Leased assets

Leases where the Group takes on substantially all the risks and rewards of ownership are classified as finance leases. Plant and vehicles acquired under finance leases are stated at an amount equal to the lower of fair value and the present value of the minimum lease payments at the start of the lease, less accumulated depreciation and any impairment losses.

Depreciation is provided on the same basis as for owned assets. Minimum finance lease payments are apportioned between the finance charge and the repayment of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Lease payments in respect of operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and the aggregate benefit is recognised as a reduction of rental expense over the lease term on a straight-line basis.

For any leases where the Group is the landlord, the aggregate cost of incentives is recognised as a reduction of rental income over the lease term on a straight-line basis.

* The Group has initially applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 214.

Notes to the financial statements continued

13 Goodwill and intangible assets

What does this show? Intangible assets have long term value but no physical presence, such as software or customer relationships. This note shows how the amount we include on our balance sheet for these assets has changed over the period.

For the period ended 4 January 2020	Goodwill £m	Computer software £m	Acquired Customer Relationships and Other Intangibles £m	Assets in course of construction £m	Total £m
Cost:					
At 5 January 2019	1,302	211	43	-	1,556
Additions	1	54	-	-	55
Disposals	(8)	(1)	-	-	(9)
At 4 January 2020	**1,295**	**264**	**43**	**-**	**1,602**
Accumulated amortisation and impairment:					
At 5 January 2019	376	83	3	-	462
Charge for the period	-	13	4	-	17
Impairment	7	-	29	-	36
At 4 January 2020	**383**	**96**	**36**	**-**	**515**
Net book value:					
At 4 January 2020	**912**	**168**	**7**	**-**	**1,087**

The impairment charge of £36m includes £29m to reduce the carrying value of the intangible assets (customer relationships) recognised on the Nisa acquisition and £7m in relation to loss making food stores or funeral branches.

For period ended 5 January 2019 (restated*)	Goodwill £m	Computer software £m	Acquired Customer Relationships and Other Intangibles** £m	Assets in course of construction £m	Total £m
Cost:					
At 6 January 2018	1,204	105	-	2	1,311
Additions	-	50	-	-	50
Acquisition of subsidiaries	104	6	43	-	153
Transfer from property, plant and equipment	-	50	-	-	50
Transfer to assets held for sale (note 9)	-	-	-	(2)	(2)
Disposals	(6)	-	-	-	(6)
At 5 January 2019	1,302	211	43	-	1,556
Accumulated amortisation and impairment:					
At 6 January 2018	374	71	-	-	445
Charge for the period	-	12	3	-	15
Transfer from property, plant and equipment	-	-	-	-	-
Impairment	2	-	-	-	2
At 5 January 2019	376	83	3	-	462
Net book value:					
At 5 January 2019	926	128	40	-	1,094

* For more details on the restatement, refer to the general accounting policies section on page 214.

** £9m of amortisation previously reported as a charge in the period against Customer Relationships has been reclassified to Computer Software.

Notes to the financial statements continued

13 Goodwill and intangible assets continued

Goodwill
The components of goodwill are as follows:

	2019 £m	2018 (restated*) £m
Food	**883**	895
Other businesses	**29**	31
	912	926

* For more details on the restatement, refer to the general accounting policies section on page 214.

Food goodwill includes £652m (2018: £652m) that is allocated to the group of cash-generating units that is Food as a whole (this includes £98m (2018: £98m) in relation to goodwill arising on the acquisition of Nisa), £70m (2018: £70m) allocated to stores acquired with the Alldays group and £161m (2018: £173m) assessed against other specific components of the Food business, none of which is individually significant.

The goodwill within other businesses principally relates to the goodwill recognised in the Funeral and Life Planning business.

Critical accounting estimates and judgements

Goodwill

The key assumption used in the review for potential impairment of goodwill within the Food business is cash flows from operation of stores (projecting growth at 2-3% (2018: 3-4%) in line with the five-year plan) based on management's best estimate based on the profile of the stores, and including an allocation of central costs taken into perpetuity and discounted to present value at a pre-tax rate of 8.2% (2018: 8.2%). In each of the current and comparative years, sensitivity analysis has been performed on this assumption, testing for a 1% increase in discount rate and a decrease in growth to 1%; within both these sensitivities the cash flows remain well in excess of the current carrying value.

For the Funerals goodwill impairment review, average selling price increases and wage and cost inflation have been applied in line with the assumptions in the five-year plan. Cash flows have been projected based on the five-year plan and into perpetuity from year five and discounted back to present value using a pre-tax discount rate of 8.2% (2018: 8.2%). Sensitivity analysis has been performed with both the growth rate and discount rate adjusted by +/- 1%, and under these sensitivities no further material amounts of impairment are calculated.

Notes to the financial statements continued

13 Goodwill and intangible assets continued

Accounting policies

Goodwill
Goodwill represents the difference between the cost of the acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Assets and liabilities accepted under a transfer of engagements are restated at fair value, including any adjustments necessary to comply with the accounting policies of the Group.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of associates, the carrying value of goodwill is included in the carrying amount of the investment in the associate. Where impairment is required the amount is recognised in the income statement and cannot be written back.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

Acquisition costs are expensed to the income statement when incurred.

Computer software
Computer software is stated at cost less accumulated amortisation and impairment. In Financial Services, all costs directly attributable to the development of computer software for internal use are capitalised and classified as intangible assets where they are not an integral part of the related hardware and amortised over their useful life up to a maximum of seven years.

Assets in the course of construction
Assets in the course of construction includes directly attributable software development costs and purchased software that are not an integral part of the related hardware, as part of strategic projects that meet the capitalisation requirements under IAS 38 (Intangible Assets) but which have not yet been brought into use. The costs are held within assets in the course of construction until the project has gone live or the related asset is brought into use. At that point the costs will be transferred out of this classification and will be amortised based on the useful economic life as defined by the intangible asset accounting policy noted below.

Subsequent expenditure
Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is charged to the income statement as incurred.

Amortisation
Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill with an indefinite useful life is tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use.The estimated useful lives are as follows:
- Software development costs: 3–7 years
- Other intangible assets: 1–10 years

Impairment
Goodwill is reviewed for impairment at least annually by assessing the recoverable amount of each cash-generating unit, or group of cash-generating units, to which the goodwill relates.

Food:
In the Food business, the CGUs to which goodwill has been allocated and the level at which it is monitored are deemed to be the respective acquired retail chains of stores. For example the impairment testing of smaller acquisition groups such as Alldays is carried out using the acquired stores within the acquisition group as the CGU.

The goodwill that arose on the acquisition of Somerfield and Nisa is allocated to Food as a whole to reflect the synergies (principally buying benefits) that benefit the whole business. Accordingly, impairment testing for the Somerfield and Nisa goodwill balances is carried out using all the food stores as the CGU.

Notes to the financial statements continued

13 Goodwill and intangible assets continued

Accounting policies continued

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

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

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

14 Funeral plan investments

What does this show? Our Funerals business holds some investments on behalf of customers in relation to funeral plans. This note provides information on these investments and how they are accounted for.

Funeral plan investments as per the balance sheet:	2019 £m	2018 £m
Current	-	-
Non-current	1,271	1,223
Funeral plan investments	1,271	1,223

Funeral plan investments held by the Group are as follows:	2019 £m	2018 £m
Fair value through the income statement: Funeral plan investments (see below)	1,271	1,223
Total Funeral plan investments	1,271	1,223

Funeral plan investments:	2019 £m	2018 £m
At start of period	1,223	1,076
Net plan investments (including ongoing instalments)	111	126
Plans redeemed or cancelled	(74)	(71)
Fair value movement on funeral plan investments recognised as deferred income	11	92
At end of period	1,271	1,223

See note 30 for further detail on the accounting policy for funeral plans.

Notes to the financial statements continued

14 **Funeral plan investments** continued

The Group holds investments on the balance sheet in respect of funeral plan policies which are invested in either individual whole-of-life policies, and, to a much smaller extent, independent trusts. The investments are subject to an annual actuarial valuation. This gives an assessment as to the headroom of the funeral plan investments over an estimated present value (on a wholesale basis) of delivering the funeral. The most recent valuation was performed as at 30 September 2019 and the headroom achieved is shown in the table below.

Funeral Plan Investments Actuarial Valuation	30th September 2019 £m	30th September 2018 £m
Total Assets	**1,296**	1,156
Liabilities:		
Present value (wholesale basis)	**1,207**	1,036
Total Liabilities	**1,207**	1,036
Headroom	**89**	120
Headroom as a % of liabilities	**7%**	12%

During the period plan sales significantly exceeded plan redemptions which, all other things being equal, would increase both total assets and liabilities. A reduction in wholesale cost per funeral has been offset by a higher inflation assumption and a lower expected investment return, given market expectations at 30 September 2019. However, it should be recognised that the group continues to manage plans for the medium to long term given, in the normal course of business, this is when the majority of the liability will crystallise.

Key assumption	30th September 2019	30th September 2018
Average total wholesale costs per plan funeral	**£2,563**	£2,705

The actuarial report is a best estimate and is neither deliberately optimistic nor pessimistic. It is prepared by independent actuaries based on management assumptions such as future funeral and disbursement inflation. The headroom percentage is expressing the surplus as a percentage of total liabilities. A 0.1% increase in the inflation assumptions would reduce the surplus by approximately £21m (2018: £16m).

The "wholesale" actuarial valuation is based upon the Group's estimate of the direct cost for a third party funeral director to perform the promised services and the payment of associated disbursements (crematoria, clergy fees etc) as if the Group were not in a position to carry out these funerals. No incremental overheads are included because it's assumed that the provider could absorb these funerals into existing infrastructures. As the Group fully intends to perform these funerals and undertake the professional funeral services itself the actual cost would in reality be lower and subsequent marginal cost surplus would be higher than the wholesale cost surplus.

Accounting policies
See note 30 Financial Instruments for the accounting policies relating to other investments.

Notes to the financial statements continued

15 Deferred taxation

What does this show? Our tax charge is made up of current and deferred tax as explained in note 8. We show a net asset or net liability in the balance sheet to reflect our deferred tax. This note shows how those items are calculated and how they affect the income statement. Additional explanatory footnotes are included to explain the key items.

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 17.0% (2018: 17.1%). Temporary differences arise because sometimes accounting and tax requirements mean that transactions are treated as happening at a different time for accounting purposes than they are for tax purposes.

Net deferred tax in the balance sheet comprises:		2019 £m	2018 (restated*) £m
Deferred tax asset - continuing operations		**313**	236
Deferred tax liability - continuing operations		**(447)**	(459)
Deferred tax liability - discontinued operation		**(4)**	(3)
Deferred tax liability - other assets held for sale		**-**	(2)
Net deferred tax liability		**(138)**	(228)
Comprised of:	Footnote:		
Other temporary differences	(i)	**(4)**	(10)
Retirement benefit obligations	(ii)	**(317)**	(316)
Capital allowances on fixed assets	(iii)	**240**	208
Unrealised gains on investment properties, rolled-over gains and historic business combinations	(iv)	**(112)**	(121)
Claims equalisation reserve and available for sale assets	(v)	**(4)**	(4)
Tax losses	(vi)	**14**	15
IFRS 16 transition adjustment taken through Opening Reserves	(vii)	**45**	-
		(138)	(228)

The movements in the net deferred tax liability during the period are set out below:

		2019 £m	2018 (restated*) £m
At beginning of the period		**(223)**	(155)
Adjustment to opening reserves for IFRS 16 **	(vii)	**49**	-
Restated balance brought forward		**(174)**	(155)
Income statement charge/(credit): Group (see note 8)	(viii)	**24**	(18)
Adjustment in respect of deferred tax classified as assets held for sale		**1**	1
Transferred to assets held for sale		**(1)**	5
Deferred taxes acquired	(ix)	**-**	(11)
Charged to equity:			
Retirement benefit obligations (see note 8)	(ii)	**17**	(36)
Available for sale assets - Insurance (see note 8)		**(1)**	1
Impact of adoption of IFRS 9 on liabilities (see note 8)	(x)	**-**	(10)
At end of the period (continuing operations)		**(134)**	(223)

* For more details on the restatement, refer to the general accounting policies section on page 214.

The Finance Act 2016 was to reduce the main rate of corporation tax to 17% from 1 April 2020. Following the Budget, on 11 March 2020, the Chancellor has enacted with effect from 16 March 2020 that the previous enacted rate reduction will be revoked. Under IFRS it is the rate(s) actually enacted at the balance sheet date that determine the amount of deferred tax to be recognised. Accordingly, each deferred tax balance has been measured individually based on the enacted tax rate(s), as at 4 January 2020, at which the deferred tax was expected to unwind in the future (either 19% or 17%). This results in a blended deferred tax rate of 17.0% (2018: 17.1%) at the balance sheet date.

However, for subsequent reporting the Co-op will use the newly enacted 19% rate throughout for determining the amount of deferred tax to be recognised. If this 19% rate had been applied instead of the previously enacted rate(s) the impact on the balance sheet would have been to restate all deferred tax to 19% meaning the net deferred tax liability per note 15 would increase by the £17m.

** The Group has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 214.

Notes to the financial statements continued

15 Deferred taxation continued

Footnotes:

i) This amount includes deferred tax liabilities that arose on the acquisition of Nisa Retail Limited in 2018 and adoption of IFRS 9, also in 2018 (see footnotes (ix) and (x)). These are offset by a deferred tax asset in respect of provisions. Expenses that have not yet been incurred are able to be recorded in the accounts as provisions. However, of these certain expenses don't receive tax relief until they have been paid for and so the related tax relief is delayed to a future period.

ii) This amount represents the theoretical future tax cost to the Group in respect of the current pension scheme surplus. A £1m overall increase in tax cost arose in 2019 as the £17m credit recognised in other comprehensive income, was offset by an £18m charge taken to the income statement. The split between other comprehensive income and the income statement reflects the movement in the overall pension scheme surplus.

iii) A deferred tax asset arises on capital allowances where the tax value of assets is higher than the accounts value of the same fixed assets. The reason the Group has a higher tax value for these fixed assets is due to the fact the Group has not made a full claim to its maximum entitlement to capital allowances since 2013 due to reduced levels of trading profits in recent years. However, impairment, disposals and depreciation have continued to reduce the accounts value for our assets. The Group expects to use these allowances to reduce future trading profits. The significant uplift in year of £29m is mainly due to the £43m adjustment for previous periods that has partially unwound during the current year. (See note 8 footnotes (v) for more detail.)

A provision of £2m is included in this balance in respect of uncertain tax positions (see note 8 footnote (v) for more detail). In the event of an adjustment arising from uncertain tax positions, offset would arise through increased capital allowance claims. In 2018 this £2m offset was shown against losses, the change reflects our future expectation of how capital allowances and losses will be used in priority to each other.

iv) This amount represents the theoretical amount of tax that would be payable by the Group on (a) the sale of all investment properties, (b) the sale of properties that have been restated at their fair value on historic mergers and transfers of engagements and (c) the sale of any property that has had an historic capital gain 'rolled into' its base cost (which is an election available by statute designed to encourage businesses to reinvest proceeds from the sale of trading properties into new trading properties and ventures).

v) This value arises from the claims equalisation reserve that is required by statute to be taxed in CIS General Insurance Limited, but no accounts value is required to be recognised for accounting purposes. From 1 January 2016 this balance no longer had to be held, and is being released evenly over a six year period. It also includes the amount of tax that is expected to be due on assets available for sale that are currently held on the balance sheet.

vi) The Group has incurred trading losses and interest losses that were in excess of taxable profits in the past. These losses can be used to reduce future trading profits and capital gains which are included in future tax forecasts for the Group. The restriction on the amount of losses that can be used in any one year post 1 April 2017, being £5m plus 50% of any surplus taxable profits above this amount, is not expected to limit the use of these losses other than extend the time over which they will be claimed.

vii) On the adoption of IFRS 16 with effect from 1 January 2019 the opening reserves have been restated down by £286m, more information about this is provided in the general accounting policies section on page 214. Tax relief is provided for this restatement by spreading a deduction over the combined weighted average length of leases. A deferred tax asset of £49m was established through adjustment to opening reserves. By the end of the year this had reduced to £45m, due to the tax relief taken in 2019.

viii) This movement is made up of current year movements as explained in footnotes (i) to (vi) above and a prior year adjustment. The net effect of the prior year adjustments in each of the above items is a credit of £48m, see note 8 footnotes (v) for more detail.

ix) This represents deferred tax arising on the acquisition of Nisa Retail Limited in 2018.

x) This represents deferred tax arising from the impact of adoption of IFRS 9 on liabilities in 2018.

Accounting policies

Deferred tax is provided for, with no discounting, using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profits, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available to use the asset against. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the financial statements continued

16 Inventories

What does this show? This note shows the stock we hold at the period end. This is mainly the goods we're planning to sell, held either at Food stores or distribution centres. We also hold stocks of store consumables (such as plastic bags) as well as work in progress relating to funeral caskets.

Inventories include the following:

	2019 £m	2018 (restated*) £m
Raw materials, consumables and work in progress	**5**	4
Finished goods and goods for resale	**449**	454
	454	458

* For more details on the restatement, refer to the general accounting policies section on page 214.

The period end inventory provision is £20m (2018: £20m) and a net charge of £nil (2018: £nil charge) has been made within operating expenses in the income statement, mainly relating to the Food business. Inventory held at fair value less cost to sell is not material in either period. There was no inventory pledged as security for liabilities in the current or prior period.

Accounting policies

Inventories are stated at the lower of cost, including attributable overheads, and net realisable value.

17 Trade and other receivables

What does this show? This note shows amounts we are owed and amounts we have paid in advance for services which will be received over a period of time. It also shows a reduction to reflect amounts we think may not be repaid. They are split between current items (which will be settled within one year) and non-current items (which will be settled after more than one year).

	2019 £m	2018 (restated*) £m
Non-current	**111**	81
Current	**445**	528
	556	609

	2019 £m	2018 (restated*) £m
Trade receivables	**242**	338
Prepayments and accrued income	**136**	91
Other receivables	**186**	190
	564	619
Allowance for expected credit losses	**(8)**	(10)
	556	609

* For more details on the restatement, refer to the general accounting policies section on page 214.

Trade receivables are non-interest bearing and the Group's standard payment terms are between 7 and 60 days.

The £111m (2018: £81m) of non-current debt relates to pre-paid funeral plan instalments where customers have been invoiced before the funeral has occurred. £32m (2018: £31m) of current debt also relates to pre-paid funeral plan instalments which are £143m (2018: £112m) in total.

Within trade receivables is £37m (2018: £122m) of supplier income that is due from Food suppliers. Prepayments and accrued income includes £90m (2018: £79m) in relation to supplier income that has been recognised but not yet billed. As at 23rd April 2020, £34m (2018: £119m) of the trade receivables balance had been invoiced and settled and £81m (2018: £71m) of the accrued income balance has been invoiced and settled.

Notes to the financial statements continued

17 Trade and other receivables - continued

The table below shows the movement in the allowance for expected credit losses for trade and other receivables:

	2019 £m	2018 £m
Opening allowance for expected credit losses	**10**	10
Charge to the income statement	**9**	11
Credit to the income statement	**(11)**	(11)
Closing allowance for expected credit losses	**8**	10

The Group has applied the expected losses model as defined under IFRS 9 (Financial Instruments) which focuses on the risk that a trade receivable will default rather than whether a loss has been incurred. The Group has applied a simplified approach as allowed under IFRS 9 to use a provision matrix for calculating expected losses for trade receivables. More information on credit risk and the use of a provision matrix is provided in note 30 which outlines our approach to financial risk management.

Accounting policies
Refer to note 30 Financial Instruments for the accounting policies relating to trade receivables and allowances for expected credit losses.

18 Contract assets

What does this show? This note shows the costs we've incurred in setting up funeral plans (fulfilment costs). We hold these on the balance sheet as contract assets until the funerals have been performed and we're entitled to receive payment, then we transfer them to the income statement in line with when the revenue is recognised.

	2019 £m	2018 £m
Current	**4**	4
Non-current	**54**	47
Total	**58**	51

	2019 £m	2018 £m
Opening contract assets	**51**	44
Fulfilment costs - incurred on new funeral plan sales	**11**	10
Fulfilment costs - transferred to the income statement on funeral plan redemptions	**(3)**	(2)
Fulfilment costs - transferred to the income statement on funeral plan cancellations	**(1)**	(1)
Closing contract assets	**58**	51

No provision for expected credit losses has been recognised against contract assets in either the current or prior year.

Accounting policies
A contract asset is recognised when our right to consideration is conditional on something other than the passage of time. For funeral plans, fulfilment costs (which are costs relating directly to the plan sale which otherwise wouldn't have been incurred) associated with delivering the funeral are deferred and shown in the consolidated balance sheet as a contract asset until the funeral is performed (at which point the costs are recognised in the income statement in line with when the revenue is recognised).

Notes to the financial statements continued

19 Assets and liabilities held for sale

What does this show? This shows the value of any assets or liabilities that we hold for sale at the period end (these generally relate to properties or businesses that we plan to sell soon). When this is the case, our balance sheet shows those assets and liabilities separately as held for sale.

	2019 £m	2018 £m	2019 £m	2018 £m
	Assets held for sale		Liabilities held for sale	
(a) Discontinued operation - Insurance (see note 9)	**1,087**	1,099	**1,015**	1,043
(b) Other assets and liabilities held for sale (see below)	**3**	14	**-**	2
Total	**1,090**	1,113	**1,015**	1,045

(a) Discontinued operation - Insurance

Co-op Insurance has been classified as a discontinued operation from 2018 as the sale of the business was highly probable at the 2018 year end date. The assets and liabilities have been remeasured at fair value less costs to sell and are shown separately in the balance sheet. Further detail is given in note 9 (Loss on discontinued operations, net of tax) including a line-by-line balance sheet detailing the impact of the remeasurement adjustments to fair value less costs to sell and the carrying value of all insurance assets and liabilities held for sale.

	2019 £m	2018 £m	2019 £m	2018 £m
(b) Other assets and liabilities classified as held for sale	Assets held for sale		Liabilities held for sale	
Investment property	**-**	9	**-**	2
Property, plant and equipment	**3**	5	**-**	-
	3	14	**-**	2

Accounting policies

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. After that, generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss. See also accounting policy in note 9 (Loss on discontinued operation, net of tax).

Notes to the financial statements continued

20 Cash and cash equivalents

What does this show? The tables below show a breakdown of the cash and cash equivalent balances that the Group holds at the balance sheet date and the accounting policies explains what is and what isn't classified as cash and cash equivalents.

Cash and cash equivalents	2019 £m	2018 (restated*) £m
Cash in hand	**93**	86
Cash at banks	**215**	192
Cash and cash equivalents	**308**	278
Cash and cash equivalents (as above)	**308**	278
Bank overdrafts	**-**	-
Net cash and cash equivalents	**308**	278

* For more details on the restatement, refer to the general accounting policies section on page 214.

Cash at bank includes amounts receivable from banks for credit card and debit card transactions of £30m (2018: £30m) which clear the bank shortly after the transaction takes place.

Accounting policies
Cash and cash equivalents in the consolidated balance sheet comprise cash in hand, cash at bank and short-term deposits with banks with a maturity of three months or less, which are subject to an insignificant risk of changes in value. Cash and cash equivalents includes debit and credit card payments made by customers which are receivable from banks and clear the bank within three days of the transaction date.

In the statement of consolidated cash flows, cash and cash equivalents includes bank overdrafts as they are repayable on demand and deemed to form an integral part of the Group's cash management.

The cash held in the Reclaim Fund of £330m (2018: £338m) is not available for use by the Group and is not classed as a cash or cash equivalent. Amounts held in trustee-administered bank accounts of the Group of £31m (2018: £34m), which can only be utilised to meet liabilities in respect of funeral plans are classed as funeral plan investments (see note 14) and not cash and cash equivalents.

Notes to the financial statements continued

Section C - what are our major liabilities?

This section of the accounts (notes 21 - 24) outlines the key liabilities that we have at the balance sheet date.

21 Interest-bearing loans and borrowings

What does this show? This note provides information about the terms of our interest-bearing loans. This includes information about their value, interest rate and repayment terms and timings. Details are also given about other borrowings and funding arrangements such as corporate investor shares and leases. All items are split between those that are due to be repaid within one year (current) and those which won't fall due until after more than one year (non-current).

Non-current liabilities:	2019 £m	2018 £m
£11m (2018: £285m) 6.875% Eurobond Notes due 2020 (fair value)*	-	296
£165m 6.875% Eurobond Notes due 2020 (amortised cost)	-	169
£105m 7.5% Eurobond Notes due 2026 (fair value)	121	115
£245m 7.5% Eurobond Notes due 2026 (amortised cost)	261	264
£300m 5.125% Sustainability Bond due 2024 (amortised cost)*	299	-
£109m 11% Final repayment subordinated notes due 2025	109	109
£16m Instalment repayment notes (final payment 2025)	13	14
£10m 2.57% Nisa bank term loan (facility expires 2021)	-	9
Total (excluding lease liabilities)	**803**	976
Lease liabilities (2018: Finance lease liabilities)**	1,277	28
Total Group interest-bearing loans and borrowings	**2,080**	1,004

Current liabilities:	2019 £m	2018 £m
£11m 6.875% Eurobond Notes due 2020 (fair value)*	11	-
£165m 6.875% Eurobond Notes due 2020 (amortised cost)	167	-
£165m 6.875% Eurobond Notes due 2020 (amortised cost) - interest accrued	5	5
£245m 7.5% Eurobond Notes due 2026 (amortised cost) - interest accrued	9	8
£300m 5.125% Sustainability Bond due 2024 (amortised cost) - interest accrued	2	-
£20m Instalment repayment notes (final payment 2025)	1	1
£110m Nisa asset backed invoice discounting facility	-	31
£400m Sustainable revolving credit facility	1	-
£355m Syndicate revolving credit facility drawdown	-	15
Corporate investor shares	4	6
Total (excluding lease liabilities)	**200**	66
Lease liabilities (2018: Finance lease liabilities)**	193	4
Total Group interest-bearing loans and borrowings	**393**	70

* The Group issued a £300m Sustainability bond in May 2019. The bond is repayable in May 2024 and has an interest rate of 5.125%. The Co-operative Group Limited also completed a tender offer in May 2019 on the 2020 6.875% bond. This saw the Group buy back £274m (of the principal balance of £285m) from bond holders for cash consideration of £290m.

** The Group has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 214.

Notes to the financial statements continued

21 Interest-bearing loans and borrowings - continued

See note 30 for more information about the Group's exposure to interest rate and foreign currency risk, and a breakdown of the Group's borrowings by the three-level fair value hierarchy (which reflects different valuation techniques) as defined within IFRS 13 (Fair Value Measurement).

Reconciliation of movement in net debt

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

For period ended 4 January 2020	Start of period £m	Impact on adoption of IFRS 16* £m	Acquisition of Subsidiary £m	Non-cash movements £m	Cash flow £m	End of period £m
Interest-bearing loans and borrowings:						
- current	**(66)**	**-**	**-**	**(182)**	**48**	**(200)**
- non-current	**(976)**	**-**	**-**	**176**	**(3)**	**(803)**
Lease liabilities*						
- current	**(4)**	**(177)**	**-**	**(127)**	**115**	**(193)**
- non-current	**(28)**	**(1,273)**	**-**	**24**	**-**	**(1,277)**
Total Debt	**(1,074)**	**(1,450)**	**-**	**(109)**	**160**	**(2,473)**
Group cash:						
- cash & overdrafts	**278**	**-**	**-**	**-**	**30**	**308**
Group Net Debt	**(796)**	**(1,450)**	**-**	**(109)**	**190**	**(2,165)**
Less fair value / amortised cost adjustment	**46**	**-**	**-**	**1**	**(14)**	**33**
Group Net Debt before fair value / amortised cost adjustment	**(750)**	**(1,450)**	**-**	**(108)**	**176**	**(2,132)**

For period ended 5 January 2019 (restated**)	Start of period £m	Impact on adoption of IFRS 16* £m	Acquisition of Subsidiary £m	Non-cash movements £m	Cash flow £m	End of period £m
Interest-bearing loans and borrowings:						
- current	(32)	-	(57)	(14)	37	(66)
- non-current	(1,130)	-	(9)	142	21	(976)
Finance Lease liabilities*						
- current	(2)	-	-	-	(2)	(4)
- non-current	(8)	-	-	-	(20)	(28)
Total Debt	(1,172)	-	(66)	128	36	(1,074)
Group cash:						
- Cash	403	-	1	-	(126)	278
- Overdrafts	(6)	-	-	8	(2)	-
Group Net Debt	(775)	-	(65)	136	(92)	(796)
Less fair value / amortised cost adjustment	138	-	-	(92)	-	46
Group Net Debt before fair value / amortised cost adjustment	(637)	-	(65)	44	(92)	(750)

* The Group has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 214.

** For more details on the restatement, refer to the general accounting policies section on page 214.

Details of the Group's bank facilities are shown in note 29.

Notes to the financial statements continued

21 Interest-bearing loans and borrowings - continued

Terms and repayment schedule

In May 2019, the Co-op tendered and bought back £274m of the 2020 £450m 6.875% bond. There remains £176m of nominal outstanding (with a carrying value of £183m). The 2026 £350m 7.5% bond has an original value of £350m (carrying amount of £391m). 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. On maturity both these bonds will be repaid at par.

The Group also has two subordinated debt instruments in issue - £109m 11% final repayments notes due 2025 and £20m instalment repayment notes, final payment 2025. As at 4 January 2020 the amounts outstanding are final repayment notes of £109m and the instalment repayment notes of £13m.

The Group issued a £300m Sustainability bond in May 2019. The bond is repayable in May 2024 and has an interest rate of 5.125%.

The Group renegotiated its £355m Syndicated Revolving Credit Facility (RCF) on 30 September 2019. The new RCF facility was increased to £400m and matures in September 2022 with two 12-month extension options. The new Sustainable RCF has been agreed on a sustainable basis with rates of interest linked to the Group's CO2 emission targets (such that if the agreed CO2 emission targets are not met then a sustainability fee is calculated at the rate of 0.025% per annum of the borrowing outstanding during that financial year).

During the year the £110m Nisa asset backed invoice discounting facility and the £10m 2.57% Nisa bank term loan were settled and then closed. Further details of the Group's remaining banking facilities are given in note 29.

Corporate investor shares

Corporate investor shares represent borrowings the Group has with other co-operative societies. The rate of interest payable on the borrowings is determined by reference to the London Interbank Offered Rate (LIBOR). The borrowings are split into Variable Corporate Investor Shares (VCIS) and Fixed Corporate Investor Shares (FCIS). The VCIS are repayable on demand and the rate of interest that is charged is fixed across all societies based on a policy of LIBOR minus 0.5% with a minimum of 0.25%. The FCIS are fixed term borrowings at fixed rates of interest (currently 1%). Corporate investor shares may be issued to existing corporate members who hold fully paid corporate shares and are registered under the Co-operative and Communities Benefit Act 2014.

Accounting policies

The Group measures its interest-bearing loans and borrowings in two main ways:

1) Fair value through the income statement. Debt is restated as its fair value each period with the fair value movement going through the income statement. The hedged portion of the Eurobond quoted debt is accounted for in this way. This is because the Group has used interest rate swaps to hedge the impact of movements in the interest rate and the movement in the fair value of the quoted debt is partially offset by the fair value movement in the interest rate swaps (notes 6, 7 and 30). The un-hedged portion of the Eurobond quoted debt is accounted for at amortised cost in accordance with IFRS 9.

2) Amortised cost. Borrowings are recognised initially at fair value, which equates to issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. The effective interest rate is calculated when borrowings are first taken out and is the rate that exactly discounts the estimated future cash payments associated with the borrowings to the value when they are initially recognised.

For more general information on accounting policies on financial instruments, refer to note 30.

Notes to the financial statements continued

22 Trade and other payables

What does this show? This note shows how much we owe, and includes amounts we owe to suppliers for goods and services we've bought, as well as taxes we owe and other sundry liabilities.

	2019 £m	2018 (restated*) £m
Current	**1,520**	1,469
Non-current	**183**	214
	1,703	1,683

	2019 £m	2018 (restated*) £m
Trade payables	**1,035**	888
Value Added Tax, PAYE and social security	**41**	19
Accruals and deferred income	**128**	206
Member payments payable	**-**	3
Deferred consideration	**65**	105
Other payables	**434**	462
	1,703	1,683

*For more details on the restatement, refer to the general accounting policies section on page 214.

Further details on the maturity profile of trade and other payables of the Trading Group can be found in note 29.

Deferred consideration includes £65m (2018: £105m) in respect of the Nisa acquisition and is contingent on the level of trade that passes through Nisa.

Other payables include an amount owed to The Co-operative Bank of £131m (2018: £131m) in respect of historic group relief. See note 8 for further details.

Other payables also include £26m (2018: £25m) of rewards earned through our membership offer that have either not been redeemed by members (5%) or have not yet been paid out to local causes (1%). During the year £2m (2018: £3m) of member reward earned (5%) has been written back to the income statement in line with a prudent assessment of the likelihood that members won't redeem their rewards.

The Group operates a supplier financing arrangement with HSBC, under which suppliers can obtain accelerated settlement on invoices from the finance provider. The Group settles these amounts in accordance with each suppliers agreed payment terms. The Group's trade creditors balance includes £38m (2019: £24m) relating to payments due to Co-op suppliers under these arrangements. During the year ended 4 January 2020, the maximum facility was £45m.

Accounting policies: Refer to note 30 Financial instruments for the accounting policies relating to trade payables.

23 Contract liabilities

What does this show? When a customer buys a funeral plan from us we invest the money they give us and we recognise that we have an obligation to provide a funeral in the future. We include a liability on our balance sheet for this until the funeral is performed, at which point we recognise the revenue in our income statement. This note shows these liabilities and how they have changed during the period.

	2019 £m	2018 £m
Contract liabilities - Funeral plans	**1,572**	1,485
Current	**137**	132
Non-current	**1,435**	1,353
	1,572	1,485

Contract liabilities - Funeral plans comprise £1,272m (2018: £1,224m) relating to fully paid plans, £145m (2018: £116m) on instalment plans and £155m (2018: £145m) of deferred income. Included in the balances above are Low Cost Instalment Funeral Plans (LCIP) of £143m (2018: £69m). This relates to 32,315 live plans (2018: 14,566 live plans). See note 30 for accounting policy for LCIPs.

Contract Liabilities:	2019 £m	2018 £m
Opening contract liabilities	**1,485**	1,283
New plan additions	**154**	213
Deferred income on funeral liabilities	**11**	92
Plans cancelled or redeemed outside of the society	**(13)**	(18)
Recognised as revenue in the period	**(65)**	(85)
Closing contract liabilities	**1,572**	1,485

Notes to the financial statements continued

24 Provisions

What does this show? We recognise a provision when a liability has been incurred but there is some uncertainty about when the liability will be settled or how much it may cost us. This note provides an analysis of our provisions by type, and shows how the value of each provision has changed during the period.

	2019 £m	2018 £m
Non-current	**95**	215
Current	**62**	82
	157	297

2019

	Uninsured claims £m	Property provisions £m	Restructuring & integration £m	Regulatory / other £m	2018 Total £m
At beginning of the period	**49**	**204**	**30**	**14**	**297**
Impact on adoption of IFRS 16*	**-**	**(72)**	**-**	**-**	**(72)**
Credit to income statement	**(14)**	**2**	**(13)**	**(2)**	**(27)**
Charge to income statement	**23**	**12**	**-**	**3**	**38**
Discounting	**-**	**4**	**-**	**-**	**4**
Payments	**(20)**	**(56)**	**(6)**	**(1)**	**(83)**
At end of the period	**38**	**94**	**11**	**14**	**157**

2018

	Uninsured claims £m	Property provisions £m	Restructuring & integration £m	Regulatory / other £m	2018 Total £m
At beginning of the period	59	201	29	21	310
Credit to income statement	(10)	(8)	-	(2)	(20)
Charge to income statement	25	34	8	16	83
Discounting	-	11	-	-	11
Payments	(25)	(34)	(7)	(21)	(87)
At end of the period	49	204	30	14	297

* The Group has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 214.

Critical accounting estimates and judgements

Uninsured claims (excluding CISGIL)

This provision relates to potential liabilities arising from past events which are not covered by insurance. It includes a wide variety of known claims and potential claims from accidents in our depots and stores. The provision includes an assessment, based on historical experience, of claims incurred but not reported at the period end. The claims are expected to be settled substantially over the next three years.

Property provisions

Property provisions are held for running costs, excluding rental costs, of leasehold properties that are vacant or not planned to be used for ongoing operations. Property provisions are expected to be utilised over the remaining periods of the leases which range from 1 to 97 years. Note that under IFRS 16, Right-of-use assets are recognised on balance sheet and are depreciated and subject to impairment, this is in place of recording a rental expense through the income statement. See note 12 for further detail.

In 2018, prior to the adoption of IFRS 16, property provisions also included the rental costs of vacant properties that are no longer used. The provision was estimated on the basis of the minimum amount which could be paid to landlords to exit the lease agreements. This was based on an underlying calculation on a property by property basis with reference to the head lease cost and term and also took account of property holding costs (such as business rates) and any estimated rental income (from subletting the properties and assuming that rental streams end at the next most likely break point) and discounted to reflect the present value of the related costs.

Notes to the financial statements continued

24 Provisions - continued

Restructuring and integration
Provisions totalling £88m were made in 2013 and 2014 in respect of the expected costs of separating Group IT and other change management systems from The Co-operative Bank. £66m of the provision had been utilised by the start of the period and a further £3m has been used during the period and £13m has been released as a credit to the Income statement leaving a remaining provision of £6m. Costs for these provisions are expected to be incurred within the next year.

Regulatory / other
This provision relates to costs from a number of past events that are expected to be incurred within the next one to three years. Typically these cover potential legal or regulatory claims.

Accounting policies

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

Notes to the financial statements continued

Section D - other notes to the accounts

This section (notes 25 - 38) contains additional notes to the accounts.

25 Members' share capital and reserves

What does this show? This note shows the amounts our members have paid to become owners of the business and provides information on their rights as shareholders. It also shows our reserves which, together with our share capital, form the total capital resources of the business.

	2019 £m	2018 (restated*) £m
Individual shares of £1 and 10p each	**64**	64
Corporate shares of £5 each	**9**	9
Share Capital	**73**	73
Other Reserves	**89**	86
Retained Earnings	**2,654**	2,902
Total Retained Earnings and Other Reserves	**2,743**	2,988
Total Capital Resources	**2,816**	3,061

* For more details on the restatement, refer to the general accounting policies section on page 214.

Members' share capital (Issued and paid-up value)

Members' share capital is made up of corporate and individual shares. The rights attached to shares are set out in the Society's rules. Shares held by Independent Society Members (corporate shares) are not withdrawable and are transferable only between Independent Society Members with the consent of the Society's Board. Shares held by individual members (individual shares) are withdrawable on such period of notice as the Society's Board may from time to time specify. IFRIC 2 (Members' Shares in Co-operative Entities and Similar Instruments) determines the features that allow shares to be classified as equity capital. As the Board has an unconditional right to refuse redemption of both classes of shares, both corporate and individual shares are treated as equity shares.

Both classes of share maintain a fixed nominal value with corporate shares attracting a limited rate of interest. Under the Society's current rules, voting for Independent Society Members is in proportion to trade with the Society, with Independent Society Members totalling 21.9% (2018: 21.9%) of the vote at the Annual General Meeting. Each individual member has one vote with individual members totalling 78.1% (2018: 78.1%) of the vote at the Annual General Meeting.

For individual shares, new members are required to contribute a minimum of £1 when they join the Society. Each member has 1 individual share although contributions of up to £100,000 per member are allowed. No interest is earned on member capital. Members can withdraw money from their share account upon request (to a minimum of £1) or they can withdraw their £1 when they leave the Society. Share capital increased by £0.4m in the period being the net of new member contributions of £0.5m and withdrawals of £0.1m. There are 16.0m individual member records on the share register.

Notes to the financial statements continued

25 Members' share capital and reserves - continued

Other reserves

	Reclaim Fund £m	Revaluation Reserve £m	Investments held at FVOCI £m	Total £m
Balance at 5 January 2019	**74**	**3**	**9**	**86**
Gains less losses on fair value of insurance assets	**-**	**-**	**8**	**8**
Fair value gains on insurance assets transferred to the income statement	**-**	**-**	**(2)**	**(2)**
Revaluation reserve transferred to retained earnings	**-**	**(2)**	**-**	**(2)**
Tax on items taken directly to other comprehensive income	**-**	**-**	**(1)**	**(1)**
Balance at 4 January 2020	**74**	**1**	**14**	**89**

	Reclaim Fund £m	Revaluation Reserve £m	Investments held at FVOCI £m	Total £m
Balance at 6 January 2018	74	10	17	101
Gains less losses on fair value of insurance assets	-	-	(8)	(8)
Fair value gains on insurance assets transferred to the income statement	-	-	(1)	(1)
Revaluation reserve transferred to retained earnings	-	(7)	-	(7)
Tax on items taken directly to other comprehensive income	-	-	1	1
Balance at 5 January 2019	74	3	9	86

Reclaim Fund capital reserve
This reserve comprises the surplus held within the Reclaim Fund Limited. The surplus has not been transferred to retained earnings because the profits are ultimately payable to the National Lottery Community Fund and are therefore not available for distribution by the Group. Further details of the balance sheet items can be found in note 35.

Revaluation reserve - property, plant and equipment
This reserve relates to the surplus created following the revaluation of certain assets in the Trading Group in previous periods. Any surplus relating to a revalued asset is transferred to retained earnings at the point the asset is disposed of.

Investments held at fair value through other comprehensive income (FVOCI)
CISGIL mainly holds debt securities as investments at fair value through other comprehensive income. Subsequent valuation is at fair value with differences between fair value and carrying value recognised in other comprehensive income as they arise.

Distribution of reserves in the event of a winding-up
The Society's rules state that any surplus in the event of a winding-up shall be transferred to one or more societies registered under the Co-operative and Communities Benefit Act 2014. Such societies must be a member of Co-operatives UK Limited and have the same or similar rule provisions in relation to surplus distribution on a dissolution or winding-up as we have. If not transferred to another society in this way, the surplus shall be paid or transferred to Co-operatives UK Limited to be used and applied in accordance with co-operative principles.

Capital management
The Group defines capital as its share capital and reserves. The Group's policy is to maintain a strong base and to be more prudent than industry 'normal' levels as it is not able to raise equity externally. The Group still recognises the need to maintain a balance between the potential higher returns that might be achieved with greater borrowing levels and the advantages and security coming from a sound capital position.

The Trading Group manages capital to make sure we have the right balance between investing in the future growth of the Group and making member and community payments. Following the launch of the 5% and 1% membership offer in 2016, the Group has made payments to members and communities of £68m in 2019 (2018: £72m). See note 36 for more details. It has also invested in future growth through cash capital expenditure additions of £407m (2018: £385m) and still kept within its net debt limits. Total member funds decreased during the period by £245m (2018: decreased £54m).

Financial Services is mainly the Insurance business, CISGIL, which is a regulated entity. Its submissions to the regulators in the period have shown that this entity's individually regulated operations have complied with all externally imposed solvency requirements throughout the period.

Notes to the financial statements continued

26 Investment properties

What does this show? We own properties that we don't occupy or trade from and which we rent out to generate income or hold for capital growth. These properties are revalued at each period end and this note shows how that valuation has changed during the year as well as showing other changes in our investment property holdings.

	2019 £m	2018 £m
Valuation at beginning of period	**42**	68
Disposals	**(52)**	(55)
Transfer to held for sale (note 19)	**-**	(9)
Transfer to property, plant and equipment (note 11)	**(1)**	-
Revaluation gain recognised in income statement	**27**	38
Valuation at end of period	**16**	42

Accounting policies
Properties held for long term rental yields that are not occupied by the Group or properties held for capital growth are classified as investment property. Investment properties are freehold land and buildings and are carried at fair value as determined by independent valuers each year in accordance with the RICS Appraisal and Valuation Manual. Fair value is based on current prices in an active market for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the income statement.

If we start to occupy or trade from one of our investment properties, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes. Other disclosures required by IAS 40 (Investment Properties) are not considered to be material.

Notes to the financial statements continued

27 Pensions

What does this show? This note provides information about our pension schemes. It explains the types of pension scheme we have, the assets and liabilities they hold, the assumptions used in valuing the pension schemes and the key risks faced in connection with the schemes.

	2019 **£m**	2018 £m
Pension schemes in surplus	**1,973**	1,984
Pension schemes in deficit	**(109)**	(125)
Closing net retirement benefit	**1,864**	1,859

Defined benefit (DB) plans
The Group operates five funded DB pension schemes all of which are closed to future accrual. This means that colleagues can no longer join or earn future benefits from these schemes. The assets of these schemes are held in separate trustee-administered funds to meet future benefit payments.

The Group's largest pension scheme is the Co-operative Group Pension Scheme ('Pace') which accounts for approximately 80% of the Group's pension assets. The DB section of Pace ('Pace Complete') closed to future service accrual on 28 October 2015. Further information about Pace is set out below.

Defined contribution (DC) plans
Since the closure of the DB schemes, the Group provides all colleagues with DC pension benefits through the DC section of Pace. Colleagues are able to select the level of contributions that they wish to pay. The contribution paid by the Group varies between 1% and 10% of pensionable salary depending on the contribution tier that the scheme member has selected.

Contributions are based on the scheme member's basic pay plus any earnings in respect of overtime, commission and shift allowance.

The Pace DC section provides benefits based on the value of the individual colleague's fund built up through contributions and investment returns. The Group has no legal or constructive obligation to pay contributions beyond those set out above. There is therefore no balance sheet items for DC pension benefits except for any accrued contributions.

Balance sheet position for DB plans
The table below summarises the net surplus in the balance sheet by scheme:

	Net 2019 **£m**	Net 2018 £m
Schemes in surplus		
The Co-operative Group Pension Scheme (Pace)	**1,869**	1,821
Somerfield Pension Scheme	**104**	163
Yorkshire Co-operatives Limited Employees' Superannuation Scheme*	**-**	-
Total schemes in surplus	**1,973**	1,984
Schemes in deficit		
United Norwest Co-operatives Employees' Pension Fund	**(73)**	(82)
Yorkshire Co-operatives Limited Employees' Superannuation Scheme*	**-**	(5)
The Plymouth and South West Co-operative Society Limited Employees' Superannuation Fund	**(31)**	(32)
Other unfunded obligations	**(5)**	(6)
Total schemes in deficit	**(109)**	(125)
Total schemes	**1,864**	1,859

*The Yorkshire Scheme is in surplus in 2019 (2018: deficit) although in both years the figures net to £nil in the tables above.

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.

Notes to the financial statements continued

27 Pensions continued

Events arising during the year - Somerfield Bulk Annuity
During the year, the Trustees of the Somerfield Pension Scheme entered into a pension insurance buy-in contract with Pension Insurance Corporation (PIC) for £425m. As a result of this transaction, the scheme will receive regular payments from PIC to fund all future pension payment for the majority of current pensioners.

The methodology used to value this transaction has resulted in a decrease in the value of the accounting surplus in the Somerfield Pension Scheme of approximately £46m. As the insurance contract is an asset of the scheme and the scheme has retained all responsibility to meet future pension payments to pensioners, this has not been recognised as a settlement and consequently the £46m has been recognised as a charge through Other Comprehensive Income.

Pace - nature of scheme
As Pace represents around 80% of the Group's pension assets, further information has been included on Pace below. As all of the DB schemes will be exposed to similar risks to Pace, we have not provided additional commentary on each scheme.

Pace - funding position
A valuation of Pace Complete was carried out as at 5 April 2016, in accordance with the scheme specific funding requirements of the Pensions Act 2004. The results of the valuation showed that Pace Complete had a surplus of £251m. The Group agreed on completion of the actuarial valuation in November 2017 that contributions to Pace Complete would cease with effect from 1 December 2017. A new valuation has fallen due at 5 April 2019 and is expected to be completed during 2020.

Pace - multi-employer provisions following sectionalisation
Pace is a multi-employer scheme but following sectionalisation of the scheme in 2018, the Group accounts only for the Co-op section of Pace. CFSMS, a subsidiary of the Group, participates in the Co-op's section with a material share of accrued DB obligations. There are other participating employers in the Group section which include Group subsidiaries, non-associated and associated entities, but these do not have a material share. Non-associated entities account for pension contributions in respect of the scheme on a DC basis.

As a multi-employer pension scheme, Pace exposes the participating employers to the risk of funding the pension obligations associated with the current and former colleagues of other participating employers.The sectionalisation of Pace removes the Bank's 'last man standing' obligation to the rest of the Pace scheme but an obligation on the Group to support the pension liabilities of the Bank section could arise in limited circumstances if the Bank were to not meet its own section's pension liabilities.

Legislative framework for DB schemes - pension scheme governance
As required by UK legislation, the Group's five DB schemes are run by Trustee boards which operate independently from the Group. The Trustees are responsible for the development and implementation of appropriate policies for the investment of the scheme assets and for negotiating scheme funding with the Group. The Trustees consult with the Group in developing investment strategy and delegates the responsibility for implementing and monitoring the strategy to Investment Committees.

Each Trustee board has at least one professional Trustee and there is also a requirement for the boards to have some member representation. The Pace Trustee Board is made up of three professional independent Trustee Directors appointed by the Group and a further professional IndependentTrustee Director appointed by the Bank. Other Trustee Boards are made up of professional independent Trustee Directors, Co-op appointed Trustee Directors and Member Nominated Directors elected by scheme members. The Chair is appointed by the Trustee Directors.

Legislative framework for DB schemes - scheme funding regime

Under the scheme specific funding regime established by the Pensions Act 2004, trustees of DB pension schemes have to undertake a full actuarial valuation at least every three years. The purpose of the valuation is to determine if the scheme has sufficient assets to pay the benefits when these fall due. The valuation targets full funding (scheme assets equal to the value of pension liabilities) against a basis that prudently reflects the scheme's risk exposure. The basis on which DB pension liabilities are valued for funding purposes differs to the basis required under IAS19. The Group may therefore be required to pay contributions to eliminate a funding shortfall even when a surplus is reported in the IAS19 disclosure.

Any shortfall in the assets directly held by the Group's DB schemes, relative to their funding target, is financed over a period that ensures the contributions are reasonably affordable to the Group.

Despite contributions to Pace ceasing (see above), the expected deficit recovery contributions to all pension schemes over the 2019 financial year is £50m. The average duration of the liabilities is approximately 22 years. The benefits expected to be paid from the Schemes take the form of a cash lump sum paid at retirement followed by a stream of pension payments.

The effective date of the last full valuations of the schemes are shown below:	
The Co-operative Pension Scheme ('Pace')	5 April 2016
Somerfield Pension Scheme ('Somerfield Scheme')	31 March 2016
United Norwest Co-operatives Employees' Pension Fund ('United Fund')	31 January 2017
Plymouth and South West Co-operative Society Limited Employees' Superannuation Fund ('Plymouth Fund')	31 March 2016
Yorkshire Co-operatives Limited Employees' Superannuation Fund ('Yorkshire Fund')	31 January 2017

Notes to the financial statements continued

27 Pensions continued

Events arising after the year - Pace Bulk Annuities
The following events occurred post year and as such the financial impact is not accounted for in the 2019 year end figures. In early 2020 The Trustees of the Co-operative Group Pension Scheme (Pace) entered into pension insurance buy-in contracts with Aviva, in January 2020 and Pension Insurance Corporation (PIC), in February 2020, each worth c£1,000m. As a result of this transaction, the scheme will receive regular payments from Aviva and PIC to fund all future pension payments for c14,000 current pensioners.

As for the Somerfield buy-in contract, the methodology used to value this transaction will result in a decrease in the value of the surplus in the Pace Scheme. As the insurance contracts are assets of the scheme and the scheme has retained all responsibility to meet future pension payments to pensioners this will not be recognised as a settlement and consequently the decrease in value will be recognised as a charge through Other Comprehensive Income at the 2020 year end.

Risks associated with DB pension schemes
The liability associated with the pension schemes is material to the Group, as is the cash funding required. The Group and Trustees work together to address the associated pension risk - in particular, steps have been taken to significantly reduce the investment risk in the schemes.

The key risks in relation to the DB schemes are set out below, alongside a summary of the steps taken to mitigate the risk:

Risk description	Mitigation
Risk of changes in contribution requirements - When setting the contributions that are paid to a scheme, the Group and Trustee are required to consider the funding level at a specified valuation date. The funding level at future valuation dates is uncertain and this leads to uncertainty in future cash requirements for the Group.	The closure of the DB schemes has reduced the exposure of the Group to changes in future contributions. In addition, the Group and Trustee have taken steps to reduce the volatility of the funding level (as set out below). The Group monitors the funding level of the schemes in order to understand the likely outcome of valuations and the Trustee is required to obtain agreement from the Group to funding assumptions and deficit recovery contributions.
Interest rate risk - Pension liabilities are measured with reference to yields on bonds, with lower yields increasing the liabilities. The schemes are therefore exposed to the risk of falls in interest rates.	All of the schemes invest in liability driven investment (LDI) products which increase (decrease) in value when yields on government bonds fall (rise), providing protection against interest rate risk. Across all schemes, approximately 90% of the liability is currently protected from movements in yields on government bonds. LDI involves investing in assets which are expected to generate cashflows that broadly mirror expected benefit payments from the scheme.
Risk associated with volatility in asset value - The market value of the assets held by the pension schemes, particularly the assets held in return-seeking assets such as equity, can be volatile. This creates a risk of short-term fluctuations in funding level.	This risk has been mitigated by reducing the exposure of the pension schemes to those asset classes which have the most volatile market values. In particular, the schemes have limited allocation to return-seeking assets such as equity.
Inflation risk - Many of the benefits paid by the schemes are linked to inflation. Therefore, the pension liabilities reflect expectations of future inflation with higher inflation leading to higher liabilities.	All of the schemes invest in liability driven investment products which increase (decrease) in value when expectations of future inflation rates increase (fall), thus providing protection against inflation risk. Across all schemes, approximately 90% of the liability is currently protected from movements in inflation.
Risk associated with changes in life expectancy - Pensions paid by the schemes are guaranteed for life, and therefore if members are expected to live longer, the liabilities increase.	All of the schemes' funding targets incorporate a margin for prudence to reflect uncertainty in future life expectancy. During Q1 2019, the Group reduced its exposure to longevity risk in the Somerfield Pension Scheme via a pensioner annuity transaction. Whilst it doesn't have an impact on the figures in this year end, during Q1 2020 the Group has further reduced its exposure to longevity risk in Pace Scheme via two separate pensioner insurance buy-in contracts.

Critical accounting estimates
For IAS 19 disclosure purposes, DB obligations are determined following actuarial advice and are calculated using the projected unit method. The assumptions used are the best estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice.

Financial assumptions

	2019	2018
Discount rate	**1.97%**	3.02%
RPI Inflation rate	**3.18%**	3.46%
Pension increases in payment (RPI capped at 5% p.a.)	**3.11%**	3.35%
Future salary increases	**3.43%**	3.71%

The discount rate has been derived by reference to market yields on sterling-denominated high quality corporate bonds of appropriate duration consistent with the schemes at that date.

Notes to the financial statements continued

27 Pensions continued

Demographic assumptions
The Group has used best estimate base mortality tables which reflect the membership of each scheme. Allowance has been made for future improvements in line with the Continuous Mortality Investigation (CMI) 2018 projections and a long-term future improvement rate of 1.25% p.a. (2018: CMI 2017 1.25% p.a.).

For illustration, the average life expectancy (in years) for mortality tables used to determine scheme liabilities for Pace is as follows. These are broadly similar to the life expectancies used for other schemes.

Life expectancy from age 65	2019	2018
Male currently aged 65 years	**20.9**	21.9
Female currently aged 65 years	**23.2**	23.5
Male currently aged 45 years	**22.0**	23.3
Female currently aged 45 years	**24.5**	25.1

Sensitivities
The measurement of the Group's DB liability is particularly sensitive to changes in certain key assumptions, which are described below. The methods used to carry out the sensitivity analysis presented below for the material assumptions are the same as those the Group has used previously. The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remained the same. This approach is not necessarily realistic, since some assumptions are related: for example, if the scenario is to show the effect if inflation is higher than expected, it might be reasonable to expect that nominal yields on corporate bonds will also increase. However, it enables the reader to isolate one effect from another. It should also be noted that because of the interest rate and inflation hedges, changes in the liability arising from a change in the discount rate or price inflation would be expected to be largely mitigated by a change in assets.

	2019	2018
Change in liability from a 0.1% increase in discount rate	**(200)**	(168)
Change in liability from a 0.1% increase in RPI inflation	**(154)**	128
Change in liability from a 0.25% increase in long-term rate of longevity improvements	**128**	96

Changes in the present value of the defined benefit obligation (DBO)	2019 £m	2018 £m
Opening defined benefit obligation	**8,412**	8,985
Interest expense on DBO	**247**	231
Remeasurements:		
a. Effect of changes in demographic assumptions	**(357)**	(50)
b. Effect of changes in financial assumptions	**1,464**	(474)
c. Effect of experience adjustments	**(37)**	47
Benefit payments from plan	**(425)**	(518)
Refinement of scheme liabilities attributable to Co-operative Bank	**-**	202
Past service items	**-**	(11)
Closing defined benefit obligation	**9,304**	8,412

Notes to the financial statements continued

27 **Pensions** continued

Changes in the fair value of the plan assets	**2019 £m**	2018 £m
Opening fair value of plan assets	**10,271**	10,538
Interest income	**304**	272
Return on plan assets (excluding interest income)	**972**	(299)
Administrative expenses paid from plan assets	**(4)**	(5)
Employer contributions	**50**	50
Benefit payments from plan	**(425)**	(518)
Refinement / (derecognition) of plan assets attributable to The Co-operative Bank	**-**	233
Closing fair value of plan assets	**11,168**	10,271

The fair value of the plan assets at the period end were as follows. The assets have been split to show those which have a quoted market price in an active market and those which are unquoted.

	2019 Quoted £m	**2019 Unquoted £m**	**2019 Total £m**	2018 Quoted £m	2018 Unquoted £m	2018 Total £m
Equity instruments	**265**	**-**	**265**	206		206
Liability driven investments	**4,974**	**-**	**4,974**	4,895	-	4,895
Real estate	**31**	**-**	**31**	63	-	63
Investment grade credit	**3,689**	**-**	**3,689**	3,376	-	3,376
Illiquid / other credit	**-**	**1,385**	**1,385**	-	1,334	1,334
Alternative investments	**-**	**368**	**368**	-	330	330
Cash and cash equivalents	**421**	**35**	**456**	67	-	67
	9,380	**1,788**	**11,168**	8,607	1,664	10,271

Amounts recognised in the balance sheet	**2019 £m**	2018 £m
Present value of funded obligations	**(9,299)**	(8,406)
Present value of unfunded liabilities	**(5)**	(6)
Fair value of plan assets	**11,168**	10,271
Net retirement benefit asset	**1,864**	1,859

Amounts recognised in the income statement and other comprehensive income	**2019 £m**	2018 £m
Interest expense on defined benefit obligations	**(247)**	(231)
Interest income on plan assets	**304**	272
Administrative expenses and taxes	**(4)**	(5)
Past service items	**-**	11
Total recognised in the income statement	**53**	47
Remeasurement gains on employee pension schemes	**(99)**	178
Refinement / (derecognition) of pension surplus attributable to Co-operative Bank	**-**	31
Total recognised in other comprehensive income	**(99)**	209
Total	**(46)**	256

Past service items of £nil (2018: £11m) are included within one-off gains of £nil (2018: £9m) in note 1.

Notes to the financial statements continued

27 Pensions continued

Accounting policies

The Group operates various defined contribution and defined benefit pension schemes for its colleagues as stated above. A defined contribution scheme is a pension plan under which the Group pays pre-specified contributions into a separate entity and has no legal or constructive obligation to pay any further contributions. A defined benefit scheme is a pension plan that defines an amount of pension benefit that a colleague will receive on retirement. In respect of the defined benefit pension scheme, the pension scheme surplus or deficit recognised in the balance sheet represents the difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date. The calculation of the defined benefit obligations is performed annually by qualified actuaries (and half-yearly for Pace) using the projected unit credit method. Plan assets are recorded at fair value. When the calculation results in a potential asset for the Group, the recognised asset reflects the present value of the economic benefits that will arise from the surplus in the form of any future refunds from the plan or reductions in future contributions to the plan. Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Remeasurements of the surplus / liability of each scheme (which comprise actuarial gains and losses and asset returns excluding interest income) are included within other comprehensive income. Net interest expense and other items of expense relating to the defined benefit plans are recognised in the income statement. Administrative costs of the plans are recognised in operating profit. Net interest expense is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined asset / liability at that point in time taking into account contributions within the period.

Notes to the financial statements continued

28 Insurance contracts liabilities and reinsurance assets

What does this show? This note provides information about the liabilities of our Insurance business and the key assumptions that have been made in assessing those liabilities. It also provides information on reinsurance of the liabilities.

Co-op Insurance has been classified as a discontinued operation from 2018 as the sale of the business was highly probable at the 2018 and 2019 year end dates. The assets and liabilities have been remeasured at fair value less costs to sell and are shown separately in the balance sheet and disclosed in note 19 (Assets and liabilities held for sale). Further detail is given in note 9 (Loss on discontinued operations, net of tax) including a line-by-line balance sheet detailing the impact of the remeasurement adjustments to fair value less costs to sell and the carrying value of all insurance assets and liabilities held for sale.

	2019		2018	
	Gross insurance liability £m	Reinsurance asset £m	Gross insurance liability £m	Reinsurance asset £m
At the beginning of the period	735	(54)	750	(58)
Claims paid during the period	(418)	95	(408)	84
Increase / (decrease) arising from current period claims	433	(119)	421	(108)
Increase / (decrease) arising from prior period claims	(14)	7	(30)	11
Quota share*	-	14	-	17
Increase / (decrease) in unearned premiums	3	(4)	2	-
	739	(61)	735	(54)
Comprising:				
– Claims reported	394	(115)	404	(107)
– Claims incurred but not reported	85	(22)	75	(13)
– Claims settlement expenses	12	-	12	-
Unexpired risk expense	2	-		
– Provision for unearned premiums	246	(4)	244	-
– Quota share*	-	80	-	66
	739	(61)	735	(54)
Non-current	281	25	362	20
Current	458	36	373	34
	739	61	(735)	(54)

*Amounts recoverable from reinsurers in relation to the quota share agreement are not recorded as gross reinsurance assets in the balance sheet. This is because they are offset against amounts payable under the quota share agreement.

i) Basis of assessing liabilities

CISGIL uses a combination of recognised actuarial and statistical techniques to assess the ultimate cost of claims. These include:

- Projecting historic claims payment and recoveries data;
- Projecting numbers of claims;
- Deriving average costs per claim to apply to claim numbers; and
- Projecting historic claims paid and incurred data (payment plus estimates) – statistical actuarial techniques including chain ladder, Bornhuetter Ferguson and Cape Cod.

The work is undertaken and supervised by suitably qualified personnel. Claims provisions are separately computed for each claim type such as bodily injury, accidental damage, storm, flood and subsidence. All provisions are calculated with explicit allowance for reinsurance and subrogation recoveries. Provisions are not discounted for investment return other than any required additional provision for unexpired risks, periodic payment settlements and provisions relating to exposure within the electric industry.

Discounted reserves in respect of periodic payment settlements are £48m net (2018: £50m net) and historic liability claims from the electric industry discounted reserve amounts to £2m (2018: £3m). Further details around expected settlement patterns for claims arising on these reserves are disclosed within the insurance risk section in note 29.

The historic liability claims from the electric industry reserve was based on a report produced for the industry at the end of 2018 by Towers Watson, an actuarial consultancy. This gave Towers Watson's estimate of both the undiscounted and discounted incurred but not reported (IBNR) reserves as at the end of June 2018. This was the most recent report available when CISGIL calculated its year end 2019 reserves.

Notes to the financial statements continued

28 Insurance contracts liabilities and reinsurance assets continued

i) Basis of assessing liabilities continued

As outlined within the risk management section, there is significant uncertainty in the assessment of liabilities, and provisions are set to be adequate to cover the anticipated eventual cost. A management margin is added to the 'actuarial best estimate' so that no adverse run-off deviations are envisaged. Sensitivity analysis is performed to assist the selection of key parameters and, therefore, the provisions adopted. Provisions are subject to detailed review regarding the appropriateness of key assumptions and the level of the provisions established.

The overall objective of CISGIL's reserving policy is to produce reliable and accurate reserves. Assumptions underlying the reserving calculations are agreed by the Quarterly Reserving Committee (QRC). Methodologies are peer reviewed throughout the calculation process. Provisions are approved and signed off by the Chief Actuary in consultation with the QRC, and any margin above the actuarial best estimate reserve is set by the Chief Financial Officer (CISGIL).

Periodic reports are produced by the actuarial team and presented to the Periodic Reserving Committee in order to advise management of the performance of the business. More detailed reports are produced on a quarterly basis providing information on the performance of the business against plan. These reports are presented to and form the basis of reporting the performance to the CISGIL Board.

ii) Sensitivity analysis

There is greater uncertainty over motor claims provisions than other provisions as they often involve claims for bodily injury and associated legal costs which typically have a longer period to settlement. Motor provisions represent the most significant proportion of the total general insurance outstanding claims liabilities (gross of salvage and subrogation). Sensitivity information is given for motor claims provisions together with limited information for all other classes. The following table indicates the effect on gross claims provisions (gross of reinsurance and salvage and subrogation) of changes in key assumptions. The impact of the increased uncertainty on the income statement risk is mitigated through holding management margin on the best estimate reserves that is proportional to the level of uncertainty.

Assumptions

		2019		2018	
	Changes in parameter	Effect on gross provision £m	% Effect	Effect on gross provision £m	% Effect
Motor					
Average cost of claims for last three years – bodily injury and legal	+10%	35	9.7%	36	10.1%
Mean term to settlement – bodily injury and legal	+½ year	8	2.2%	8	2.2%
Rate of future inflation – bodily injury and legal	1%	10	2.8%	11	3.0%
Other classes					
Mean term to settlement (liability)	+½ year	-	1.6%	-	1.9%
Mean term to settlement (non-liability)	+½ year	1	1.6%	1	1.6%
Rate of future inflation (liability)	+1%	1	5.4%	1	4.9%
Rate of future inflation (non-liability)	+1%	1	1.4%	1	1.3%

*The disclosure has been provided for 2019 and 2018 but assets and liabilities relating to the insurance division were transferred to a disposal group during the course of 2018. See note 9.

Notes to the financial statements continued

28 Insurance contracts liabilities and reinsurance assets continued

Insurance accounting policies

Contracts under which CISGIL accepts significant insurance risk from another party (the policyholder), by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. A contract that qualifies as insurance remains an insurance contract until all the risks and obligations are extinguished or expire.

All contracts of general insurance business written by CISGIL are classified as insurance contracts. General insurance business is accounted for on an annual basis.

i) Premiums

Gross written premiums comprise premiums receivable on those contracts which started during the financial year, irrespective of whether they relate in whole or in part to a later accounting period, together with any adjustments in the accounting period relating to premium receivable in respect of business written in prior periods

Gross written premiums:

- are stated gross of commission and exclude any taxes or levies based on premiums;
- include an estimate for cancellations for those renewal contracts which started prior to the period end but which may be cancelled after the balance sheet date; and
- include an estimate of pipeline premium.

Gross written premium (whether paid in advance or by instalments) is earned evenly over the period of the contract.

ii) Unearned premium provision

For general insurance business, the proportion of written premiums relating to periods of risk beyond the year period is carried forward to future accounting periods. The relevant proportion is calculated using the daily pro rata basis. Outward reinsurance premiums are treated as earned in accordance with the profile of the reinsured contracts.

iii) Claims incurred

Insurance claims incurred comprises claims paid during the year, together with related handling costs and the change in the gross liability for claims in the period net of related recoveries including salvage and subrogation.

iv) Claims outstanding

Claims outstanding comprises provisions representing the estimated ultimate cost of settling:

- estimates on claims reported by the balance sheet date ('claims reported'); and
- expected additional cost in excess of claims reported for all claims occurring by the balance sheet date ('claims incurred but not reported').

Aggregate claims provisions, which include attributable claims handling expenses, are set at a level such that no adverse run off deviations are envisaged. Adverse run off deviations, which are material in the context of the business as a whole, would be separately disclosed in the notes to the annual report and accounts.

Anticipated reinsurance recoveries and estimates of salvage and subrogation recoveries are disclosed separately within assets under the headings of 'Reinsurance contracts' and 'Trade Receivables' respectively.

The outstanding reserves are discounted in respect of periodical payments and a portion of liability type claims from the electric industry for which separate assets are held of appropriate term and nature.

v) Unexpired risk provision

Additional provision is made for unexpired risks where the claims and expenses, likely to arise after the end of the financial year in respect of contracts concluded before that date, are expected to exceed the unearned premiums less deferred acquisition costs carried forward for those contracts. Unexpired risk provision is calculated for each category of business. Where categories of business are managed together a combined calculation is performed. Surpluses and deficits within each category are offset within the calculation. The provision is determined after taking account of future investment return arising on investments supporting the unearned premium provision and unexpired risk provision.
Such provisions ensure that the carrying amount of unearned premiums provision less related deferred acquisition costs is sufficient to cover the current estimated future cash flows, including claims handling expenses and therefore meets the requirements of the liability adequacy test as set out in IFRS 4 (Insurance Contracts).

vi) Acquisition costs
Costs directly associated with the acquisition of new business, including commission, are capitalised and amortised in accordance with the rate at which the gross written premiums associated with the underlying contract are earned. See note 13.

vii) Reinsurance

Contracts with reinsurers that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are recognised in the same period as the related claim. Premiums, claims and receivables are presented on a gross basis in the income statement and balance sheet.

Amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet date. If objective evidence of impairment exists, reinsurance assets are reduced to the level at which they are considered to be recoverable and an impairment loss is recognised in the income statement.

Notes to the financial statements continued

29 Financial risk management

What does this show? This note explains the main financial risks we face and how we manage them. These include: credit risk, interest rate risk, foreign currency risk, liquidity risk and insurance risk. Our Insurance business (CISGIL) is separately regulated and funded to the Trading Group and so some disclosures, where material, have been separated out in the CISGIL section.

Financial risk management - Trading Group

The main financial risks facing the Group are set out below. Overall Group risks and the strategy used to manage these risks are discussed in the Principal Risks and Uncertainties section on pages 59 to 62. As the Insurance business is separately regulated and funded, a separate section explaining the financial risks facing that business is included below.

Credit risk

Credit risk arises from the possibility of customers and counterparties failing to meet their obligations. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed for all customers requiring credit over a certain amount. The Group does not require security in respect of financial assets. The majority of businesses in the Group have cash-based rather than credit-based sales and so customer credit risk is relatively small.

Investments in the Trading Group are allowed only in liquid securities and only with counterparties that have a credit rating equal to or better than the Trading Group. Transactions involving derivative financial instruments are with counterparties with whom the Trading Group has a signed netting agreement (which is an agreement which governs how transactions between two parties are offset) as well as sound credit ratings. Given the policy on credit ratings, management has no current reason to expect that any counterparty will fail to meet its obligations.

Funeral Plan funds are invested in whole-of-life insurance policies which pay out a lump sum when the insured person dies. Any provider of these policies to the Trading Group must be authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. There are also some funds relating to plans taken out prior to 2002 that are held in interest-bearing bank accounts in accordance with Trading Group treasury policies.

At the balance sheet date there were no significant concentrations of credit risk. Information regarding the age profile of trade receivables is shown in note 17. The carrying value of all balances that attract a credit risk within trading group, which represents the maximum exposure, is set out below:

	Carrying amount 2019 £m	Carrying amount 2018 (restated*) £m
Trade and other receivables (excluding prepayments and accrued income)	**420**	518
Interest rate swaps	**(1)**	27
Funeral plan investments	**1,271**	1,223
Cash deposits - Trading Group	**308**	278

*For more details on the restatement, refer to the general accounting policies section on page 214.

Interest rate risk and hedging

Interest rate risk arises from movements in interest rates that impact on the fair value of the assets and liabilities and related finance flows. The Trading Group adopts a policy of ensuring that 50-90% of its exposure to changes in interest rates on borrowings is on a fixed rate basis. The fixed proportion as at 4 January 2020 was 89% (at 5 January 2019: 58%). Interest rate swaps, denominated exclusively in sterling, have been entered into to achieve an appropriate mix of fixed and floating rate exposure within the Trading Group's policy. The swaps mature over the next eight years following the maturity of the related loans and have fixed swap rates ranging from 0.72% to 0.80% (at 5 January 2019: 5.63% to 6.25%). At 4 January 2020, the Trading Group had interest rate swaps with a notional contract amount of £105m (at 5 January 2019: £390m).

The Trading Group does not designate interest rate swaps or forward foreign exchange contracts as hedging instruments. Derivative financial instruments that are not hedging instruments are classified as held for trading by default and so fall into the category of financial assets at fair value through the income statement. Derivatives are subsequently stated at fair value, with any gains and losses being recognised in the income statement. See note 30.

The net fair value of swaps at 4 January 2020 was a net liability of £1m (2018: net asset £27m) comprising liabilities of £1m (2018: £nil) and assets of £nil (2018: £27m). These amounts are recognised as fair value derivatives on the face of the Consolidated balance sheet.

Notes to the financial statements continued

29 Financial risk management continued

Foreign currency risk

The Trading Group is exposed to foreign currency risk on purchases that are denominated in a currency other than sterling. The currency giving rise to this is the Euro.

The Group manages the impact of market fluctuations on its currency exposures and future cash flows by undertaking rolling foreign exchange hedges. These are executed on a monthly basis in a layered approach based on forecast requirements.

In respect of other monetary assets and liabilities held in currencies other than sterling, the Trading Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

At 4 January 2020, the Trading Group had forward currency transactions in Euros with a notional contract amount of £20m (2018: £23m).

Liquidity risk

This is the risk that the Group will not have sufficient facilities to fund its future borrowing requirements and will require funding at short notice to meet its obligations as they fall due. The Group's funding maturity profile is managed to ensure appropriate flexibility through a mix of short, medium and long term funding together with diversified sources of finance, at a reasonable cost, to meet the Group's needs.

As at 4 January 2020, the Trading Group had available borrowing facilities totalling £1,348m (2018: £1,400m), which was made up of uncommitted facilities of £nil (2018: £nil) and committed facilities of £1,348m (2018: £1,400m). These are detailed below:

Bank facilities as at 4 January 2020

	2019		2018	
	Expiry	£m	Expiry	£m
Sustainable (2018: Syndicated) Revolving Credit Facility*	Sept 2022	400	Feb 2021	355
		400		355
£176m 6.875% Eurobond Notes due 2020	July 2020	176	July 2020	450
£109m 11% Final repayment subordinated notes due 2025	December 2025	109	December 2025	109
£300m 5.125% Sustainability Bond due 2024**	May 2024	300		
£16m Instalment repayment notes (final payment 2025)	December 2025	13	December 2025	16
£350m 7.5% Eurobond Notes due 2026	July 2026	350	July 2026	350
£10m Nisa term loan maturing 2020***	-	-	April 2020	10
£110m Nisa asset backed invoice discounting facility***	-	-	June 2020	110
		1,348		1,400

* The Group renegotiated its £355m Syndicated Revolving Credit Facility (RCF) on 30 September 2019. The new Sustainable RCF facility was increased to £400m and matures in September 2022 with two 12-month extension options. The new Sustainable RCF has been agreed on a sustainable basis with rates of interest linked to the Group's CO2 emission targets.

** The Group issued a £300m Sustainability bond in May 2019. The bond is repayable in May 2024 and has an interest rate of 5.125%. The Co-operative Group Limited also completed a tender offer in May 2019 on the 2020 6.875% bond. This saw the Group buy back £274m (of the principal balance of £285m) from bond holders for cash consideration of £290m.

*** During the year the £110m Nisa asset backed invoice discounting facility and the £10m 2.57% Nisa bank term loan were settled and then closed.

Notes to the financial statements continued

29 Financial risk management continued

The following are the maturities of financial liabilities as at 4 January 2020:

	Carrying amount £m	Contractual cash flows £m	6 months or less £m	6 - 12 months £m	1 - 2 years £m	2 - 5 years £m	More than 5 years £m
Non-derivative financial liabilities							
£11m 6.875% Eurobond 2020 - (fair value)	**(11)**	**(11)**	**-**	**(11)**	**-**	**-**	**-**
£165m 6.875% Eurobond 2020 (amortised cost)	**(172)**	**(165)**	**-**	**(165)**	**-**	**-**	**-**
£105m 7.5% Eurobond 2026 (fair value)	**(121)**	**(105)**	**-**	**-**	**-**	**-**	**(105)**
£245m 7.5% Eurobond 2026 (amortised cost)	**(270)**	**(254)**	**(9)**	**-**	**-**	**-**	**(245)**
£300m Sustainability Bond 2024 (amortised cost)	**(301)**	**(302)**	**(2)**	**-**	**-**	**(300)**	**-**
£109m 11% Final repayment subordinated notes 2025	**(109)**	**(109)**	**-**	**-**	**-**	**-**	**(109)**
£20m Instalment repayment notes (final payment 2025)	**(13)**	**(13)**	**-**	**(1)**	**(2)**	**(5)**	**(5)**
£10m 2.57% Nisa bank term loan (facility expires 2020)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
£105m Nisa asset backed invoice discounting facility	**-**	**-**	**-**	**-**	**-**	**-**	**-**
£400m Sustainable revolving credit facility	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Trade and other payables	**(1,703)**	**(1,703)**	**(1,507)**	**(19)**	**(38)**	**(35)**	**(104)**

The following are the maturities of financial liabilities as at 5 January 2019:

	Carrying amount £m	Contractual cash flows £m	6 months or less £m	6 - 12 months £m	1 - 2 years £m	2 - 5 years £m	More than 5 years £m
Non-derivative financial liabilities							
£285m 6.875% Eurobond 2020 - (fair value)	(296)	(285)	-	-	(285)	-	-
£165m 6.875% Eurobond 2020 (amortised cost)	(174)	(170)	(5)	-	(165)	-	-
£105m 7.5% Eurobond 2026 (fair value)	(115)	(105)	-	-	-	-	(105)
£245m 7.5% Eurobond 2026 (amortised cost)	(272)	(253)	(8)	-	-	-	(245)
£109m 11% Final repayment subordinated notes 2025	(109)	(109)	-	-	-	-	(109)
£20m Instalment repayment notes (final payment 2025)	(15)	(15)	-	(1)	(2)	(6)	(6)
£10m 2.57% Nisa bank term loan (facility expires 2020)	(9)	(9)	-	-	(9)	-	-
£105m Nisa asset backed invoice discounting facility	(31)	(31)	(31)	-	-	-	-
£355m Syndicate revolving credit facility	(15)	(15)	(15)	-	-	-	-
Trade and other payables	(1,663)	(1,663)	(1,341)	(74)	(49)	(74)	(125)

The amounts above only include the maturities of the principal of the financial liabilities. Due to the terms of some of the Trading Group's debt instruments, the contractual cash flows from interest payments are variable dependent on the Trading Group meeting certain financial credit standing or performance criteria.

Sensitivity analysis

Interest rate risk
The valuations of the Trading Group's quoted debt and interest rate swaps have been determined by discounting expected future cash flows associated with these instruments at the market interest rate yields as at the Group's year end. This is then adjusted by a +1% increase to the interest rate yield curve and a 1% reduction in the interest rate yield curve to show the impact of changes in interest rates on the value of our debt and swaps. At 4 January 2020 if sterling (GBP) market interest rates had been 1% higher / lower with all other variables held constant, the post-tax result for the period would have been GBP £6m (2018: GBP £40m) higher and GBP £6m (2018: GBP £42m) lower respectively, mainly arising from the revaluation of the Group's quoted debt through the consolidated income statement. Profit is generally less sensitive to movements in GBP interest rates due to the level of borrowings held at fixed rates as described on page 195 in the Interest rate risk and hedging section.

Foreign exchange risk

At 4 January 2020 and 5 January 2019, if the Euro, US dollar, Australian dollar and NZ dollar had all strengthened or weakened by 10% against sterling (GBP) with all variables held constant, there would have been no material impact to post-tax profit.

Guarantees

In the course of conducting its operations, the Trading Group is required to issue bank guarantees and bonds in favour of various counterparties. These facilities are provided by the Trading Group's banking syndicate and as at 4 January 2020 the total amount of guarantees / bonds outstanding is £34m (2018: £34m).

Notes to the financial statements continued

29 Financial risk management continued

Insurance risk - CISGIL

Insurance risk comprises the risk of loss resulting from:

- Future claims events other than catastrophes (Premium Risk).
- Adverse change in the value of insurance liabilities (Reserve Risk).
- Natural or man-made catastrophe events (Catastrophe Risk).
- The assumptions underlying expenses are not borne out in practice (Expense Risk).

CISGIL underwrites UK private Motor and Home business, either written directly or through brokers, all of which cover a 12 month duration. Historically, other classes of business were underwritten which are now in run off and mainly comprise employers' liability and commercial motor business.

Key risks under Motor policies are bodily injury to third parties, accidental damage to property and theft of or from policyholders' vehicles. The most significant factors affecting the frequency and severity of motor claims are judicial, legislative and inflationary changes and the frequency and severity of large bodily injury claims. Periodic Payment Orders (PPOs) are being used to settle injury claims in the UK, with compensation being paid to claimants at regular intervals, rather than in a single lump sum award. This introduces further risk to the insurer as the term of the payments is dependent upon length of life expectancy and the payments increase with care worker future inflation. Uncertainty in the discount rate used to calculate these claims also increases the risk to insurers.

Key risks under Home policies are damage from storm and flood, fire, escape of water, subsidence, theft of or accidental damage to contents and liability risks.

At the balance sheet date there were no significant concentrations of insurance risk. CISGIL manages insurance risk in accordance with its overall aims to achieve acceptable profits and return on equity. This is achieved by:

- Ensuring that insurance risks are carefully selected in accordance with risk appetite, underwritten in accordance with risk strategy and priced to reflect the underlying risk
- Minimising reserve risk volatility through proactive claims handling, the claims provisioning process and robust reserving and modelling approaches
- Mitigating risk through the use of appropriate reinsurance arrangements

The objective of the underwriting strategy is to ensure that the underwritten risks are diversified in terms of type and amount of risk, industry/demographic profile and geography, and only those risks which conform with underwriting criteria are accepted. Exposure mix and the frequency and average costs of claims are monitored throughout the year and where significant deviations from expectation are identified remedial action is taken.

The overriding objective in claims handling is to ensure all claims are properly scrutinised and paid where they fall within the terms and conditions of the policy. The proper scrutiny of claims is facilitated by the use of various technical aids such as weather validation and fraud databases, and the use of claims specialists.

The nature of insurance contracts is that the obligations of the insurer are uncertain as to the timing or quantum of liabilities arising from contracts. CISGIL takes all reasonable steps to ensure that it has information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. CISGIL manage this risk through the Reserving Committee which supports the Chief Financial Officer (CISGIL) in their responsibility to formally review claims reserves on a quarterly basis.

CISGIL uses reinsurance to manage insurance risk, and in particular to mitigate the cost of catastrophe events such as storms and floods and the cost of large claims arising within its Motor account. The appropriate level of reinsurance is determined by management, using CISGIL's Internal Model to inform decision-making.

In 2019, CISGIL had three main reinsurance programmes in place: catastrophe excess of loss cover, motor excess of loss cover and a quota share arrangement of both its Motor and Home business. The quota share reinsurance arrangement, commenced at the beginning of 2017 and which will remain in place for 2019, enhances the Standard Formula capital coverage by reducing exposure to both premium and catastrophe risk in respect of business that is earned through 2018 and 2019.

Credit risk - CISGIL

Credit risk is the risk to earnings and capital arising from a counterparty's failure to meet their legal and contractual obligations. CISGIL does not aim to earn a return from credit risk and so its appetite for credit risk is very low. Potential losses arising from credit risk are minimised by the use of high quality reinsurers and highly rated investments.

CISGIL's principal credit risk exposures are as follows:

- Reinsurance counterparties failing to meet financial obligations or entering into restructuring arrangements that may adversely affect reinsurance recoveries;
- Default or delay of repayment of loans and receivables; and
- Insurance counterparties failing to meet financial obligations.

CISGIL manages credit risks associated with cash and corporate bonds as part of market risk.

Where reinsurance is used to manage insurance risk, there is a risk that the reinsurer fails to meet its obligations in the event of a claim. CISGIL places limits over exposure to a single reinsurance counterparty, or counterparty group, based upon their credit-worthiness. These limits apply when reinsurance is initially placed, usually annually, and then regularly monitored by the Capital, Liquidity, Investment and Pension Committee. Where concern exists over reinsurer credit quality, a review will be undertaken to determine the most appropriate management action.

Notes to the financial statements continued

29 Financial risk management continued

Credit risk - CISGIL continued

The quota share reinsurance arrangement operates on a funds withheld basis, which means that only the reinsurer margin is transferred to the reinsurer.

Insurance receivable and other assets are primarily premium debtors due from customers and insurance intermediaries. Exposure to insurance intermediaries is managed in line with CISGIL's credit risk policy.

CISGIL has a credit exposure of up to £60m (2018: £60m) with a trading counterparty that provides administrative services including the collection of premiums. Credit insurance was purchased during 2018 to mitigate against this exposure to within risk appetite.

The table below provides an analysis at the balance sheet date of the credit rating of those assets subject to credit risk. Credit ratings are determined by using the Markit iBoxx Rating methodology.

As at 31 December 2019	AAA £m	AA £m	A £m	BBB and below £m	Not rated £m	Total £m
Financial assets at fair value through the income statement:						
Deposits with approved credit institutions (fixed rate)	**-**	**-**	**157**	**-**	**-**	**157**
Financial assets at fair value through other comprehensive income:						
Listed debt (fixed rate)	**83**	**295**	**126**	**3**	**-**	**507**
Listed debt (variable rate)	**48**	**16**	**74**	**5**	**-**	**143**
Reinsurance assets	**-**	**40**	**20**	**-**	**1**	**61**
Insurance receivables and other assets	**1**	**3**	**3**	**-**	**162**	**169**
Cash and cash equivalents	**-**	**-**	**5**	**-**	**-**	**5**
	132	**354**	**385**	**8**	**163**	**1,042**
Salvage and subrogation	**-**	**-**	**-**	**-**	**-**	**39**
Other assets	**-**	**-**	**-**	**-**	**-**	**34**
Total Insurance assets before remeasurement to fair value less costs to sell						**1,115**
Remeasurement to fair value less cost to sell						**(28)**
Total Insurance assets held for sale (note 9)						**1,087**

As at 31 December 2018	AAA £m	AA £m	A £m	BBB and below £m	Not rated £m	Total £m
Financial assets at fair value through the income statement:						
Deposits with approved credit institutions (fixed rate)	-	-	156	-	-	156
Financial assets at fair value through other comprehensive income:						
Listed debt (fixed rate)	67	316	145	-	-	528
Listed debt (variable rate)	51	23	62	5	-	141
Reinsurance assets	-	30	22	-	2	54
Insurance receivables and other assets	1	3	3	-	162	169
Cash and cash equivalents	-	-	5	-	-	5
	119	372	393	5	164	1,053
Salvage and subrogation						38
Other assets						40
Total Insurance assets before remeasurement to fair value less costs to sell (note 9)						1,131
Remeasurement to fair value less cost to sell (note 9)						(32)
Total Insurance assets held for sale (note 9)						1,099

The maximum exposure to credit risk, before making allowance for security held, is represented by the carrying value of each financial asset in the table. Collateral, in the form of gilts, of £157m (2018: £156m) is held against short-term deposits which have been placed into a reverse repo transaction of £157m as at 4 January 2020 (2018: £156m). These short-term deposits sit with approved credit institutions within financial investments at fair value through the income statement on the balance sheet.

Notes to the financial statements continued

29 Financial risk management continued

Liquidity risk - CISGIL

Liquidity risk is the current and prospective risk to earnings or capital arising from an inability to meet obligations when they fall due without incurring unacceptable losses. CISGIL's objective is to meet all policyholder and other funding obligations as they fall due primarily through the use of cash and highly liquid UK government and corporate bonds.

The Board's risk appetite is that liquid assets should be at least equal to 20% of the ultimate cost of a 1-in-100 year UK windstorm loss before reinsurance recoveries. The ultimate cost is calculated based on the catastrophe component of CISGIL's Internal Model.

The latest model assesses the ultimate cost of a 1-in-100 year UK windstorm loss as £126m (2018: £126m), giving a minimum requirement for £25m (2018: £25m) of liquid assets against actual liquid assets of £679m (2018: £685m). These values are gross of all reinsurance.

Liquid assets are considered to be:

Asset type:		Value included as liquid assets
Gilts		100%
Cash		100%
Corporate bonds:	**AAA**	85%
	AA	85%
	A	50%
	BBB	50%
All other investments		0%

The actual and projected levels of cash and other assets held are monitored and managed through the Capital, Liquidity, Investment and Pension Committee, with oversight by the BRC and Board. In addition, in between CLIP meetings, monthly monitoring of liquid assets against risk appetite limits is undertaken.

2019	Carrying value £m	Gross nominal outflow £m	Up to 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	More than 5 years £m
Insurance contract liabilities*	**479**	**551**	**205**	**104**	**60**	**33**	**19**	**130**
Financial liabilities at amortised cost:								
Borrowed funds	**70**	**118**	**9**	**9**	**9**	**9**	**9**	**73**
Other reinsurance liabilities	**4**	**4**	**4**	**-**	**-**	**-**	**-**	**-**
Insurance and other payables	**43**	**43**	**43**	**-**	**-**	**-**	**-**	**-**
Cash and cash equivalents	**6**	**6**	**6**	**-**	**-**	**-**	**-**	**-**
	602	**722**	**267**	**113**	**69**	**42**	**28**	**203**
Other liabilities								**4**
Total recognised liabilities								**606**

*Insurance liabilities of £606m (2018: £624m), noted in the table above exclude unearned premiums of £246m (2018: £244m), which are included within total insurance liabilities held for sale of £852m (2018: £868m) in note 9.

All Insurance assets and liabilities have been transferred to held for sale (note 19).

2018	Carrying value £m	Gross nominal outflow £m	Up to 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	More than 5 years £m
Insurance contract liabilities	490	574	208	97	61	36	22	150
Financial liabilities at amortised cost:								
Borrowed funds	68	125	8	8	8	8	8	81
Other reinsurance liabilities	3	3	3	-	-	-	-	-
Insurance and other payables	52	52	52	-	-	-	-	-
Cash and cash equivalents	8	8	8	-	-	-	-	-
	621	762	279	105	69	44	30	231
Other liabilities								3
Total recognised liabilities								624

Notes to the financial statements continued

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

What does this show? This note shows how our financial assets and liabilities are valued, including our interest rate swaps.

Derivatives

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

	2019			2018		
	Contractual/ notional amount	Fair value assets	Fair value liabilities	Contractual/ notional amount	Fair value assets	Fair value liabilities
	£m	£m	£m	£m	£m	£m
Interest rate swaps	105	-	(1)	390	27	-
Total recognised derivative assets	105	-	(1)	390	27	-

We have rebased our interest rate swaps in relation to our bonds. This produced a net cash inflow of £27 million due to changes in prevailing market rates since they were first taken out.

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

a) Financial instruments at fair value through the income statement

Deposits with credit institutions (Insurance)

All insurance investments have been transferred to held for sale in both 2018 and 2019. See note 9 (Loss on discontinued operations, net of tax) for further details. The fair value of financial assets designated at fair value through the income statement, being short-term (less than one month) fixed rate deposits, approximates to their nominal amount.

Investments in funeral plans

Where there is no active market or the investments are unlisted, the fair values are based on commonly used valuation techniques. (Refer to accounting policy (section v) of this note for further details).

Derivatives

Forward exchange contracts, such as the Trading Group's interest rate swaps, are either valued at fair value using listed market prices or by discounting the contractual forward price and deducting the current spot rate. For interest rate swaps, broker quotes are used. Those quotes are back-tested using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market-related data at the balance sheet date. The Group's derivatives are not formally designated as hedging instruments but under IFRS 9 (Financial Instruments) they are used to match against a proportion of the Eurobond liabilities carried at fair value through the income statement, showing as a cost of £1m in 2019 and £11m in 2018 (see note 7).

Fixed rate sterling Eurobonds

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

b) Financial instruments at fair value through other comprehensive income (Insurance)

All insurance investments have been transferred to held for sale. See note 9 (Loss on discontinued operations, net of tax) for further details. The fair value of listed debt securities is based on clean bid prices at the balance sheet date without any deduction for transaction costs. Assets are regularly reviewed for impairment. Objective evidence of impairment can include default by a borrower or issuer, indications that a borrower or issuer will enter bankruptcy or the disappearance of an active market for that financial asset because of financial difficulties. These reviews give particular consideration to evidence of any significant financial difficulty of the issuer or measurable decrease in the estimated cash flows from the investments.

c) Interest-bearing loans and borrowings - amortised cost

These are shown at amortised cost which presently equate to fair value or are determined in whole by using quoted market prices.
Fair value measurement is calculated on a discounted cash flow basis using prevailing market interest rates.

d) Receivables and payables

For receivables and payables with a remaining life of less than one year, the nominal amount is deemed to reflect the fair value, where the effect of discounting is immaterial.

The table below shows a comparison of the carrying value and fair values of financial instruments for those liabilities not carried at fair value.

Financial liabilities	Carrying value 2019	Fair value 2019	Carrying value 2018	Fair value 2018
	£m	£m	£m	£m
Interest-bearing loans and borrowings	871	875	631	638

Notes to the financial statements continued

30 Financial instruments, derivatives and valuation of financial assets and liabilities continued

The table below analyses financial instruments by measurement basis:

2019	Fair value through income statement £m	Amortised cost £m	Loans and Receivables £m	Total £m
Assets				
Other investments	1,271	-	-	1,271
Trade and other receivables	-	-	420	420
Cash and cash equivalents	-	308	-	308
Total financial assets	1,271	308	420	1,999
Liabilities				
Interest-bearing loans and borrowings	132	871	-	1,003
Derivative financial instruments	1	-	-	1
Trade and other payables	-	1,575	-	1,575
Overdrafts	-	-	-	-
Total financial liabilities	133	2,446	-	2,579

The table above excludes any financial assets or liabilities in relation to Reclaim Fund. As explained in note 35 the balance sheet of Reclaim Fund has not been included on a line-by-line basis but instead it is separately disclosed within the Group balance sheet. Reclaim Fund balances include assets and liabilities at both fair value and amortised cost and these have been valued in accordance with IFRS 9.

2018 (restated*)	Fair value through income statement £m	Amortised cost £m	Loans and Receivables £m	Total £m
Assets				
Other investments	1,223	-	-	1,223
Derivative financial instruments	27	-	-	27
Trade and other receivables	-	-	518	518
Cash and cash equivalents	-	278	-	278
Total financial assets	1,250	278	518	2,046
Liabilities				
Interest-bearing loans and borrowings	411	631	-	1,042
Trade and other payables	-	1,475	-	1,475
Overdrafts	-	-	-	-
Total financial liabilities	411	2,106	-	2,517

*For more details on the restatement, refer to the general accounting policies section on page 214.

The following table provides an analysis of financial assets and liabilities that are valued or disclosed at fair value, by the three-level fair value hierarchy as defined within IFRS 13 (Fair Value Measurement):

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

Based upon guidance issued by The Committee of European Securities Regulators, in the prior year insurance-related debt securities were only classified in Level 1 if it could be demonstrated on an individual security-by-security basis that they were quoted in an active market, i.e. that the price quotes obtained were representative of actual trades in the market (through obtaining binding quotes or through corroboration to published market prices). As pricing providers could not guarantee that the prices that they provided were based on actual trades in the market then all of the corporate bonds were classified as Level 2.

Notes to the financial statements continued

30 Financial instruments, derivatives and valuation of financial assets and liabilities continued

Valuation of financial instruments

2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through the income statement				
- Funeral plan investments	-	-	1,271	1,271
- Derivative financial instruments	-	-	-	-
Total financial assets at fair value	-	-	1,271	1,271
Liabilities				
Financial liabilities at fair value through the income statement				
- Fixed rate sterling Eurobond	-	132	-	132
- Derivative financial instruments	-	1	-	1
Total financial liabilities at fair value	-	133	-	133

The values of Eurobonds carried at amortised cost are disclosed in note 21. The equivalent fair value for the unhedged proportion of bonds that are now carried at amortised cost would be £165m for the 2020 Eurobond and £282m for the 2026 Eurobond.

There were no transfers between Levels 1 and 2 during the period and no transfers into and out of Level 3 fair value measurements. For other financial assets and liabilities of the Group including cash, trade and other receivables / payables then the notional amount is deemed to reflect the fair value.

2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through the income statement				
- Funeral plan investments	-	-	1,223	1,223
- Derivative financial instruments	-	27	-	27
Total financial assets at fair value	-	27	1,223	1,250
Liabilities				
Financial liabilities at fair value through the income statement				
- Fixed rate sterling Eurobond	-	411	-	411
Total financial liabilities at fair value	-	411	-	411

Notes to the financial statements continued

30 Financial instruments, derivatives and valuation of financial assets and liabilities continued

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:

	2019	2018
Derivatives	**0.23% - 0.31%**	1.11% - 1.42%
Loans and borrowings	**3.12% - 4.62%**	4.36% - 4.92%

Accounting policies

The Group classifies its financial assets as either:

- fair value through other comprehensive income or
- fair value through the income statement; or
- loans and receivables at amortised cost.

i) Recognition of financial assets

Financial assets are recognised on the trade date which is the date it commits to purchase the instruments. Loans are recognised when the funds are advanced. All other financial instruments are recognised on the date that they are originated. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value, with the exception of trade receivables that don't contain a significant financing component or where the customer will pay for the related goods or services within one year of receiving them. For financial assets which are not held at fair value through the income statement, transaction costs are also added to the initial fair value. Trade receivables that don't contain a significant financing component or where the customer will pay for the related goods or services within one year of receiving them are measured at the transaction price determined under IFRS 15 (Revenue from Contracts with Customers). See accounting policies for revenue and IFRS 15 in note 2.

ii) Derecognition of financial assets and financial liabilities

Financial assets are derecognised (removed from the balance sheet) when:

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

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

iii) Financial assets classified as fair value through other comprehensive income

The Group holds some investments which are classified as fair value through other comprehensive income. These investments are held both to collect the contractual cash flows from the invesments and to sell. The investments are revalued to their fair value at each reporting date, with unrealised gains and losses recognised in other comprehensive income. The effective interest rate is recognised in the income statement. The investment portfolio consists of instruments that have clear contractual maturity dates for the principal (equivalent to the face value) to be returned and contractual coupon rates that reflect the length of the investment and the credit risk of the issuer. The portfolio is split between government debt, priced in accordance with the interest markets, and corporate debt, priced in accordance with credit spreads.

The Group calculates expected credit losses in line with guidance under IFRS 9. Where there is evidence of impairment, any impairment loss is recognised in the income statement.

iv) Loans and receivables

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

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

Insurance

Investments, other than those in debt securities, are designated as financial assets at fair value through the income statement.

For CISGIL, this is where they are managed and their performance is evaluated on a fair value basis in accordance with a documented risk-management or investment strategy, and information is provided internally to key management personnel on that basis. Initial measurement is at fair value, being purchase price upon the date on which CISGIL commits to purchase. Directly attributable transaction costs are expensed immediately on recognition.

Funeral plans

When a customer takes out a funeral plan the initial plan value is recognised as an investment asset in the balance sheet and at the same time an equal liability is also recorded in the balance sheet representing the deferred income to be realised on performance of the funeral service covered by each of the funeral plans. The consideration receivable from a funeral plan is variable and depends on the amount the plan investment grows by and the timing of the funeral, both of which are outside the Group's control. The investments are held in insurance policies or cash-based trusts and attract interest and bonus payments throughout the year dependent upon market conditions. The plan investment is a financial asset, which is recorded at fair value each period using valuations provided by the insurance policy provider or reflecting the trust cash balances. The performance obligation to deliver the funeral is treated as a contract liability (deferred income) under IFRS 15. This contract liability accretes each period by the fair value movement on the plan assets and is held on balance sheet as additional deferred income until the delivery of the funeral when it is recognised as revenue along with the original plan value.

Notes to the financial statements continued

30 Financial instruments, derivatives and valuation of financial assets and liabilities continued

Funeral benefit options (FBOs)

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

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

Low Cost Instalment Funeral Plans (LCIPs)

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

The assured benefit between Funeralcare and the 3rd party is judged to represent an insurance contract and as such falls under the scope of IFRS 4 (Insurance Contracts). In line with IFRS 4 Funeralcare account for the LCIPs in the same way as a normal funeral plan (see accounting policy above).

Interest rate swaps in the Trading Group

The Trading Group uses derivative financial instruments to provide an economic hedge to its exposure to interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Trading Group does not hold or issue derivative financial instruments for trading purposes.

Derivatives entered into include swaps and forward rate agreements. Derivative financial instruments are measured at fair value and any gains or losses are included in the income statement. Fair values are based on quoted prices and where these are not available, valuation techniques such as discounted cash flow models are used.

Interest payments or receipts arising from interest rate swaps are recognised within finance income or finance costs in the period in which the interest is incurred or earned.

vi) Impairment of financial assets at fair value through the income statement and cash deposits

Assessment

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Board on an annual basis, and may be updated throughout the year subject to approval of the Risk and Audit Committee. The limits are set to minimise the concentration of risk. Financial assets held at fair value through the income statement are primarily held in low-risk investments.

Measurement

The Group calculates expected credit losses in line with guidance under IFRS 9. Where there is evidence of impairment, any impairment loss is recognised in the income statement.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, Eurobonds and leases.

Notes to the financial statements continued

30 Financial instruments, derivatives and valuation of financial assets and liabilities continued

Trade receivables and contract assets

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (for example, by business division, customer, coverage by letters of credit or other forms of credit insurance).

The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not insured or subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in trade and other receivables (note 17).

Impairment of financial assets carried at amortised cost

The amount of the impairment loss on assets carried at amortised cost is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of an allowance account.

A write-off is made when all or part of an asset is deemed uncollectable or forgiven after all the possible collection procedures have been completed and the amount of loss has been determined. Write-offs are charged against previously established provisions for impairment or directly to the income statement.

Any additional recoveries from borrowers, counterparties or other third parties made in future periods are offset against the write-off charge in the income statement once they are received.

Provisions are released at the point when it is deemed that following a subsequent event the risk of loss has reduced to the extent that a provision is no longer required.

Sale and repurchase agreements

CISGIL participates in reverse sale and repurchase transactions where CISGIL buys gilts but is contractually obliged to sell them at a fixed price on a fixed future date. Cash loaned under reverse repo arrangements are classified as deposits with credit institutions within financial investments at fair value through the income statement on the balance sheet as a result of CISGIL's documented risk management policy.

Notes to the financial statements continued

31 Commitments

What does this show? This note shows the value of capital expenditure that we're committed to spending at the end of the period, as well as showing the commitments we have under operating leases (mainly in relation to Food store rents). It also shows potential liabilities which aren't included in our balance sheet as it's only possible, rather than probable, that we'll have to pay them.

a) Capital expenditure not accrued for, but committed by the Group at the period end was £20m (2018: £nil).

b) Commitments under operating leases*:

	2019		2018	
	Land and buildings	**Other**	Land and buildings	Other
	£m	**£m**	£m	£m
Within one year	-	-	192	8
In two to five years	-	-	675	9
In over five years	-	-	1,276	-
	-	-	2,143	17

* The Group has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 214.

32 Related party transactions and balances

What does this show? Related parties are companies or people which are closely linked to the Co-op, such as members of our Board or Executive or their families, or our associates and joint ventures. This note explains the nature of the relationship with any related parties and provides information about any material transactions and balances with them.

		2019	2018
	Relationship	**£m**	£m
Sales to associated undertakings and joint ventures on normal trading terms		-	0.2
Subscription to Co-operatives UK Limited	(i)	**0.7**	0.7

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

The Group's Independent Society Members (ISMs) include consumer co-operative societies which, in aggregate, own the majority of the corporate shares with rights attaching as described in note 25. The Co-operative Group has a 76% shareholding in Federal Retail and Trading Services Limited which is operated as a joint buying group by the Group for itself and other independent co-operative societies. The Group acts as a wholesaler to the other independent co-operatives and generates sales from this and the arrangement is run on a cost recovery basis and therefore no profit is derived from its activities. Sales to ISMs, on normal trading terms, were £1,613m (2018: £1,532m) and the amount due from ISMs in respect of such sales was £128m at 4 January 2020 (2018: £123m). No distributions have been made to ISMs based on their trade with the Group in either the current or prior periods.

Transactions with directors and key management personnel

Disclosure of key management compensation is set out in the Remuneration Report. A number of small trading transactions are entered into with key management in the normal course of business and are at arms length. Key management are considered to be members of the Executive and directors of the Group. At the balance sheet date, a number of key management personnel had transacted with our Funeral division. These transactions totalled £7,000 (2018: £20,000). Other than the compensation set out in the Remuneration Report, there were no other transactions greater than £1,000 with the Group's entities (2018: £nil). Total compensation paid to key management personnel is shown below.

Key management personnel compensation	**2019**	2018
	£m	£m
Short-term employee benefits	**6.5**	7.3
Post-employment benefits	**0.4**	0.4
Other long-term benefits	**0.4**	1.6
Termination benefits	**0.0**	0.0
Total	**7.3**	9.3

Notes to the financial statements continued

33 Principal subsidiary undertakings

What does this show? This note shows the main companies and societies we own, what percentage we own and the type of business they are involved in.

All of the principal subsidiary undertakings as at the period end are registered in England and Wales and their principal place of business is the UK. See general accounting policies section on page 214 for a Group structure diagram.

	Society holding %	Nature of business
Financial Services:		
Angel Square Investments Ltd	100	Holding company
CIS General Insurance Ltd (CISGIL)*	100	General insurance
Co-op Insurance Services Limited	100	Insurance (marketing)
CFS Management Services Ltd	100	Service company
Reclaim Fund Ltd	100	Reclaim fund
Trading:		
Co-operative Group Holdings (2011) Ltd	100	Property management
Co-operative Group Food Ltd	100	Food retailing
Co-operative Foodstores Ltd	100	Food retailing
Nisa Retail Ltd	100	Food wholesaling
Funeral Services Ltd	100	Funeral directors
Co-operative Legal Services Ltd	100	Legal services
Rochpion Properties (4) LLP	100	Holds property

All of the above have been fully consolidated into the Group's accounts. There are no non-controlling interests in any of these entities.

*See note 9 (Loss on discontinued operations, net of tax) for details of exchange of contracts on the sale of CISGIL on 18 January 2019.

Notes

i) All of the principal subsidiaries are audited by EY LLP.
ii) All of the Group's Financial Services subsidiaries have a year end of 31 December as they report on a monthly cycle rather than a periodic Saturday close cycle which is used by the Trading Group businesses. See also general accounting policies section on page 214 for further details on accounting dates.
iii) All transactions between entities are in the usual course of business and are at arms length.

Significant restrictions

CISGIL is a regulated business and as such CISGIL may only recommend the payment of a dividend to the Group if it has sufficient capital to do so having regard to CISGIL's regulatory requirements and the CISGIL Board's risk appetite.

Notes to the financial statements continued

34 Acquisition of Subsidiaries

What does this show? This note gives details of any business acquisitions that have been made during the reporting period. This includes details of what we've bought, how much we paid for it and how this has been reflected in our accounts.

There have been no acquisitions in the period.

On 8 May 2018, the Group acquired 100% of Nisa Retail Limited (Nisa). Nisa is a brand and buying group of independent retailers and wholesalers in the UK. It is an organisation that was owned by its members prior to the Group's acquisition and operated by using the collective buying power of its shareholders to negotiate with suppliers.

The amounts recognised in respect of the identifiable assets and liabilities assumed on the acquisition of Nisa were set out in the 2018 annual report. During the year, the Group has completed its review of the fair value of the assets and liabilities acquired. As a result the Group has not recorded any further adjustments to the fair value of the acquired net assets of £51m, as reported in the 2018 annual report. The measurement period was closed at 7 May 2019.

Subsequent to the measurement period closing, and as disclosed in note 38, a number of errors were noted within the accounting records of Nisa. A number of these errors existed at the acquisition date, and as a result the acquisition accounting has been restated. The impact has been to increase Goodwill by £23m and decrease net assets acquired by £23m. Further detail is included in note 38.

Since the Nisa acquisition date, there has been a reduction in the value of the deferred consideration payable to former Nisa members. This has been accounted for as a credit to the income statement. Further details are given in note 1.

Notes to the financial statements continued

35 Reclaim Fund assets and liabilities

What does this show? Reclaim Fund Ltd (RFL) is a not-for-profit organisation which we own that helps money held in dormant bank accounts to be used for charitable purposes. We have to include the assets and liabilites of RFL in our balance sheet as it is a 100% subsidiary but any surplus is held entirely for the benefit of the National Lottery Community Fund (NLCF) and we don't gain any financial benefit from RFL. For this reason we don't include RFL's balance sheet in our accounts on a line-by-line basis but instead we show its assets and liabilities separately in our balance sheet. This note provides more information on RFL's assets and liabilities.

	2019 £m	2018 £m
Non-current		
Investment securities	**206**	209
Current		
Cash	**330**	338
Investment securities	**148**	72
	478	410
Reclaim Fund assets	**684**	619
Non-current		
Provision for reclaims of dormant account balances	**450**	404
Provision for future distributions to Big Lottery Fund	**90**	69
	540	473
Current		
Trade and other payables	**70**	73
Reclaim Fund liabilities	**610**	546

RFL administers the collection of funds from dormant savings accounts in UK financial institutions and passes them to the NLCF for distribution. The Group recorded a surplus of £74m upon initial recognition of RFL in 2011 which principally was the net difference between the amount received in respect of dormant accounts and the provisions for distributions to be returned to account holders and/or the NLCF. The surplus created is for provision of regulatory capital to the fund and is held in a separate, non-distributable reserve (within other reserves). If the Group were to derecognise RFL as a subsidiary then a loss, equivalent to this surplus, of £74m would be incurred on disposal.

£70m (2018: £73m) has been approved for distribution to NLCF and is available for immediate distribution. It is therefore included within trade and other payables rather than provisions.

Although the dormant account balances are repayable on demand, the provision is expected to be utilised over a very long time period. Therefore the amount has been included within non-current liabilities.

Accounting policies

The calculation of the provision for reclaims of dormant account balances is complex, with significant amounts of uncertainty. The Directors of RFL have applied a cautious level of stress within the calculation of the provision which they believe implicitly accounts for the long-term nature of the provision.

The Group also records a provision for future distributions to the NLCF. This represents amounts which the RFL intends to pay over to the NLCF in future periods of which timing is uncertain. The Dormant Bank and Building Society Accounts Act (2008) dictates that the RFL is obliged to pay over the excess of dormant account monies received, after deduction of running costs, to the NLCF for ongoing distribution to the benefit of the community. Distributions to the NLCF are recognised in the income statement when a constructive or legal obligation exists for payment.

Investment securities

Investment Securities held within the Reclaim Fund are held at amortised cost as they meet the relevant criteria within IFRS 9 because they are held to collect contractual cash flows such as principal and interest.

Notes to the financial statements continued

36 Membership and community reward

What does this show? This note shows the number of active members that we have at the end of the period as well as the benefits earned by those members for themselves and their communities during the period. Active members are defined as those members that have traded with one or more of our businesses within the last 12 months.

Members	2019 (unaudited) m	2018 (unaudited) m
Active members	**4.6**	4.6
Membership and community rewards (within the income statement)	**£m**	£m
Member reward (5%) earned	**59**	60
Community reward (1%) earned	**11**	12
Total reward	**70**	72

Full details of our overall investment in our Communities can be found on pages 60 - 61 of Our Sustainability Report.

37 Events after the reporting period

What does this show? This note gives details of any significant events that have happened after the balance sheet date but before the date that the accounts are approved. These are things that are of such significance that it is appropriate to give a reader of the accounts further detail as to the impact of such events on the financial statements or any expected likely impact in future periods.

Pensions - Pace buy-in

In early 2020 The Trustees of the Co-operative Group Pension Scheme (Pace) entered into pension insurance buy-in contracts (with Aviva in January 2020 and Pension Insurance Corporation (PIC) in February 2020), each worth c£1,000m. As a result of this transaction, the scheme will receive regular payments from Aviva and PIC to fund all future pension payments for c14,000 current pensioners. An initial estimate of the potential impact on the consolidated statement of comprehensive income in 2020 is a charge in the range of £250m - £300m. It should be noted that the assumptions underpinning the actual calculation will not be determined until the end of the 2020 financial year and as such the actual impact may vary from this initial estimate.

Coronavirus (Covid-19)

On 11 March, subsequent to the balance sheet date, the World Health Organisation ('WHO') declared Covid-19 as a pandemic. Shortly after this announcement, the UK Government has taken action including implementing social distancing measures and advising people to stay at home. Given the recent escalation of Covid-19, this is considered as a non-adjusting post balance sheet event.

We are currently seeing Covid-19 impact our cost base in areas such as front line and logistics payroll, investment in protective equipment, increased cleansing and sanitation costs within store costs and this is estimated at between £200m and £275m.

We are also seeing impacts on the type and size of funerals we can conduct in response to restrictions on number of attendees placed by government guidelines and in some cases even stricter restrictions by some crematoria. We have also seen an impact on demand in our Food business, taking into account a prudent but realistic view of the experience of the last few weeks.

It is clearly impossible at this stage to accurately predict the impact on 2020 results but in summary the business rates support provided by government combined with the increased sales demand assumed within our Food business goes some way to limiting the significant incremental costs highlighted above.

Within the directors' report on page 122, we provide further detail on the key impacts of Covid-19 on our financial projections in our assessment of the Going Concern of the Group. We have also provided an indication of the potential impact of Covid-19 on certain assumptions and estimates contained within our balance sheet below:

Impairment of Property, plant & equipment (£2,001m), Right-of use assets (£1,045m), Goodwill and intangible assets (£1,092m)

The estimates and assumptions used within our impairment methodology on these non-current assets do not include the impact of Covid-19 as this was not an observable indicator as at the balance sheet date. Covid-19 could have a material impact on our impairment assessment as a result of unpredictable cashflows in both our food and funerals businesses, and changes in the discount rates that we have applied, not least because of changes in macroeconomic factors since the escalation of Covid-19.

Given the difficulty in quantifying the impact of Covid-19, it is inherently difficult to quantify the potential impact on the impairment of noncurrent assets. This is made more difficult given the number of CGU's we have in the Group, for example each individual food store is considered a separate CGU in which we would need to assess the impact of Covid-19. As a result a reasonable estimate of the impact of Covid-19 cannot be provided.

Funeral plan investments (£1,271m)

The Group holds investments on the balance sheet in respect of funeral plan policies which are predominantly invested in individual whole-of-life policies. The underlying investments are in a mixture of assets including equities and bonds. The impact of Covid-19 has seen significant falls in many Global equity and corporate bond prices. Due to ongoing volatility, it is impossible to quantify what any likely impact would be at this stage, and as a result a reasonable estimate of the impact of Covid-19 cannot be provided.

Pension surplus (£1,973m) and pension deficits (£109m)

Similar to the funeral plan investments above, market volatility will impact the value of the financial assets which our pension schemes hold. It is too early to estimate the impact, if any, that Covid-19 will have on other assumptions included within the valuation of our defined benefit pension schemes. Whilst a reasonable impact of Covid-19 on our pension surplus and pension deficits is not possible, at this stage we do not expect a material impact on our valuation bases.

Current assets

We have also reviewed the recoverability of our most significant current assets in particular supplier income and partner debtors in our wholesale business. We remain confident of their recoverability taking into account the increased volumes they are currently experiencing.

38 Prior year restatement

What does this show? Occasionally we realise that the numbers we published in the accounts last year may not have been quite right due to an error. When this is the case it may be appropriate to revise (restate) the prior year numbers to correct them for the error. In such circumstances then this note explains how the error happened, what we have done to correct it and the impact this has had on the Group's accounts in the prior year.

1) During 2019 management identified a number of balance sheet items which contained historical errors within Nisa. A number of these errors were as a result of an ineffective balance sheet reconciliation process. Because the errors had a material impact on the acquisition accounting and the prior year profit and loss account, a prior year restatement has been carried out of the 2018 consolidated balance sheet including the acquisition accounting of Nisa, the 2018 consolidated income statement, and the 2018 cashflow statement.

2) The deferred tax assets and liabilities of the Group have been presented net in the Consolidated Balance Sheet in 2019 and restated net for 2018 (previously these balances have been disclosed separately). This is because the Group is allowed, under UK legislation, to make a single net corporation tax payment giving it the right of off-set.

A summary of the impact of the prior year adjustments on the consolidated income statement, the consolidated balance sheet and the consolidated cashflow statement is as follows:

Consolidated income statement for the period ended 5 January 2019	As previously reported	Nisa Adjustments	Deferred Tax net off	As restated
	£m	£m	£m	£m
Revenue	10,162	-	-	**10,162**
Operating expenses	(10,072)	(10)	-	**(10,082)**
Other income	10	-	-	**10**
Operating profit	100	(10)	-	**90**
Finance income	78	-	-	**78**
Finance costs	(85)	-	-	**(85)**
Profit before tax	93	(10)	-	**83**
Taxation	(19)	2	-	**(17)**
Profit from continuing operations	74	(8)	-	**66**

Notes to the financial statements continued

38 Prior year restatement continued

Consolidated balance sheet as at 5 January 2019	As previously reported £m	Nisa Adjust-ments £m	Deferred Tax net off £m	As restated £m
Non-current assets				
Goodwill	1,071	23	-	**1,094**
Deferred tax asset	234	-	(234)	**-**
Other non-current assets	5,662	-	-	**5,662**
Total non-current assets	6,967	23	(234)	**6,756**
Current assets				
Cash	282	(4)	-	**278**
Inventories	458	-	-	**458**
Trade and other receivables	537	(9)	-	**528**
Other current assets	1,527	-	-	**1,527**
Total current assets	2,804	(13)	-	**2,791**
Non-current liabilities				
Deferred tax liabilities	459	(2)	(234)	**223**
Non-current liabilities*	3,384	-	-	**3,384**
Total non-current liabilities	3,843	(2)	(234)	**3,607**
Current liabilities				
Trade and other payables	1,449	20	-	**1,469**
Other current liabilities	1,410	-	-	**1,410**
Total current liabilities	2,859	20	-	**2,879**
Equity				
Share capital and other reserves	159	-	-	**159**
Retained earnings	2,910	(8)	-	**2,902**
Total equity	3,069	(8)	-	**3,061**

Consolidated statement of cashflows for period ended 5 January 2019	As previously reported* £m	Nisa Adjust-ments £m	As restated £m
Net cash from operating activities	313	-	313
Net cash used in investing activities	(333)	-	(333)
Net cash used in financing activities	(103)	-	(103)
Net cash and overdraft balances transferred to held for sale	8	-	8
Cash and cash equivalents at beginning of the period	397	(4)	393
Cash and cash equivalents at end of the period	282	(4)	278

A summary of the impact of the prior year adjustments on the acquisition accounting for Nisa is as follows:

Acquisition of subsidiaries	As previously reported* £m	Adjustments £m	As restated £m
Property, plant and equipment	26	-	**26**
Intangible assets	47	-	**47**
Inventories	49	-	**49**
Trade and other receivables	116	(3)	**112**
Trade and other payables	(111)	(16)	**(127)**
Deferred tax liability	(11)	-	**(11)**
Borrowings (current) - funds in use invoice discounting facility	(57)	-	**(57)**
Loans and borrowings (non-current)	(8)	(4)	**(12)**
Total identifiable net assets acquired	51	(23)	**28**
Fair value of consideration transferred	126	-	**126**
Fair value of identifiable net assets	(51)	23	**(28)**
Goodwill	75	23	**98**

* Figures as at the acquisition date of 8 May 2018.

General accounting policies

What does this show? This section outlines the general accounting policies that relate to the financial statements as a whole. Details of other accounting policies are included within the notes to the financial statements to which they relate. This allows readers easy access to the relevant policy. This section also gives details of the impact of any new accounting standards that we've applied for the first time and the expected impact of upcoming standards that will be adopted in future years where that impact is likely to be significant.

General information

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

Basis of preparation

The Group accounts have been prepared in accordance with the Co-operative and Communities Benefit Act 2014 and applicable International Financial Reporting Standards as endorsed by the EU (IFRS) for the 52 week period ended 4 January 2020. 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 ther bases are applied are explained in the relevant accounting policy in the notes. Amounts have been rounded to the nearest million.

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

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

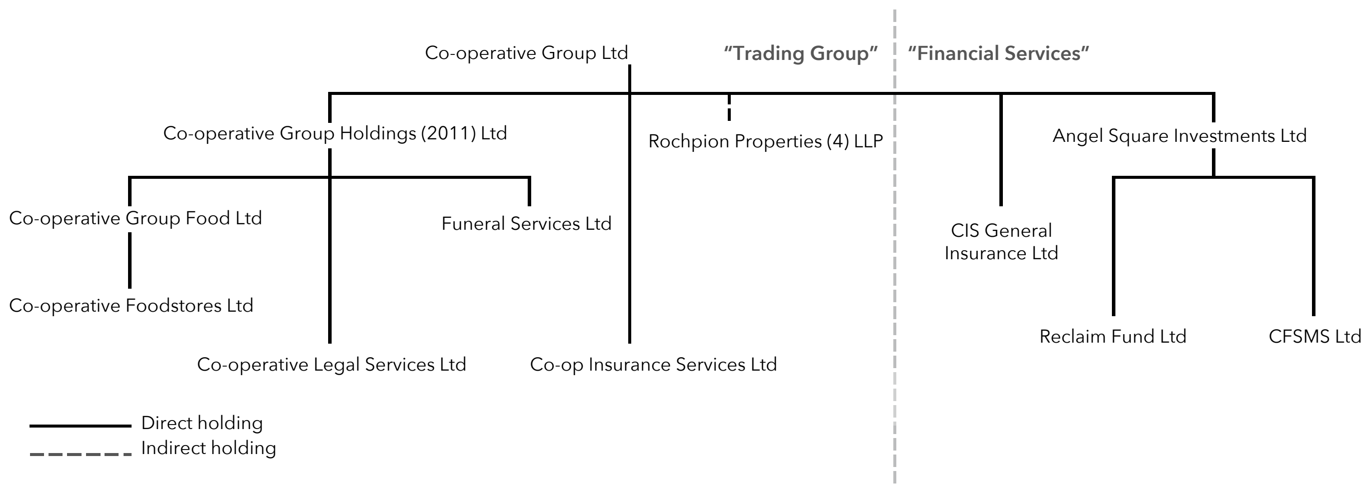
Basis of consolidation

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

The diagram below shows the composition of the Group and its principal subsidiaries. Further details can be found in note 33.

A full list of subsidiaries that make up the Group for the purposes of these financial statements can be found at:

http://www.co-operative.coop/corporate/aboutus/oursubsidiaries/



All shareholdings are 100% owned unless otherwise stated.

Definition of Trading Group and Financial Services

Throughout the financial statements reference is made to the Financial Services activities of the Group to distinguish them from Trading Group activity. The Financial Services entities comprise CIS General Insurance Limited (CISGIL) and other smaller entities (mainly holding, ancillary companies and the Reclaim Fund Limited).

Accounting dates

The Group and the Trading Group subsidiaries prepare their accounts to the first Saturday of January unless 31 December is a Saturday. These financial statements are therefore prepared for the 52 weeks ended 4 January 2020. Comparative information is presented for the 52 weeks ended 5 January 2019. Since the financial periods are virtually in line with calendar years, the current period figures are headed 2019 and the comparative figures are headed 2018.

The Financial Services subsidiaries of the Group have prepared accounts for the period ended 31 December 2019. This differs from the Group and other Trading Group subsidiaries. For the period ending 4 January 2020, there are no significant transactions or events which need to be adjusted for to reflect the difference in reporting dates.

One-off items and non-GAAP (Generally Accepted Accounting Procedures) measures

One-off items include costs relating to activities such as large restructuring programmes and costs or income which would not normally be seen as costs or income relating to the underlying principal activities of the Group.

To help the reader make a more informed judgement on the underlying profitability of the Group, a non-GAAP measure: underlying profit before tax, has been presented. This is shown at the bottom of the income statement and we show the adjustments between this measure and operating profit. In calculating this non-GAAP measure, property and business disposals (including individual store impairments), the change in value of investment properties, and one-off items are adjusted for.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to do so and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Significant accounting judgements, estimates and assumptions

The preparation of financial statements that comply with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Key judgements:

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

- *Revenue from contracts with customers: Funeral plans*

IFRS 15 (Revenue from contracts with customers) requires that revenue should be recognised in respect of separate performance obligations delivered to the customer. In applying the revenue standard to funeral plan sales the Group has concluded that the only separate performance obligation is the funeral itself and therefore revenue can only be recognised at the date the plan is redeemed and the funeral is performed. On interpreting the requirements of IFRS 15, management has made a significant accounting judgement in how we account for funeral plans:

- Monies received from customers for a funeral plan are placed into whole of life insurance policies. The Group has no access to those monies or the returns from the associated policies until such time that the policy is redeemed. When the policy is redeemed the monies are paid to the Group as consideration for performing the funeral. Neither the Group nor the customer can control the variability of the consideration, specifically the amount or timing of the consideration. Judgement has been applied in determining that consideration that is received from the policy is variable.

- An alternative judgement would be to view the consideration received from the customer as a financing transaction, i.e. that the customer is providing financing to the Group because there is a timing difference between when the customer purchases the plan and when the funeral is carried out.

Management do not believe a financing transaction exists in this instance. Firstly, because customers are not financing the Group when we sell a funeral plan as the Group has no access to the funds invested in whole of life policies until the policy is redeemed and the funeral is delivered. A customer takes out a plan for the peace of mind of having their funeral already arranged and to avoid placing the cost onto their families. Secondly, the Group cannot control the timing of delivery of a plan but the customer can as they are able to transfer a plan to another beneficiary. IFRS 15, paragraph 60, states that where the timing of delivery is at the discretion of a customer, then there is no financing arrangement.

Whilst some companies in the industry have applied the judgement that there is a financing component in their business model, it is important to note that the application of IFRS 15 depends on the facts and circumstances present in a contract with a customer and requires the exercise of judgement. Critically, the Group has several distinguishing features in its contractual terms from other operators in the industry which on careful consideration, has led to management applying a different judgement appropriate to this business.

- If the Group were to apply a different judgement, that being that the transaction includes a financing component, the accounting under IFRS 15 would be materially different. Investment returns from our invested funds would be recognised as interest income. A liability would be recognised on day one of the transaction, which would represent the Group's obligation to perform the funeral. This liability would be grown by a judgemental rate that would represent a customer's expected return from lending to the Funeral's business. Once the funeral is carried out, this liability is then extinguished by recognising the amount as revenue. This means that the amount recognised as revenue is a function of a highly judgemental accounting concept, as opposed to the amount received from the whole of life investment policy. For clarity we have presented the illustrative impact of this alternative judgement on our income statement below.

£m - Continuing operations	Audited 2019 (as reported)	Audited 2018 (as reported)	Unaudited 2019 (applying financing)	Unaudited 2018 (applying financing)
Revenue	10,860	10,162	10,858	10,160
Operating expenses	(10,691)	(10,072)	(10,691)	(10,072)
Operating Profit	**169**	**90**	**167**	**88**
Finance income	61	78	72	170
Finance costs	(163)	(85)	(220)	(139)
Profit before tax	**67**	**83**	**19**	**119**
Taxation	18	(17)	27	(24)
Profit from continuing operations	**85**	**66**	**46**	**95**

In arriving at this judgement, management have carefully considered the understandability of the accounts to our members, as well as the accounting principles. The approach we have taken was originally arrived at in adopting IFRS 15 for the first time in 2018 and was supported by third party accounting advice. Our approach received an unqualified audit opinion in 2018 from our external auditors. In the absence of further interpretive guidance, management believe the accounting judgement that we have applied best depicts the accounting for delivery of funerals to our customers through our funeral plans. During 2020 we will continue to monitor developments in the industry and any future guidance that is published regarding the interpretation of IFRS 15 and in doing so continue to satisfy ourselves over the appropriate application of IFRS 15 to pre-need funeral plans. In doing this, the understandability of our accounts to our members will remain a critical factor.

- *Assets held for sale and discontinued operations: Insurance*

On the 18th January 2019 the Group announced its intention to sell its Insurance business (CISGIL) to a third party (Markerstudy). As the Group was actively committed to the sale at the balance sheet date and the sale remains highly probable to happen within one year, it is judged that the carrying amount of CISGIL will principally be recovered through a sale transaction rather than through continuing use. As such the assets and liabilities of CISGIL are shown as held for sale in the Group's consolidated balance sheet and the results of CISGIL have been classified as discontinuing operations in the income statement. A key judgement within the classification as held for sale is the valuation of the assets and liabilities of CISGIL which are shown at fair value less costs to sell.

As part of the calculation of the fair value of the business, the expected consideration of circa £185m was taken into account. Of this consideration £84m will be treated as deferred income upon completion of the sale of the insurance group (in line with the requirements of IFRS 3 paragraph 52 b) in respect of remuneration for future marketing and distribution services. The calculation of this deferred income was subject to detailed scrutiny by management. Of the remaining £101m proceeds allocated to assets and liabilities held for sale, this was then reduced by costs to sell and discounting of deferred consideration in arriving at the fair value less cost to sell of £56m. See note 9 for details.

- *Consolidation of Reclaim Fund*

The Group is required to consolidate Reclaim Fund Limited (RFL) as it is a 100% owned subsidiary of the Group. However, RFL is a not-for-profit organisation whose surplus is held entirely for the benefit of Big Lottery Fund and the Group derives no financial benefit from RFL nor can it access RFL's reserves. During 2019, the Office for National Statistics (ONS) undertook a classification assessment of RFL and concluded that RFL is an institutional unit subject to public control. Discussions between Her Majesty's Treasury, Angel Square Investments Limited (the immediate parent company of RFL) & RFL are ongoing in respect of the recent ONS classification. A derogation of the decision is in place until March 2021 in order for this to be thoroughly considered. A judgment has therefore been made that it is most appropriate for the user of the accounts to continue to not consolidate the balance sheet of RFL on a line-by-line basis but instead to disclose it as single line items on the Group Balance sheet for current and non-current assets and liabilities. If the Group were to cease consolidating RFL, this would result in a one-off accounting charge to the income statement of £74m as a result of deconsolidating. This accounting charge would have no impact on the Group's cash held on its balance sheet.

- *Determining the lease term of contracts with extension and termination options*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of 5 to 10 years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

- Determining the lease discount rate to apply to lease liability calculations (note 12)

There is significant judgement involved in determining an appropriate discount rate to apply at the transition date of 6 January 2019. This is especially true for property leases where often there is no interest rate implicitly stated within the lease. For such leases a discount rate is derived by estimating the incremental borrowing rate ('IBR'). The IBR is the rate at which the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. There is therefore significant estimation uncertainty in estimating the appropriate IBR. As explained further in the accounting policies section on page 163, the Group has applied the practical expedient available when adopting IFRS 16 for the first time, to apply the same discount rates to assets which have similar characteristics. A decrease in the discount rate of 0.5% applied to property leases would increase the lease liability by £42m. An increase in the discount rate of 0.5% applied to property leases would decrease the lease liability by £40m.

Key estimates and assumptions:

The key assumptions and areas of uncertainty around key assumptions at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

The Group based its assumptions and estimates on information available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

• Pensions (note 27) – the Group's defined benefit pension obligations are determined following actuarial advice and are calculated using the projected unit method. The assumptions used are the best estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice. The most significant assumptions relate to the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, the Group's defined benefit obligation is highly sensitive to changes in these assumptions. Further details of the financial and demographic assumptions that have been used are shown in note 27 along with associated sensitivities to those assumptions.

• Impairment of non-financial assets *(notes 11, 12 & 13)* - the carrying amount of non-financial assets (such as property, plant and equipment, right-of-use assets or goodwill and intangibles) is reviewed at each balance sheet date and if there is any indication of impairment, the asset's recoverable amount is estimated. The recoverable amount is the greater of the fair value of the asset (less costs to sell) and the value in use of the asset. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its estimated recoverable amount. For property assets the fair value less costs to sell are measured using internal valuations based on the rental yield of the property.

The Group estimates the value in use of an asset by projecting future cash flows into perpetuity and discounting the cash flows (DCF) associated with that asset at a pre-tax rate of between 7-8% dependent on the business. Cash flows are projected using the relevant business' five-year plan. Cash flow projections beyond five years (and therefore outside of the five-year plan period) use a steady or declining growth rate dependent on the business. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. For the Group then these estimates are most relevant to goodwill and other intangibles with indefinite useful lives. The key assumptions used to determine the recoverable amount for the different CGUs, and the sensitivity analysis that is undertaken, are disclosed and further explained in notes 11, 12 and 13.

• Tax and Deferred tax (notes 8 & 15) – the Group's tax charge is made up of current and deferred tax and is calculated based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Significant management judgement is required to determine the amount of deferred tax assets and liabilities that can be recognised, including estimates as to the likely timing and the level of future taxable profits, together with future tax planning strategies. See disclosures in notes 8 and 15 for details of the key estimates and assumptions that are made.

• Provisions (note 24) – a provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The most significant provision for the Group relates to property provisions for non-rental costs associated with properties that are no longer used for trading purposes and significant assumptions and estimates are made in relation to the estimation of future cash flows and the discount rate applied. See note 24 for further details.

Restatements

The comparative figures presented within these financial statements for the financial year ended 5 January 2019 are consistent with the 2018 annual report with the exception of the restatements noted below:

Wholesale – during 2019 management identified a number of balance sheet items which contained historical errors within Nisa. A number of these errors were as a result of an ineffective balance sheet reconciliation process. Because the errors had a material impact on the acquisition accounting and the prior year profit and loss account, a prior year restatement has been carried out of the 2018 consolidated balance sheet including the acquisition accounting of Nisa, the 2018 consolidated income statement, and the 2018 cashflow statement. Full details of the restatement and the impact on the 2018 financial statements are outlined in note 38 (Restatements). The summary impact is noted below.

Deferred Tax – the Group deferred tax assets have been set-off against deferred tax liabilities for presentation in the financial statements. This is because the Group is allowed, under UK legislation, to make a single net corporation tax payment giving it the right of off-set and the expected unwind periods of these deferred assets and liabilities support this off-set. As such the deferred tax assets and liabilities of the Group have been presented net in the Consolidated Balance Sheet in 2019 and restated net for 2018 (previously these balances have been disclosed separately).

The tables below show the impact on those line items affected by the restatements:

Consolidated Balance sheet as at 5 January 2019 £m	Originally Reported	Wholesale	Deferred Tax	Restated
Deferred tax asset	234	-	(234)	-
Goodwill	1,071	23	-	1,094
Total non-current assets	**6,967**	**23**	**(234)**	**6,756**
Inventories	458	-	-	458
Trade and other receivables	537	(9)	-	528
Cash and cash equivalents	282	(4)	-	278
Total current assets	**2,804**	**(13)**	**-**	**2,791**
Total assets	**9,771**	**(10)**	**(234)**	**9,547**
Deferred tax liabilities	459	(2)	(234)	223
Non-current liabilities	**3,843**	**(2)**	**(234)**	**3,607**
Trade and other payables	1,449	20	-	1,469
Current liabilities	**2,859**	**20**	**-**	**2,879**
Total liabilities	**6,702**	**18**	**(234)**	**6,486**
Retained Earnings	2,910	(8)	-	2,902
Total Equity	**3,069**	**(8)**	**-**	**3,061**
Total Equity and liabilities	**9,771**	**10**	**(234)**	**9,547**

Consolidated Income statement for period ending 5 January 2019 £m - Continuing operations	Originally Reported	Wholesale	Deferred Tax	Restated
Revenue	10,162	-	-	10,162
Operating expenses	(10,072)	(10)	-	(10,082)
Operating Profit	**100**	**(10)**	**-**	**90**
Profit before tax	**93**	**(10)**	**-**	**83**
Taxation	(19)	2	-	(17)
Profit from continuing operations	**74**	**(8)**	**-**	**66**

Consolidated Statement of Cashflows for period ended 5 January 2019 £m	Originally Reported	Wholesale	Deferred Tax	Restated
Cash and cash equivalents at the beginning of the period	397	(4)	-	393
Cash and cash equivalents at the end of the period	282	(4)	-	278

New and amended standards adopted by the Group:

The Group has applied the following standards and amendments for the first time for reporting periods commencing on or after 6 January 2019:

- IFRS 16 Leases;
- IFRIC 23 Uncertainty over income tax treatments;
- IFRS 9 (amendments) – Prepayment features with negative compensation;
- IAS 28 (amendments) – Long-term interests in joint ventures;
- IAS 19 (amendments) – Plan Amendments, curtailment or settlement;
- Annual improvements to IFRSs 2015-2017 Cycle; amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23.

Their adoption has not had any material impact on the disclosures or on the amounts reported in those financial statements except for the adoption of IFRS 16, the impact of which is disclosed on the following pages.

Standards, amendments and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 4 January 2020 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:

- Amendments to references to conceptual framework in IFRS Standards;*
- Amendment to IFRS 3 Business Combinations;*
- Amendments to IAS 1 & IAS 8 Definition of Material;*
- Amendments to IFRS 9, IAS 39 & IFRS 7 Interest Rate Benchmark Reform.*

* Effective 1 January 2020.

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

Title	IFRS 17 Insurance Contracts
Nature of the change	IFRS 17 is a comprehensive new accounting standard covering recognition, measurement, presentation and disclosure of insurance contracts and replaces IFRS 4 Insurance Contracts. In contrast to IFRS 4, the new standard provides a comprehensive model (the general model) for insurance contracts, supplemented by the premium allocation approach (which is mainly for short-duration contracts such as certain non-life insurance contracts). IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts.
Impact	The standard will be effective for annual periods beginning on or after 1 January 2022 and management are currently assessing the impact of the new standard upon the Group's Insurance business, particularly in light of the anticipated sale of CISGIL.
Date of adoption by the Group	Applicable to annual reporting periods beginning on or after 1 January 2022. Not yet endorsed for use in the EU.

Adoption of IFRS 16

(i) The effect of the adoption of IFRS 16

The Group leases many assets which mainly comprise of property leases for its Food stores and Funeralcare branches as well as some vehicles and other equipment. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 6 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

Impact on the consolidated balance sheet (increase / (decrease)) as at 6 January 2019:	£m
Assets	
Right-of-use assets	1,056
Property, plant and equipment	(41)
Trade and other receivables	17
Deferred tax asset	49
Total assets	**1,081**
Equity	
Retained earnings	(237)
Total equity	**(237)**
Liabilities	
Lease liabilities	1,482
Trade and other payables	(92)
Provisions	(72)
Total liabilities	**1,318**

Impact on the consolidated income statement for the period ended 4 January 2020 with increases in costs shown as a negative figure and a reduction in costs shown as a positive figure:

	£m
Depreciation expense (included in operating expenses)	(104)
Rent expense (previously included in operating expenses)	159
Underlying operating profit	**55**
Operating profit	**55**
Finance costs	(67)
Profit before tax	**(12)**
Taxation	2
Profit for the period (all attributable to members of the society)	**(10)**

IFRS 16 has no impact on the Group's cash and overall cash flows, however there is a change in the classification of cash flows in the cash flow statement with lease payments previously categorised as net cash used in operations, whereas these cash flows are now split between a principal element and an interest element which are categorised as financing activities.

Impact on the statement of cash flows (increase/(decrease)) for the period ended 4 January 2020:	£m
Net cash flows from operating activities	182
Net cash flows from financing activities	(182)

(ii) Nature of the effect of adoption of IFRS 16

The Group's leasing activities and how these are accounted for

In previous reporting periods (including the 2018 financial statements for the period ended 5 January 2019), leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 6 January 2019, all leases (excluding short term or low value leases) are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 impairment of assets. This replaces the previous requirement to recognise a provision for onerous lease contracts. However an onerous provision is still held on balance sheet for onerous non-rental costs such as service charges on leasehold properties, as these costs are outside of the scope of IFRS 16. The impact of this is a reduction in the onerous lease provision of £72m as at 6 January 2019.

Right-of-use assets were tested for impairment on transition with the impact on the consolidated balance sheet included in the figures shown in the table in section (i).

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Adjustments recognised on adoption – Lease liabilities

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 6 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 6 January 2019 was 5.55%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

	£m
Operating lease commitments disclosed as at 6 January 2019	2,160
Discounted using the lessee's incremental borrowing rate of at the date of initial application	1,418
Add: finance lease liabilities recognised as at 6 January 2019	32
(Less): short-term leases recognised on a straight-line basis as expense	(4)
(Less): low-value leases recognised on a straight-line basis as expense	(3)
Add/(less): adjustments as a result of a different treatment of extension and termination options	39
Lease liability recognised as at 6 January 2019	**1,482**
Of which are:	
Current lease liabilities	181
Non-current lease liabilities	1,301
	1,482

The lease liability recognised as at 6 January 2019 of £1,482m is comprised of the additional lease liabilities brought onto the balance sheet on the adoption of IFRS 16 of £1,450m and lease liabilities that existed on the balance sheet prior to the adoption of IFRS 16 of £32m.

Adjustments recognised on adoption – Right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 5 January 2019.

The recognised right-of-use assets relate to the following types of assets:

	4 January 2020 £m	6 January 2019 £m
Property	979	1,011
Plant & equipment	66	45
Total right-of-use assets	**1,045**	**1,056**

Adjustments recognised on adoption - practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 6 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Impact on lessor accounting

The Group subleases a number of properties. Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case prior to the adoption of IFRS 16). Therefore, where the Group has subleased a property for the remaining term of the head lease and on similar terms to the head lease, the right-of-use asset is derecognised and a finance lease receivable is recognised in its place.

The impact of IFRS 16 on the Group's subleases was the recognition of a finance lease receivable of £69m on 6 January 2019. An allowance for lifetime expected credit losses has then been recognised, as required by IFRS 9 which impairs the receivable to £55m.

Going concern

The Directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position (as set out in the Business Overview section 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 21 to the accounts. In addition, notes 21 and 29 also include details of the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its financial instruments and hedging activities. The directors have specifically considered the impact of Covid-19 as explained in more detail in the Directors' Report.

In making their assessment the Directors have noted that the consolidated group accounts show a net current liability position. The Group meets its working capital requirements through a number of separate funding arrangements, as set out in detail in note 29, certain of which are provided subject to continued compliance with certain covenants (Debt Covenants). Profitability and cash flow forecasts for the Group, prepared for the period to June 2021 (the forecast period), and adjusted for sensitivities considered by the Board to be reasonably possible in relation to both trading performance and cash flow requirements, indicate that the Group will have sufficient resources available within its current funding arrangements to meet its working capital needs, and to meet its obligations as they fall due. Sensitivities have been applied to the market conditions of each of our trading businesses, as well as applying sensitivities to our key strategic activities and in respect to the projected impact of Covid-19.

After making all appropriate enquiries, the Directors have a reasonable expectation that the Society and the Group have access to adequate resources to enable them to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group's financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CO-OPERATIVE GROUP LIMITED

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements:

- give a true and fair view, of the state of Co-operative Group Limited's affairs as at 4 January 2020 and of the Group's income and expenditure for the 52-week period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014.

We have audited the financial statements of Co-operative Group Limited which comprise:

Group
Consolidated income statement for the 52-week period ended 4 January 2020
Consolidated statement of comprehensive income for the 52-week period ended 4 January 2020
Consolidated balance sheet as at 4 January 2020
Consolidated statement of changes in equity for the 52-week period ended 4 January 2020
Consolidated statement of cash flows for the 52-week period ended 4 January 2020
Related notes 1 to 38 to the financial statements, including a summary of general accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and in accordance with the Co-operative and Communities Benefit Act 2014.

Basis for qualified opinion

The Group accounts for pre-need Funeral Plans under IFRS 15: Revenue from contracts with customers. The accounting policy adopted by the Group for these Plans, as set out in the general accounting policies on **pages 215 and 216** of the annual report, relies on a key judgement that fair value gains on funeral plan investment assets represent variable consideration for the performance of the funeral at a future date and are therefore deferred until recognised as revenue at the point of funeral delivery.

Having reconsidered the Group's accounting policy, we now believe that the treatment of the fair value gains on funeral plan investments represents a departure from IFRSs. The fair value gains (2019: £11m, 2018: £92m) do not represent variable consideration under IFRS 15 because they are not payments from the customer for the future provision of the funeral. Instead, the investment gains should be reflected in the Consolidated income statement as they arise, in accordance with IFRS 9 'Financial Instruments', rather than being taken to accrete the value of the funeral plan liability (the consideration paid by the customer for the future provision of the funeral) under the Group's current policy.

Accordingly, the Group would be required to select an accounting policy for the funeral plan liability. The Group accounts in the general accounting policies on **pages 215 and 216** of the annual report, set out an alternative approach to account for a financing element in the transaction based on the Group's incremental borrowing rate. On this basis Finance income would have increased by £11m for fair value gains on investments and Finance costs would have increased by £57m for the significant financing component charge on the consideration received in advance (2018: increased by £92m and £54m respectively). Revenue would have decreased by £2m (2018: decreased by £2m), Taxation decreased by £9m (2018: increased by £7m), Profit from continuing operations and Members' share capital and reserves would have decreased by £39m (2018: increased by £29m), and Contract Liabilities in the Balance Sheet increased by £48m (2018: decreased by £36m). Net assets at 7 January 2018, on transition to IFRS 15, would have increased by £24m with a corresponding decrease in Contract Liabilities.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Conclusions relating to principal risks, going concern and viability statement

As stated on page 84, the directors have voluntarily complied with the UK Corporate Governance Code (the "Code").

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 59 to 62 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on pages 43 to 48 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on pages 122 to 124 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- whether the directors' statement in relation to going concern is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on pages 122 to 124 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Revenue recognition • Supplier income • Implementation of IFRS 16: Leases • Nisa component audit • The Going Concern basis of preparation
Audit scope	• We performed an audit of the complete financial information of the Food, Wholesale, Funeralcare and Corporate components and audit procedures on specific balances for a further 2 components, Property and CFSMS. Further to this, we performed specified procedures on the Insurance and Electrical component and review scope on the Legal and Reclaim Fund components • The components where we performed full or specific audit procedures accounted for 88% of Profit before tax, 99% of Revenue and 96% of Total assets.
Materiality	• Overall Group materiality of £46m which represents 0.5% of adjusted Revenue

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the basis for qualified opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition (2019: £10,860 million; 2018: £10,162 million) *Refer to Note 2 of the Consolidated Financial Statements (page 149)* The timing of when revenue is recognised is relevant to the reported performance of the Group. There is opportunity through management override or error to misstate the allocation of revenue between periods. **Funeralcare – Revenue** Revenue is recognised when a funeral service is delivered. There is a risk that revenue is overstated through management recording manual top-side journals into revenue which are not supported by underlying invoices in order to manipulate results. **Food – Stores revenue** There is a risk that management may record fictitious revenue transactions or manipulate the recorded revenue results through manual adjustments to revenue (including the adjustment where stores recognised revenue outside the normal automated process at year end). **Wholesale** Revenue is recognised when goods are shipped to customers. Some goods sold by the wholesale business are delivered directly to customers by external suppliers and the business is informed of these sales when the supplier submits the related invoice for processing and payment. These submissions occur over a number of weeks subsequent to delivery and manual adjustments are required to recognise these sales. At year-end, there is a risk that management may record fictitious revenue transactions or manipulate the recorded revenue. **Other group considerations** There is opportunity through management override and manual journals to misstate the allocation of revenue between periods.	**Applicable to all material revenue streams** • We have gained an understanding of and documented the key processes used to record revenue transactions by performing a walkthrough of the processes. • We performed analytical review procedures over revenue in the year, comparing results with our expectations and corroborated differences. In particular, we have performed procedures in the month preceding and subsequent to the year-end. • We have tested whether the Group's revenue recognition policy is in line with the criteria set out in IFRS 15: Revenue from Contracts with Customers. **Funeralcare** • We have tested manual journals to address the risk of fraud in revenue recognition based on our audit strategy. We have evaluated all manual journals posted to revenue during the year and performed substantive testing as appropriate. **Food** • We have tested manual journals relating to instances where stores recognised revenue outside the normal automated process in detail and ensured that there is no duplication of stores within the population or unusual amounts of revenue recognised. • We have performed journal analysis to identify sales journals that have not resulted in cash receipt and have tested a sample of these to supporting evidence to ensure revenue has been recognised correctly. • We have tested manual journals posted to revenue by management throughout the year and pre-year end using lower thresholds. **Wholesale** • We have tested manual journals to revenue and other transactions to the revenue account that do not follow the expected critical path from revenue to debtors to cash to identify any material instances of misallocation between periods. • We have tested cut-off of debtor transactions to ensure that transactions are recognised in the correct period. We performed full and specific scope audit procedures over this risk area, which covered 99% of the risk amount.	Revenue has been recognised appropriately in the 52-week period ended 4 January 2020. Revenue has been recognised in accordance with IFRS 15: Revenue from Contracts with Customers except in relation to the matter described in the basis for qualified opinion section.

Supplier Income (2019: £747 million; 2018: £646 million) *Refer to Note 4 of the Consolidated Financial Statements (pages 151 to 152)* The Group receives material discounts from suppliers specifically through the Food and Wholesale divisions. This supplier income is categorised as bonus income, promotional income and long-term agreements (LTAs). The terms of agreements with suppliers can be complex and varied. There can be performance conditions or promotional periods that span the Group's reporting date. Due to the complexity and judgement required in relation to bonus income and LTA income, there is a risk that an error in the calculation of income may occur either accidentally or through management override of controls and this could arise at any time during the year. Additionally, at year end there is a risk that supplier income could be accelerated in order to inflate profits. Promotional income arises from short-term, in-store promotions which are less complex in nature and the related income is settled through offset throughout the year, therefore the risk of promotional income being recognised incorrectly throughout the year is reduced, however the risk of overstatement at the year-end remains.	• We focused our audit procedures on the areas where management apply judgement, where the processing is either manual or more complex, and where the quantum of agreements is high. • We performed a walkthrough of the process for recording the three different arrangement types. We were able to take a controls reliance approach in respect of LTAs and bonus income in relation to the Food component. • For a sample of supplier income recognised during the year, we issued direct requests to third party vendors and confirmed the terms of arrangement and sales volumes used in the calculation of the income recognised. We also recalculated the income recognised for this sample. • We selected a sample of year-end balances from the trade receivables ledger and requested third party balance confirmations. • For cut-off purposes, we tested an additional sample of supplier income recognised during December to agreement terms and volume submissions from suppliers to ensure the related income was recognised in the correct period. • We tested a sample of credit notes received during January 2020 and assessed whether any of these related to arrangements in 2019. • We performed analytical review procedures over supplier income compared to cost of sales throughout the year to identify any unusual or unexpected trends. • Using the data extracted from the accounting system, we tested the appropriateness of journal entries and other adjustments to supplier arrangements. • We have tested provisions in place for queries and disputes by comparing the year-end provisions to the proportion of disputes settled in favour of vendors throughout the year and investigated the post year-end outcome of a sample of disputes. We also investigated aged unpaid supplier billings and ensured the provisions in place for these amounts. • We reviewed management's disclosure with respect to supplier arrangement amounts recorded in the Income Statement and Balance Sheet. • We verified that management's allocation of supplier income earned jointly with other independent societies through the member buying group was applied appropriately.	Supplier arrangement amounts are appropriately recognised in the Income Statement and Balance Sheet and the disclosures included are appropriate.

	We performed full scope audit procedures over this risk area in the Food and Wholesale components, which covered 100% of the risk amount.	
Implementation of IFRS 16: Leases *Refer to the Accounting policies (page 214); and Note 12 of the Consolidated Financial Statements (pages 163 to 165)* IFRS 16: Leases is effective for the Group from 6 January 2019. It requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use ('ROU') asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The Group has elected to use the modified retrospective approach rather than the full retrospective approach to transition, which is permitted by the standard. Comparative information is not restated and the cumulative effect of applying IFRS 16 is posted through the opening reserves as at 6 January 2019. As a newly adopted standard for the reporting period, the implementation and reporting of leases is a key area of audit focus, due to the underlying complexity of adoption and the significant number and value of leases held by the Group.	**Completeness of population** • We challenged management on how they ensured completeness of the lease population. Their assessment included a review of contracts for embedded leases and reconciling the prior year operating lease note to the current lease listing. We have reviewed the process management undertook. **IBR** • We engaged EY specialists to perform an independent review of the calculation applied by management in determining the IBR. **Inputs and Output** • We selected a sample of leases. For each lease selected we obtained the lease agreement and confirmed the data had been input correctly from the lease agreement onto the system. • For each lease selected, we tested the calculation applied in deriving the ROU asset and liability values by reperforming the calculations.	IFRS 16 Leases has been appropriately implemented.

Nisa component audit *Refer to the Accounting policies (page 214); and Note 38 of the Consolidated Financial Statements (pages 212 to 213)* Management identified a number of adjustments which were required to the Wholesale segment during their review of control account reconciliations as a part of the 2019 year-end financial statement close process. These adjustments related to the current and preceding accounting periods, including the acquisition accounting in relation to the Nisa business. As noted in the Strategic Report (page 46), these adjustments highlighted weaknesses in the control environment of the Wholesale segment. We performed audit procedures to: • ensure the completeness and accuracy of the adjustments identified by management. • conclude whether the circumstances and evidence available could give rise to adjustments which would require retrospective restatement under IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors.	Our response to the risk of material misstatement in the current and preceding accounting period in relation to Nisa, including the acquisition accounting in relation to the Nisa business, included the following audit procedures: • Reassessing our allocated component materiality and risk assessment in relation to the Wholesale component in the context of the proposed adjustments identified by management. This included additional procedures in relation to the risk of management override. • Engaging the EY forensic team to provide specific input into designing appropriate procedures to ensure the completeness and accuracy of the adjustments proposed by management, to challenge management's root cause analysis and perform audit procedures relating to certain adjustments proposed by management. • Assigning senior and experienced team members, including members of our forensics accounting team, to perform and review these procedures. • Performing a walkthrough of the Financial Statement Close Process, including those particular procedures performed to identify the adjustments proposed by management. • Examining the underlying documentation to assess whether these transactions had been accounted for appropriately. • Obtaining and critically challenging the accounting paper prepared by management detailing the rationale for prior period adjustments to be made in relation to the preceding accounting period and the acquisition accounting in relation to the Nisa business.	The prior year adjustments relating to the Wholesale segment which are set out in Note 38 have been recognised in accordance with the requirements of IFRS 8: Accounting Policies, Changes in Accounting Estimates and Errors.

The Going Concern basis of preparation *Refer to the Accounting policies (page 214 and page 223)* The Group's annual report is prepared on the going concern basis. This basis is dependent on a number of factors, including the Group's financial performance, the Group's continued access to bank borrowing facilities and the Group's ability to continue to operate within its facility limits and financial covenants. The Group has net current liabilities, and the £178m 2020 bond expires and is due for repayment in July 2020. The Covid-19 pandemic is of an unprecedented scale and has severely impacted the UK economy. The Group's activities have been particularly impacted by changes in consumer buying behaviours in the food sector, the impact of illness and self-isolation on the Group's workforce and its suppliers and Government imposed changes to funeral provision. There is a significant degree of uncertainty about the further spread of the virus and its continuing impact upon the Group. The Group's borrowing facilities are subject to financial covenants tested at 6-month intervals at the Interim and Year End reporting dates. The Group had headroom on covenant tests at each testing interval over the going concern period. The Directors have concluded that no material uncertainty over going concern exists as even under their severe but plausible stress test there is headroom on the available facilities and no projected breach of covenants. In relation to the matter described in the basis for qualified opinion section relating to pre-need Funeral Plans we performed additional audit procedures to address the risk of an event of default or covenant breach arising due to the qualification of our audit opinion.	In light of the Covid-19 pandemic the audit partner and other senior members of the audit team spent a significant amount of time performing the following procedures. We obtained the base case cash flow forecasts covering the going concern assessment period (the period to June 2021) and the viability assessment period (the period until December 2022). These forecasts included an assessment of the headroom available on existing loan facilities and related covenants. We obtained both the sensitivity analysis prepared by management and further severe but plausible and reverse stress tests modelling additional risks which might arise in relation to Covid-19. We assessed the appropriateness of the inputs and key assumptions used in the forecasts. We reviewed public announcements made by the UK Government in relation to the UK Covid-19 lockdown with specific reference to the UK food retail and funeralcare sectors. This review included details of the UK Government's Business Rates relief scheme and its applicability to the operations of the Group. In relation to cash flow and covenant forecasts and sensitivities prepared by management we: • obtained a copy of all the facility agreements and reviewed the terms and conditions including covenant requirements. • assessed the calculation of headroom in respect of the financial covenant compliance, including additional stress testing to reflect the Covid-19 impact. • assessed the reasonableness of management's business plans and the appropriateness of the inputs and key assumptions used in the forecasts including assumptions relating to the impact of Covid-19. • challenged significant assumptions which included Like for Like sales ratios in the Food, Wholesale and Funeral segments, store closures and staff absences, the exposure of the Group to expected credit losses on Partner debtors and recoverability of Supplier Income balances. • confirmed that forecasts prepared did not assume a refinancing of the £178m 2020 bond which expires in July 2020 or a draw down on the £100m accordion feature within the Revolving Credit Facility. • confirmed that the forecasts were prepared on the assumption that the sale of the CISGIL business was unsuccessful and the business is rather run-off over an extended period. • performed independent sensitivity analysis to assess whether the headroom calculations are reasonable, including the Covid-19 impact. • confirmed the Group's funding obligations in relation to CISGIL and ensured that any commitments are factored into management's assessment of the adequacy of facilities. This included consideration of the £70m Ancillary Own Funds instrument which was executed on 7th April 2020. This instrument is currently uncalled.	Based on the results of our audit procedures, we agree with management's conclusion that there is no material uncertainty related to the preparation of the Group's financial statements on a going concern basis. We confirmed that the going concern and viability disclosures are appropriate and adequate.

	• considered additional mitigating factors such as access to the UK Government's furlough scheme for certain colleagues in the Group and the deferral of capital expenditure. • assessed the adequacy of going concern and viability disclosures. In relation to the matter described in the basis for qualified opinion section relating to pre-need Funeral Plans we performed the following additional procedures: • We obtained management's assessment of the impact of a qualified audit opinion on the Groups facilities, which included both the Revolving Credit Facility and Bonds. • Management engaged external legal advisors who, in conjunction with their internal legal advisors, confirmed there was no event of default or other adverse implications of a qualified audit opinion on the terms of the Revolving Credit Facility and Bonds. • We obtained and reviewed the conclusions of the external legal assessment performed. • We spoke directly with external legal advisors to confirm the scope of the review performed and their conclusions. • We reviewed the facility agreements in relation to events for default and covenant compliance to corroborate the conclusions of management's external and internal legal advisors.	

In the prior year, our auditor's report included a key audit matter in relation to the Accounting for the sale of the Insurance component and the apportionment of consideration. In the current year, this has been downgraded to an area of focus as the points of judgement and complexity were reviewed and agreed in the prior year. However, due to the length of time in which the Insurance component has been recorded as held for sale and the proposed changes to the deal structure, this is still an area of focus for us.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment when assessing the level of work to be performed at each entity.

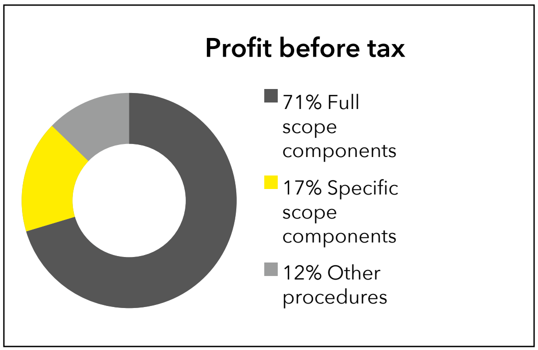
In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 13 reporting components of the Group, we selected 10 components covering entities, which represent the principal business units within the Group.

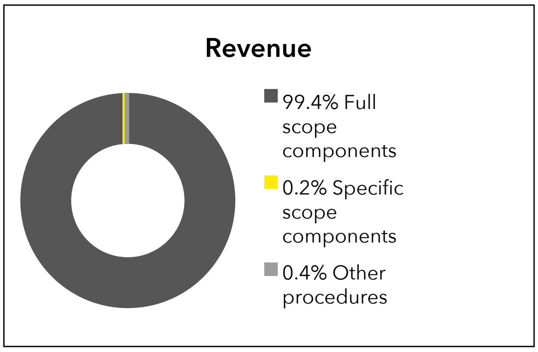
Of the 10 components selected, we performed an audit of the complete financial information of Food, Wholesale, Funeralcare and Corporate components ("full scope components") which were selected based on their size or risk characteristics. For the Property and CFSMS components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. Of the remaining 4 components, 2 were designated as review scope; Legal and Reclaim Fund whilst the other 2 components were designated as specified audit procedures; Insurance and Electrical.

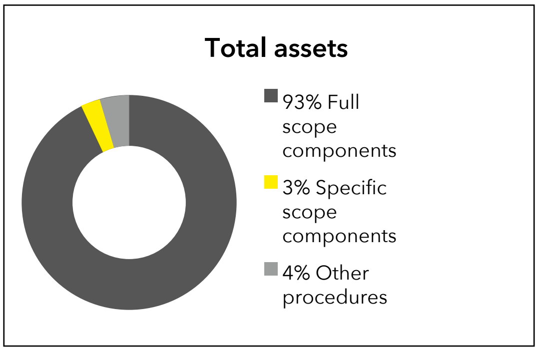
The reporting components where we performed audit procedures accounted for 88% (2018: 105%) of the Group's Profit before tax, 99% (2018: 100%) of the Group's Revenue and 96% (2018: 100%) of the Group's Total assets. For the current year, the full scope components contributed 71% (2018: 91%) of the Group's Profit before tax, 99% (2018: 94%) of the Group's Revenue and 93% (2018: 94%) of the Group's Total assets. The specific scope component contributed 17% (2018: 14%) of the Group's Profit before tax, 0% (2018: 0.1%) of the Group's Revenue and 3% (2018: 0%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group. We also performed specified procedures over certain aspects of 2 components; Insurance and Electrical, as described in the Risk section above. With regards to Insurance, this is still classified as held for sale, valued at fair value less costs to sell. We designed and performed audit procedures to allow us to conclude upon the appropriateness of the amounts recorded within the Income Statement and Balance Sheet in relation to the insurance component. With regards to Electrical, this component ceased trading in H1 of 2019 so specific procedures were performed around the closure of this component.

Of the remaining 3 components that together represent 0.6% of the Group's revenue, none are individually greater than 0.5% of the Group's revenue. For these components, we performed other procedures, including detailed analytical review to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.







Changes from the prior year
Based on the findings of the prior year audits, and accumulated knowledge, and subsequent discussions with the Risk and Audit Committee, we revised our scoping to reduce ASIL (previously known as Co-operative Banking Group) from Review Scope to Out of Scope in the current year. We made this change because we concluded that ASIL was not a material component to the group with no balance representing more than 5% of the Group.

Involvement with component teams
In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 4 full scope components, audit procedures were performed for two of the components by the primary audit team, the rest were performed by the component audit teams except for certain central balances audited directly by the primary audit team. For the two specific scope components, the audit was performed by the primary audit team.

At the start of the audit, an EY group wide team planning event was held with representatives from all full and specific scope component teams in attendance which involved discussing the approach with the component teams. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, discussed issues arising from their work, attended closing meetings with component management, reviewed key working papers and were responsible for the scope and direction of the audit process. During the current year's audit cycle, a visit was undertaken by the primary audit team to the Wholesale component based in Scunthorpe, this is in addition to the visit performed to the Food component team based in the Head Office in Manchester. The other full scope locations; Funeralcare and Corporate components were led by the group audit partner and are also based in the Head Office in Manchester. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £46 million (2018: £43 million), which is 0.5% (2018: 0.5%) of adjusted revenue. We considered revenue to be the most appropriate performance metric on which to base our materiality calculation because the nature of underlying trading businesses within the Group means revenue is one of the key financial metrics used by stakeholders as their relevant performance measure. Revenue is a key performance indicator used by management to monitor the Group's performance and profit or loss before tax has historically been low in relation to revenue and activity levels of the Group.

Adjusted revenue was calculated as total Group revenue less revenue generated by the Federal joint buying group:

Starting basis
- Starting point - £10,860 million total third party revenue

Adjustments
- Remove £1,613 million of revenue generated by the Federal joint buying group

Maternity
- Totals £9,247m adjusted revenue
- Materiality of £46m (0.5% of adjusted revenue)

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2018: 50%) of our planning materiality, namely £22.9 million (2018: £21.5 million). We have set performance materiality at this percentage due to the number of audit adjustments identified in the prior year.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £4.5 million to £17.2 million (2018: £4.3 million to £16.3 million) based on our assessment of audit risk for each entity within the Group in the current period.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £2 million (2018: £2 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information
The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

As described in the basis for qualified opinion section of our report, our audit opinion is qualified for the accounting for pre-need Funeral Plans in accordance with IFRS 15. Information on pre-need funeral plans included in the Strategic Report and accordingly we have concluded that the other information is materially misstated for the same reason.

In this context, except for the effects of the matter described in the basis for qualified opinion section, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 129 – the statement given by the directors that they consider the annual report and financial statements taken as a whole to be fair, balanced and understandable and provide the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting set out on pages 86 to 95 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee is materially inconsistent with our knowledge obtained in the audit; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 84 – the parts of the directors' statement relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor by ISA (UK) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Matters on which we have been requested to report in accordance with our engagement letter
The directors have instructed us to express an opinion on whether, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement is in compliance with the following provisions; Section 2 provision 3, Section 5 provisions 1, 3, 5 and 6 of Co-operatives UK Limited's Co-operative Corporate Governance Code issued in November 2019 ('the Code'). We have nothing to report in this regard.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

- the Society has not kept proper accounting records; or
- the Society has not maintained a satisfactory system of control over its transactions; or
- the financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations and access to documents we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 129, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Society or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are the direct laws and regulations relating to elements of company law and tax legislation, and the financial reporting framework i.e. Co-operative and Community Benefit Societies Act 2014. Our considerations of other laws and regulations that may have a material effect on the financial statements include the Groceries Supply Code of Practice (GSCOP).
- We understood how the Society is complying with those frameworks by making enquiries with management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Society and UK regulatory bodies; reviewed minutes of the Board and Risk and Audit Committee; and gained an understanding of the Society's approach to governance, demonstrated by the board of directors' approval of the governance framework and its review of the risk management framework and internal control processes.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by considering the controls that the Society has established to address risks identified by the entity, or that might otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement including complex transactions, performance targets, economic or external pressures and the impact that these have on the control environment. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk, refer to the Key Audit Matters section for further details. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items. For both direct and other laws and regulations, our procedures involved; making enquiries with those charged with governance and senior management for their awareness of non-compliance with laws and regulations, inquiring about policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Society's methods of enforcing and monitoring compliance with such policies and inspecting significant correspondence with regulatory authorities.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Society on 21 May 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 4 years, covering the 52-week periods ending 31 December 2016, 5 January 2019 and 4 January 2020 and the 53-week period ending 6 January 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Society and we remain independent of the Group and the Society in conducting the audit.
- The audit opinion is consistent with our reporting to the Risk and Audit Committee

Use of our report
This report is made solely to the Society's members, as a body, in accordance with Section 87 of the Co-operative and Community Benefit Societies Act 2014 and our engagement letter dated 28 March 2018 amended by addendum dated 31 March 2020. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Alistair Denton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
23 April 2020

Notes:
1. The maintenance and integrity of the Co-operative Group Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Jargon buster (unaudited)

There are lots of technical words in our accounts which we have to use for legal and accounting reasons. We've set out some definitions below to help you understand some of the difficult phrases accountants like to use. There is also a "What does this show?" introduction to every note to the accounts describing in simple terms what the note is trying to show. When a word is in bold in the table below that means you can also find the definition of that word in this table.

Accounting surplus (pensions)	When a pension scheme has more **assets** than the amount it expects to pay out in the future (the **present value** of its **liabilitie**s) then it has an accounting surplus.
Accrued income	When we've performed a service but haven't billed the customer yet, we hold the amount due on the **balance sheet** as accrued income. Once we bill the customer the balance is then moved to **receivables**.
Actuarial best estimate	In our Insurance business we have to recognise **liabilities** for the likely cost of claims. As part of the method for calculating these liabilities we use an actuarial best estimate, which is the weighted average of all future claims and cost scenarios. It's calculated using historical data, actuarial methods and judgement. A best estimate will normally be designed to be neither too optimistic nor too pessimistic.
Amortisation	Similar to **depreciation**, but for **intangible assets**.
Amortised cost	We value some of our **debt** based on its amortised cost. This is the **present value** of the expected future cash flows in relation to the debt.
Asset	This is an amount on our **balance sheet** where we expect to get some sort of benefit in the future. It could be a building we use or are planning to sell, some cash or the amount of money a customer owes us.
Assets held for sale	Sometimes we have to sell things. When we've decided to make a large disposal before the year end but the **asset** hasn't been sold yet, we have to show it in this line on the **balance sheet** and reduce its value (**impairment**) if necessary.
Assets in the course of construction	These are **assets** that we're in the middle of building. They're on our **balance sheet** as we've spent money already building them, but they aren't ready for us to use them yet so we're not **depreciating** them.
Associate	When we have significant influence over a company (usually by owning 20-50% of a company's shares and/or having a seat on its Board), we call that company an associate.
Balance sheet	This shows our financial position – what **assets** we have and the amounts we owe (**liabilities**).
Banking Syndicate	We have an agreement in place with a collection of banks (known as our Banking Syndicate) that gives us quick access to borrowings should we need them.
Benefit payments (pensions)	This is the amount our pension funds pay out to pensioners.
Capital expenditure	When we spend money on items that will become **assets** (such as property or IT systems) this is shown as capital expenditure. The costs are not shown in the **income statement** of the year it's spent – instead the costs are spread over the life of the **asset** by **depreciation** or **amortisation**.
Cash flow statement	This shows how much cash has come in or out during the year and how we've spent it.

Cash Generating Unit (CGU)	A CGU is the smallest identifiable group of **assets** that generate cash inflows that are largely independent of the cash inflows from other **assets** or groups of **assets**. For our Food business this is defined as an individual store, and for our Funeral's business this is defined as a regional care centre and the funeral branches which it serves as they are heavily interrelated.
CISGIL	This is the society that operates the Insurance business – CIS General Insurance Limit-ed.
Claims incurred	This is the amount of insurance claims we've paid in the year plus any change in our estimate of future claims we may have to pay.
Claims paid	This is the amount of insurance claims we've paid out in the year.
Claims reported	This is the amount on our **balance sheet** where we know what the claim is and how much is going to be paid out.
Commitments	Where we've committed to spend money on something (such as building projects) but we're not technically liable to pay for it, we don't put the amount on the **balance sheet** but we disclose the amount in the commitments note.
Comprehensive income	This is our profit for the year plus **other comprehensive income**.
Consolidated	As this report is based on the financial performance and position of many societies and companies around **the Group**, we have to add up all those entities and the total is the consolidated position.
Contingent **asset**	This is an amount that we might get in the future. Unless it's almost certain that we'll get the amount, we're not allowed to put it on the **balance sheet** but we show the amount in the contingent **assets** and **liabilities** note.
Contingent **liability**	This is an amount that we might have to pay in the future. If it's only possible, rather than probable, that we'll have to pay the amount, then we won't show the amount on the **balance sheet** but we show the amount in the contingent **assets** and **liabilities** note.
Contract **assets**	These are costs we've incurred in advance of being entitled to receive payment from a customer under a contract, such as costs incurred in setting up a **funeral plan**. We hold these on the **balance sheet** until we've delivered all the services to our customer and are entitled to receive payment.
Contract **liabilities**	This is where a customer has paid us in advance of them receiving goods or services under a contract (for example, a **funeral plan**). We have to hold this on the **balance sheet** until the customer receives the service they've paid for.
Corporate investor shares	This is money that other societies invest with us and we pay them interest on it. The societies can get their money back at any time.
Credit	This is an increase in income/reduction in costs on the **income statement** or an increase in a **liability**/reduction in an **asset** on the **balance sheet**.
Current	An **asset** or **liability** that is expected to last for less than a year.
Current tax	This is the amount we expect to pay in tax for the year based on the profits we make.
Debenture	This is a type of loan that we've issued and are paying interest on.
Debit	This is a decrease in income/increase in costs on the **income statement** or a decrease in a **liability**/increase in an **asset** on the **balance sheet**.

Debt	Loans that we've issued and are paying interest on.
Debt security	This is a type of investment held by our Insurance business and is a form of loaning money to another organisation.
Deferred acquisition costs	These are amounts which our Insurance business pays to secure business. It then holds these costs on the **balance sheet** and **amortises** over the length of the insurance period.
Deferred consideration	This is an amount we'll be paying to a seller for businesses we've bought or an amount we'll be getting from a buyer for businesses that we've sold.
Deferred tax	Sometimes our **assets** and **liabilities** are worth more or less on our **balance sheet** than they are for tax purposes. The tax on the difference in value is called deferred tax and can be an **asset** or **liability** depending on whether the value is greater in the **balance sheet** or for tax purposes.
Defined benefit schemes	This is a pension scheme where an amount is paid out to an employee based on the number of years worked and salary earned.
Defined contribution schemes	This is a pension scheme where an amount is paid into the scheme and at retirement the employee draws on the amount that has been invested over the years.
Deposits with credit institutions	When customers pay us premiums, we put the money in high-quality corporate bonds so that if an insurance policy needs to pay out, we have the money there. Deposits with credit institutions are the amounts we've invested in these corporate bonds.
Depreciation	Some **assets** the Co-op will have for a while (such as vehicles). When we buy them the cost goes on our **balance sheet** and then depreciation spreads the cost of the **asset** evenly over the years we expect to use them in the **income statement**.
Derivatives	These are financial products where the value goes up or down based on an underlying **asset** such as currency, a commodity or interest rate.
Discontinued operations	When we sell a large business, we report its results at the bottom of the **income statement** so that it's easier for readers to see the performance of **the Group's** other continuing businesses.
Discount rate	This is the amount that we are **discounting** by. It's a percentage and varies based on what we expect interest rates or inflation to be in the future.
Discount unwind	Every year the amount that we're **discounting** is going to be worth more as we get nearer to paying or receiving it. We have to put that increase in value (the discount unwind) through our **income statement**.
Discounting	When we have to pay or receive cash in the future, accountants like to take off part of the amount if it's a big amount (like on our **onerous leases**). This is because cash we pay or receive in the future is going to be worth less than it is now – mainly because of inflation.
Disposals	When we have sold an **asset**.
EBITDA	This is **operating profit** excluding any **depreciation** or **amortisation**. The letters stand for earnings before interest, tax, depreciation and amortisation.
Effective tax rate	This is the average tax rate we pay on our profits. This might be different to the standard corporation tax rate, for example, if we aren't allowed to deduct some of our costs for tax purposes.
Equity	This is the difference between the **assets** we own and the **liabilities** we owe – theoretically, this is how much money would be left for our members once every **asset** is sold and every **liability** is paid.

Eurobond Notes	This is our largest, fixed interest **debt** that we pay interest on to fund our businesses' operations.
Expected credit losses	This is an estimate of the amount of our **receivables** which will not be repaid.
Fair value movement	There are some things on our **balance sheet** which we have to revalue every year. This includes some of our **debt**, **investment properties** and our pension schemes. The change in value is called the fair value movement.
Fee and commission income	This is income which our Insurance business receives for distributing products which it doesn't underwrite.
Finance costs	These are usually the interest we pay on our **debt**, but can also be other things such as the **fair value movemen**t on our **debt** or the **discount unwind** of **liabilities**.
Finance income	This is mainly the interest on our pension **assets**, but can also be other things such as the **fair value movement** on our **debt** or the **discount unwind** of **receivables**.
Finance lease	A finance lease is a way of providing finance. Effectively a leasing company (the lessor or owner) buys the asset for the user (usually called the hirer or lessee) and rents it to them for an agreed period.
Financial instruments	A collective term for **debt** or **derivatives** that we have.
Financial Services	This is a group of companies within **the Group** that provide financial products such as insurance.
First Mortgage Debenture Stock	This is a small **debt** we owe that is secured against some properties – a bit like a mortgage.
Fuel	Refers to fuel sales generated from our petrol forecourts.
Funds in use invoice discount-ing facility	Invoice discounting is an arrangement with a finance company so that we can be paid for amounts we are owed on invoices earlier than the date our customers are due to pay us. 'Funds in use' is just the term for the amount we owe to the finance company.
Funeral plans	A member may not want his or her family to pay a large single sum for a funeral when he or she dies. Therefore, the member can pay for it gradually or in lump sums over a number of years and **the Group** will invest that money.
Funeral plan investments	When a customer gives us money for their funeral in the future, we invest this money. The balance of these investments is held on the **balance sheet**.
Goodwill	When we buy a business or a group of **assets**, sometimes we pay more for it than what its **assets** less **liabilities** are worth. This additional amount we pay is called goodwill and we put it on our **balance sheet**.
(the) Group	This is Co-operative Group Limited and all companies and societies that it owns.
Hedging	Sometimes we want to protect ourselves in case we have to pay more in the future for something. This could happen if the value of the pound falls so we have to pay more when buying something abroad or if interest rates go up. We take out **derivatives** to protect us from this and this process is known as hedging.
IAS	International Accounting Standards. **The Group** use these as the accounting rules. There are many different IASs that cover various accounting topics (e.g. IAS 38 is for **intangible assets**).

IFRIC	International Financial Reporting Interpretations Committee. These are interpretations of IASs or IFRSs that **the Group** also has to abide by.
IFRS	International Financial Reporting Standards. Similar to IAS, but cover different subjects.
Impairment	Sometimes our **assets** fall in value. If a store, branch, business or investment is not doing as well, we have to revalue it and put the downward change in value as a cost in our **income statement**.
Income statement	This not only shows our income as the name suggests, but also what our costs are and how much profit we've made in the year.
Intangible **asset**	We have **assets** at the Co-op that we can't see or touch which are shown separately to other **assets**. These include things like computer software and **goodwill**.
Interest rate swaps	We like to know what interest we're going to be paying in the future so we can manage our businesses effectively. We enter into arrangements with banks so that we can do this – for example, if we have **debt** where the interest rate can vary, we can buy an interest rate swap which means that instead we'll pay a fixed rate of interest. The value of these swaps can go up or down depending on how the market expects interest rates to change in the future.
Inventories	This represents the goods (the stock) we're trying to sell. The cost of this is shown on our **balance sheet**.
Inventory provision	If some of our stock isn't selling, we write those costs off to the **income statement** and hold a **provision** against those goods on the **balance sheet**.
Investment properties	Properties that we don't trade from, and which we might rent out or hold onto because the value might go up, are called investment properties.
Invoice discounting facility	Invoice discounting is an arrangement with a finance company so that we can be paid for amounts we are owed on invoices earlier than the date our customers are due to pay us.
Joint ventures	When we own 50% of a company we call it a joint venture. Sometimes **associates** are called joint ventures commercially as they're ventures with other parties, but are called **associates** for accounting purposes. A joint venture is a company where we own exactly 50%.
Lease Liability	This represents the discounted future payments we are due to make to suppliers in exchange for the right to use their equipment or property.
Liability	This is an amount on our **balance sheet** which we'll have to pay out in the future.
Like-for-like sales	The measure of year-on-year sales growth for stores that have been open for more than one year. This is a comparison of sales between two periods of time (for example, this year to last year), removing the impact of any store openings or closures.
Listed **debt** securities	People can trade some of our **debt** such as the **Eurobonds fair**. When this is the case, it's a listed **debt** security.
Member payments	This is an amount we've paid our members in the year and approved at the AGM such as dividends.
Member rewards	These are the benefits that members have earned for themselves during the year as part of the 5% membership offer.
Net **assets**	Same as **equity**.

Net **debt**	This is the **debt** we have less any cash that we might have.
Net operating **assets**	**Net assets** less investments, funeral bonds, **deferred tax**, **pension surplus** and drawn **debt**.
Non-controlling interest	This is the **equity** in a **subsidiary** which is owned by another shareholder. For example, if we only own 60% of a company, the other 40% is the non-controlling interest.
Non-current	An **asset** or **liability** that is expected to last for more than one year.
Non-GAAP measure	GAAP stands for Generally Accepted Accounting Principles. This is the common set of accounting principles, standards and procedures that companies must follow. Sometimes, companies want to provide different measures to help readers understand their accounts (such as underlying profit) where there isn't a standard definition – these measures are called non-GAAP measures.
One-off items	Items that are not regular in size or nature and would otherwise cloud the underlying profitability of **the Group** are stripped out. This could include a large IT project or a large restructuring exercise.
Onerous leases	When we close a store we sometimes still have to pay running costs until the lease runs out (such as rates). When this happens, we make a **provision** for the amount of the running costs we will have to pay in future and hold this on the **balance sheet**. Rental costs are excluded from this provision now we have adopted **IFRS** 16 (Leases) as those costs are included in the **lease liability**.
Operating profit	This is our profit before we have to pay any interest to our lenders or tax to the tax authorities.
Operating segments	This is an accounting term for the different businesses we have. When the financial performance of one of our businesses is reviewed separately from the other businesses by our Board, we call that business an operating segment and its sales and profit are disclosed in note 1.
Other comprehensive income	Sometimes we have big **fair value movements** on long term **assets** and **liabilities**. The **income statement** is meant to show the performance during the year, so to avoid this being distorted by these big changes, they are shown separately as other comprehensive income.
Parent	This is the owner of a **subsidiary**.
Payables	Another name for **liabilities**.
PAYE	Pay As You Earn. A tax which is paid on wages.
Pension interest	This is the interest that we're allowed to show in our **income statement** and is the **discount rate** used to **discount** the pension **liabilities** multiplied by the pension surplus or deficit last year.
Performance obligations	These are promises to provide distinct goods or services to customers.
Prepayment	When we pay in advance for a cost which relates to services that will be received over a future period of time (for example, rent or insurance), we hold that cost on our **balance sheet** as a prepayment and then spread the cost over the period of the service.
Present value	This is the value of a future cost or income in today's money and is arrived at by **discounting**.
Provision for unearned premiums	When we sell an insurance policy, some of the premium we receive may not relate to the current financial year if the insurance cover goes beyond the end of the year. We have to put any amounts which relate to later years on the **balance sheet** as a **liability**.

Provisions	This is a **liability**, but one where we're unsure what the final amount we have to pay will be and when we'll have to settle it. We use our best estimate of the costs and hold that on the **balance sheet**.
Quota share	Quota share is a type of **reinsurance contract** where we share premiums and losses with a reinsurer based on a fixed percentage and is a way of reducing our risk.
Realised gains	This is when we sell an **asset** for a profit.
Receivables	When someone owes us some money, we hold that amount as a receivable on our **balance sheet**.
Reclaim Fund	This is an entity we own that helps money in dormant bank accounts to be used for charitable purposes.
Reinsurance contracts	When we sell an insurance policy, we might want to resell that policy to another insurance company so that we can manage the level of risk we face in case a major claim comes in. When we're owed money from the other insurer then this is shown as an **asset** and if we have reinsured for another insurer we would show a **liability**.
Related party	This is a company or person that is closely linked to the Co-op. It's usually a member of our Board or Executive or their close family plus companies such as our **associates** and **joint ventures**.
Remeasurement gains / losses on employee pension schemes	There are lots of assumptions that are used when valuing pensions. If those assumptions change this can have a big effect on the size of the pension **asset** or **liability**. So that we don't distort the **income statement**, this effect is shown in **other comprehensive income**.
Repayment notes	This is a type of loan, which we repay either in instalments or in a lump sum at the end of the loan.
Repo agreements	This is a type of short-term investment used by our Insurance business.
Reserves	This is the amount of **equity** we have, but excluding any **share capital**.
Restated	Sometimes we change the numbers that we showed in last year's accounts. This might be because we have changed where or how we record certain things or it could be that we have corrected an error. There are strict rules around what can be changed and when we make changes we explain why in the accounting policies.
Retained earnings	This is all the profits we've made since the beginning of time for the Co-op that have not yet been paid out to members.
Retirement benefit obligations	Another term for our pension **liabilities**.
Return on plan **assets** (pensions)	This is the income our pension **assets** have generated in the year.
Revaluation reserve	When we revalue a property upwards, we're not allowed to put this **unrealised gain** through our **income statement** or within **retained earnings** as law dictates that this can't be distributed to members until the property is sold. It's then ring-fenced as a specific **reserve**.
Revolving Credit Facility	This is money that our lenders have agreed we can borrow if we need to. It works a bit like an overdraft.
Right of use **asset** (ROU)	This is an **asset** that we don't own legally, but which we lease from another party. The **asset** represents the value the Co-Op has in being able to use the **asset** over the length of a lease contract.

ROCE	Return on capital employed. This is based on our underlying profit we make in the year less any pension interest earned divided by the net operating **assets** we have.
Sale and leaseback	This is when an **asset** is sold to a third party and then immediately leased back under a lease agreement. For the Co-op, this usually relates to the sale of a building such as a store.
Sensitivity analysis	When an item on our **balance sheet** varies in value from year to year based on some estimates that we make, we show a sensitivity analysis which shows you how much the **asset** or **liability** would change by if we were to change the estimate.
Share capital	This is the amount of money that our members have paid us to become members less any amounts that we've repaid to them when they cancel their membership.
Society	The Co-operative Group Limited is a registered co-operative society. We sometimes refer to our collective whole as '**the Group**' or 'the Society' and the terms are broadly interchangeable.
Subrogation	This is an insurer's right to recover the amount it has paid for a loss from the party that caused the loss.
Subsidiary	This is a company or society that is owned by another company.
Supplier income	Sometimes our agreements with suppliers mean they will give us money back based on the amount of their products we buy and sell. We call this supplier income.
Trading Group	This is **the Group** less any **Financial Services** companies.
Underlying profit	This is an alternative measure of the trading performance of **the Group** which excludes **one-off items** or large gains or losses we might have made on selling **assets**.
Unrealised gains	An **asset** may have gone up in value, but we've not sold it. If this is the case, the profit from the gain is unrealised as we've not sold the **asset** yet.

Five year summary (unaudited)

£m	2019 (reported)*	2019 (ex IFRS 16)**	2018 (restated***)	2018	2017 (i)	2016	2015
Revenue							
Food	7,505	7,505	7,274	7,274	7,103	7,105	6,997
Wholesale	1,423	1,423	983	983			
Funerals & Life Planning	307	307	317	317	320	311	307
Federal	1,613	1,613	1,532	1,532	1,461	1,343	1,279
Other	12	12	56	56	59	67	78
Total revenue	**10,860**	**10,860**	**10,162**	**10,162**	**8,943**	**8,826**	**8,661**
Underlying profit before tax							
Food	283	235	204	204	182	182	186
Wholesale	(10)	(10)	(21)	(11)			
Funerals & Life Planning	14	12	25	25	42	56	61
Other	(118)	(123)	(111)	(111)	(117)	(138)	(79)
Underlying segment operating profit	169	114	97	107	107	100	168
Underlying net interest expense on lease liabilities *	(74)	-	-	-	-	-	-
Underlying interest	(64)	(64)	(64)	(64)	(64)	(65)	(77)
Underlying profit before tax	**31**	**50**	**33**	**43**	**43**	**35**	**91**
EBITDA (ii)							
Underlying segment operating profit (above)	169	114	97	107	107	100	168
Depreciation (plant, property and equipment)	252	252	256	256	256	246	256
Depreciation (right-of-use assets)*	110	-	-	-	-	-	-
Amortisation	17	17	15	15	8	5	7
Underlying segment EBITDA (ii)	**548**	**383**	**368**	**378**	**371**	**351**	**431**
Insurance (Discontinued from 2018)							
Revenue	315	315	323	323	331	439	343
Underlying PBT	(10)	(10)	(1)	(1)	11	11	(13)
Loss on discontinued operation	(16)	(16)	(230)	(230)	(17)	-	-
Other performance items							
5% Member reward	(59)	(57)	(60)	(60)	(61)	(16)	-
1% Community reward	(11)	(11)	(12)	(12)	(13)	(3)	-
Profit / (loss) after tax - continuing operations	103	116	66	74	71	(129)	59
Trading Group ROCE (ii)	4.9%	5.1%	4.3%	5.2%	5.1%	5.7%	9.1%
Balance sheet items							
Total assets	10,597	10,071	9,536	9,771	9,203	9,225	8,729
Group net debt (excluding IFRS 16 leases)*	(695)	(754)	(796)	(792)	(775)	(885)	(692)
Group net debt (including IFRS 16 leases)*	(2,165)	-	-	-	-	-	-
Total equity	2,835	3,130	3,061	3,069	3,015	3,241	2,937
Net debt: EBITDA ratio (excluding leases)*	1.27	1.97	2.16	2.10	2.09	2.52	1.62
Net debt: EBITDA ratio (including leases)*	3.95	-	-	-	-	-	-
Total pension assets	11,168	11,168	10,271	10,271	10,538	12,879	10,799
Total pension liabilities	(9,304)	(9,304)	(8,412)	(8,412)	(8,985)	(11,152)	(9,669)
Total net surplus	1,864	1,864	1,859	1,859	1,553	1,727	1,130
Business-specific measures							
Total Food like-for-like sales increase	1.9%	1.9%	4.4%	4.4%	3.4%	3.5%	1.6%
Number of Food stores	2,611	2,611	2,582	2,582	2,532	2,774	2,803
Total Food sales area ('000 sq ft) (iii)	8,327	8,327	8,292	8,292	8,307	8,797	9,185
Number of At-need funerals sold	90,630	90,630	95,363	95,363	99,925	97,607	97,147
Number of Pre-need funerals sold	49,066	49,066	55,593	55,593	68,969	58,999	34,904
Number of Funeral homes	998	998	1,049	1,049	1,079	1,026	986

(i) 53 week year (ii) See Jargon buster on page 236 for definition (iii) Quoted excluding petrol forecourt area

* The Group has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 214. ** To aid comparison with previous years then 2019 figures are also shown in the table above excluding the impact of IFRS 16. *** For more details on the restatements, refer to the general accounting policies section on page 214.

Co-operative Group Limited

Registered society, registered in England and Wales under
the Co-operative and Community Benefit Societies Act

Registered office: 1 Angel Square, Manchester M60 0AG

Registered number: 525R

coop.co.uk

It's what we do