24 April 2020

Annual Results Announcement: 52 Weeks to 4th Jan 2020

Co-operation is working

Total revenue up 7%, underlying profits up 50% like for like[1]
Six years continued like-for-like sales growth in Food
£76m returned to members and local causes
Business plays critical role in ensuring community resilience through coronavirus

Co-op difference highlights

- Creation of further member and community value, with £76m returned – £59m to members directly; £17m to 4,400 local causes chosen by members and colleagues. More than £260m paid to members and communities over last three years
- Active membership at 4.6m; successful focus on driving young membership, with 36% of new members aged 35 or under
- Issued £300m sustainable bond, with proceeds used to drive Food's Fairtrade offer, ensuring better deal for producers
- Pension Fund combines strength with sustainability: defined benefit surplus in excess of £1.8 billion; £22m invested in affordable housing; £320m defined contribution assets switched into specialist climate change fund
- A further £1.2m invested into Co-op Academy schools in 2019, as part of a four year commitment to invest £3.6m; six new schools opened, taking total to 24 at year end; plans to grow to 40 in next two years
- Further development of award-winning Safer Colleagues, Safer Communities campaign; launch of NightClub initiative to improve wellbeing of night shift workers – directly tackling issues to support colleagues
- Launched community strategy around Spaces, Skills, Sustainability and Wellbeing:
    - Uses almost 40% recycled plastic in Co-op own brand food packaging, banned black plastic and rolled out the UK's first nationally available compostable carrier bag to 1,000 stores
    - First British retailer to have science based targets to reduce greenhouse emissions and to sign the UN's *Our Only Future* campaign at New York Climate Action Summit
    - Cut waste to take food approaching its use by date off sale early to donate to food banks for meals

- Work under way to develop detailed Shared Value measurement framework to show social and environmental impacts, along with traditional financial measures

[1]On a comparable basis excluding impact of new lease accounting standard IFRS 16 (Leases). See the Financial Performance section for further details.

Financial highlights

- Total revenues grew 7% to £10.9bn, driven by continued strong performance from Food, including annualisation of Nisa wholesale, acquired in May 2018
    - Revenue in Food rose 3% to £7.5bn; like-for-like sales up 1.9%; Co-op has now delivered six years of like-for-like Food revenue growth
    - Wholesale like-for-like revenues increased by +1.1%, outperforming the market by +1.4%. Nisa attracted 94 new Partners to the business
    - Funeralcare and Life Planning revenue reduced year-on-year (-3.2%), reflecting moves to cut prices and improve choice and lower death rate
- Group underlying profit before tax, excluding IFRS 16 impact, up 50% to £50m[2] (2018: £33m), driven by Food's strong performance; underlying PBT with IFRS16 £31m (2018: £33m)
    - Food delivered underlying operational profit of £283m (£235m on a like for like basis excluding IFRS 16, against £204m in 2018)
    - Profit before tax for 2018 has been restated, reduced by £10m, following the identification of some historical accounting errors within Nisa
- Capital expenditure of £439m to ensure Co-op is well positioned for future growth:
    - Food: investment of £342m in new outlets, refitted stores and supply chain
    - Funeral & Life Planning: £29m invested in infrastructure and technology
- Net debt reduced to £695m, excluding lease liability (2018: £764m)

Operational highlights

- Another strong year for Food business, which outperformed the wider market:
    - Opened 79 new stores; refitted 152 stores and extended 10
    - Taking 52 week Kantar total grocery data to the end of 2019: 133,000 additional households served in 2019 vs. the previous year
    - Positivity towards Co-op Food up 3% in 2019 compared to 2018. Co-op increasingly known for championing important issues and being involved in community
    - Successful trial of home delivery; delivery options to now be expanded, with online same-day services made available across almost 100 towns and cities, served by 650 Co-op stores, with delivery options including Deliveroo
    - Launched 554 new products and improved more than 1,000 existing product lines, including award-winning Irresistible pizza range and rollout of GRO vegan range; plan to expand vegan offering through 2020
    - Nisa acquisition continued to deliver volume growth for Wholesale business with sales of £1.4bn (£1bn for eight months), successfully delivering against strategy of increasing Co-op buying power and achieving wider distribution of Co-op own-brand products into more communities

- Market for **Funeral & Life Planning** business remained challenging; clear turnaround strategy in place
    - Revenue declined 3%, reflecting continued investment in price reductions with lower-cost funerals and lower death rate. Continued close work with CMA on market investigation into sector
    - Legal Services revenues increased 13% to £40m, making Co-op leading personal legal services provider in UK; further investment in online platform to fuel growth

[2]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. We believe that our treatment most fairly reflects the true underlying commercial nature of a Funeral Plan and our true Financial performance in our Funeral business (as explained in the General Accounting Policies section). We remain firmly of the view that the approach we took in 2018 when we first adopted IFRS 15 (Revenue from Contracts with Customers) remains appropriate. We sought advice from another accountancy firm when we first adopted IFRS 15 and our approach also received an unqualified audit opinion from our auditors for 2018.

- In a year of transformation, **Insurance** began to deliver on strategy of developing and distributing more products and solutions for members
    - Re-entered life insurance market; member-designed cover offers payment holidays for those in financial difficulty. Introduced innovative safe driving policy for young drivers, with savings of more than £1000
    - Sale of CIS General Insurance Ltd ongoing; insurance underwriting treated as discontinued business to reflect this process

- Following launch, **Co-op Health** app downloaded more than 150,000 times

COVID-19 response

- Co-op colleagues in Food and Funerals recognised as key workers, keeping communities and economy working; 56,000 front line colleagues rewarded with £150 bonus and an extra day's holiday, all worth more than £13m
- Created temporary jobs for more than 7,000 people out of work as normal workplaces closed; all posts filled within seven days
- New Co-op Members' Fund established to support Foodbanks, address funeral poverty and help local causes directly supporting crisis effort; members now able to share rewards received from shopping to fund
- Boost to planned payments for Local Community Fund causes in April to more than £4.5m
- Delivering £1.5m of food to FareShare and donated Easter TV advertising to the charity in support of food banks. Activated a text service for customers to make further contributions
- Vouchers given in lieu of free school meals to Co-op Academy pupils and extended into Easter holidays so Co-op school pupils don't go hungry
- Co-operate launched – online resource signposting volunteers and those in need to local and national support initiatives
- 700+ Member Pioneers, an increase of 100 since 2019, continuing to support volunteering initiatives in their areas, helping vulnerable people and reducing isolation
- Funerals business working directly with government to face into challenges COVID-19 causes for the sector
- Downloads of repeat prescription app tripled, enabling safe delivery of thousands of medications direct to homes

Outlook

- With the continued COVID-19 outbreak and other factors, the outlook is uncertain:
  - We expect additional costs associated with COVID-19 to be in excess of £200m, which will in part be offset by increased food sales and the expected business rates relief announced by the Chancellor
  - The Competition and Markets Authority extended statutory deadline on Funerals Market Investigation by six months; Co-op will continue to work with CMA on this and with HM Treasury and the Financial Conduct Authority on the proposed regulatory framework for pre-paid funeral plans
  - We continue to work with the FCA on its market study into the pricing of home and motor insurance
- Against this backdrop, we are clear on strategy to deliver sustainable growth for the Co-op and to continue to add value for members and for communities

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

“The Co-op made further financial progress through 2019, showing that co-operation is working. While we didn’t know it at the time, that performance set us up well to withstand the impact of the COVID-19 crisis and to enable us to support the communities we operate in.

“No part of our business has been unaffected by the outbreak of the virus and we have played a critical role in communities throughout the UK. Our Food business has helped to feed the nation and our Funeral colleagues have been there for families at their time of greatest need. All of this work will continue and I could not be more proud of our people who have delivered - day in, day out.

“Co-operation is something that is central not just to our business model, but to everything that we do and we are committed to continue to deliver against our vision of Co-operating for a Fairer World. Against the backdrop of COVID-19 we will review the strategy we had embedded across our businesses, aligning commercial and community objectives. Our responsibility as a co-op is to ensure that through our businesses, our wider influence is used to make the communities in which we operate feel stronger and more connected. That drives the business decisions we make – not profit alone and not shareholder value. The importance of that has never been so stark and we will continue to play our part for as long as we need to.”

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

“The Co-op 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. It is already clear that COVID-19 will have profound consequences for the UK and global economy and our Co-op members and customers will not be immune.

“Against that backdrop, our results for last year show that we are in a strong position to keep playing our part. At the Co-op, however, we measure our success differently. Strengthening and sustaining our local communities is fundamental to us and in 2019 we gave £17m to more than 4,400 local causes.

“Looking ahead, 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.”

Ends

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About the Co-op:

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

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 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 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 IFRS16. 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 IFRS16, 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 and in Note 38 to the accounts.

IFRS15 – 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 for more detail.

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

CO-OPERATING FOR A FAIRER WORLD

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

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.

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 temporality suspended our weekly offers to members.

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.

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

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 in the Report of the Remuneration Committee in our Annual Report. 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 & 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

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.

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

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

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 things happen 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 better manage 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

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 net 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 £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. The goodwill arising on acquisition of Nisa has also increased by £23m because of the change to the acquisition balance sheet.

There are 3 key areas of the £33m overstatement to net assets. A £20m understatement to creditors has arisen 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 £9m relating principally to errors in the calculation and timing of recognition of supplier income. Finally a £4m error arose on cash which relates to a historical error in the bank reconciliation. These errors demonstrate 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 is 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 the General Accounting Policies note in the key judgements section.

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	2019 excluding IFRS 16	2018 (restated)
	£ million	£ million	£ 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 £17million 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 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 ex 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 introduction.

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 purpose, 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	2019 excluding IFRS 16	2018
	£m	£m	£m
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	2019 excluding IFRS 16	2018
	£m	£m	£m
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 £11m 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	2019 excluding IFRS 16	2018
	£m	£m	£m
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 an £7m 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 £34m 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	2019 excluding IFRS 16	2018
	£m	£m	£m
Underlying interest payable	(64)	(64)	(64)
Net underlying lease interest	(74)	-	-
Underlying interest	(138)	(64)	(64)
Non- underlying interest			
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 £439m 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: www.co-operative.coop/ethics/tax-policy/.

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 £45m reduction in property, plant and equipment ("PPE") includes a £41m 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. Two other schemes use slightly weaker bases and are in deficit.

Other notable movements in the balance sheet include a £133m reduction in provisions which includes a £72m 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 £87m in the year mainly reflecting £154m of new plans sold in the year offset by £65m 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 £74m.

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.

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		**10,860**	10,162
Operating expenses		**(10,700)**	(10,082)
Other income		**9**	10
Operating profit	1	**169**	90
Finance income	3	**61**	78
Finance costs	4	**(163)**	(85)
Profit before tax	1	**67**	83
Taxation	5	**18**	(17)
Profit from continuing operations		**85**	66
Discontinued Operation			
Loss on discontinued operation, net of tax	6	**(16)**	(230)
Profit / (loss) for the period (all attributable to members of the Society)		**69**	(164)

Non-GAAP measure: underlying profit before tax***

What does this show? The table below adjusts the operating profit figure shown in the consolidated income statement above by taking out items that are not generated by our day-to-day trading. This makes it easier to see how our business is performing.

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		**(27)**	(38)
Underlying segment operating profit	1	**169**	97
Less underlying loan interest payable	4	**(64)**	(64)
Less underlying net interest expense on lease liabilities*	3,4	**(74)**	-
Underlying 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 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.

** For more details on the restatement, refer to the general accounting policies section.

*** 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	11	**(99)**	178
Refinement of the derecognition of pension surplus attributable to The Co-operative Bank	11	**-**	31
Related tax on items above	5	**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	5	**(1)**	1
		5	(8)
Other comprehensive (losses) / income for the period net of tax		**(77)**	165
Total comprehensive income / (loss) 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.

** 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		**2,001**	2,046
Right-of-use assets**	8	**1,045**	-
Goodwill and intangible assets		**1,087**	1,094
Investment properties		**16**	42
Investments in associates and joint ventures		**3**	3
Funeral plan investments		**1,271**	1,223
Derivatives		**-**	27
Pension assets	11	**1,973**	1,984
Trade and other receivables		**111**	81
Finance lease receivables**	8	**40**	-
Contract assets (funeral plans)		**54**	47
Reclaim Fund assets		**206**	209
Total non-current assets		**7,807**	6,756
Current Assets			
Inventories		**454**	458
Trade and other receivables		**445**	528
Finance lease receivables**	8	**11**	-
Contract assets (funeral plans)		**4**	4
Cash and cash equivalents		**308**	278
Assets held for sale	9	**1,090**	1,113
Reclaim Fund assets		**478**	410
Total current assets		**2,790**	2,791
Total assets		**10,597**	9,547
Non-current liabilities			
Interest-bearing loans and borrowings	10	**803**	976
Lease liabilities**	8	**1,277**	28
Trade and other payables		**183**	214
Contract liabilities (funeral plans)		**1,435**	1,353
Derivatives		**1**	-
Provisions		**95**	215
Pension liabilities	11	**109**	125
Deferred tax liabilities		**134**	223
Reclaim Fund liabilities		**540**	473
Total non-current liabilities		**4,577**	3,607
Current liabilities			
Interest-bearing loans and borrowings	10	**200**	66
Lease liabilities**	8	**193**	4
Income tax payable		**7**	8
Trade and other payables		**1,520**	1,469
Contract liabilities (funeral plans)		**137**	132
Provisions		**62**	82
Liabilities held for sale	9	**1,015**	1,045
Reclaim Fund liabilities		**70**	73
Total current liabilities		**3,204**	2,879
Total liabilities		**7,781**	6,486
Equity			
Members' share capital		**73**	73
Retained earnings		**2,654**	2,902
Other reserves		**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.

** 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. To further help the reader we've also included additional tables in 'Our financial performance' section 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 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**	5	**-**	**(286)**	**-**	**(286)**
Tax impact of IFRS 16 on reserves as at 6 January 2019		**-**	**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	11	**-**	**(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	5	**-**	**17**	**(1)**	**16**
Total other comprehensive income		**-**	**(82)**	**5**	**(77)**
Revaluation reserve recycled to retained earnings		**-**	**2**	**(2)**	**-**
Contributions by and distributions to members:		**-**	**-**	**-**	**-**
Balance at 4 January 2020		**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	11	-	178	-	178
Refinement of derecognition of pension surplus attributable to The Co-operative Bank	11	-	31	-	31
Gains less losses on fair value of insurance assets		-	-	(8)	(8)
Fair value gains on insurance assets transferred to the income statement		-	-	(1)	(1)
Tax on items taken directly to other comprehensive income	5	-	(36)	1	(35)
Total other comprehensive income		-	173	(8)	165
Revaluation reserve recycled to retained earnings		-	7	(7)	-
Contributions by and distributions to members:		-	**-**	**-**	-
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.

** 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. To further help the reader we've also included additional tables in 'Our financial performance' section 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	7	**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	10	**(2)**	(2)
Repayment of borrowings	10	**(343)**	(34)
Proceeds from new borrowings	10	**299**	-
Settlement of interest rate swaps	10	**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	6	**(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)		**308**	278

* For more details on the restatement, refer to the general accounting policies section. Included in the above are cash flows from discontinued operations. An analysis of these can be found in note 6.

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	10	**(2,165)**	(796)
Add back fair value / amortised cost adjustment	10	**33**	46
Group Net Debt (pre fair value / amortised cost adjustment)	10	**(2,132)**	(750)
Group Net Debt (interest bearing loans and borrowings only)		**(695)**	(764)
Add back fair value / amortised cost adjustment	10	**33**	46
Group Net Debt (interest bearing loans and borrowings only and pre fair value / amortised cost adjustment)	10	**(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. To further help the reader we've also included additional tables in 'Our financial performance' section showing 2019 results on both a reported basis (prepared under IFRS 16) and a like-for-like with 2018 (excluding IFRS 16). See note 10 for a full reconciliation of the movement in net debt.

Notes to the financial statements

1 Operating segments

What does this show? This note shows how our different businesses have performed. This is how we report and monitor our performance internally. These are the numbers that our Board reviews during the year.

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.

**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.

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 6 (Loss on discontinued operations, net of tax) for further details. The 'Other businesses' segment includes activities which are not reportable per IFRS 8. 'Other businesses' is mainly Co-op Electrical 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.

1 Operating segments

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.

1 Operating segments

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	4	**(64)**	(64)
Underlying net interest expense on lease liabilities**	3, 4	**(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		**27**	38
Finance income (excluding any lease interest shown net above)	3	**57**	78
Other non-cash finance costs	4	**(21)**	(21)
Profit before tax		**67**	83

* For more details on the restatement, refer to the general accounting policies section.

** 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.

Loss from property, business disposals and closures	**2019** **£m**	 **£m**	2018 £m	 £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).

2 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%**	4.2%

* For more details on the restatement, refer to the general accounting policies section.

** Supplier income in Wholesale relates to Nisa following acquisition on 8 May 2018, so does not reflect a full year in 2018.

3 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 4).

	2019	2018
	£m	£m
Net pension finance income	**57**	41
Fair value movement on quoted Group debt (see note 10)	**-**	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.

** Fair value gains of £11m (2018: £92m) received in the year on funeral plan investments are treated as deferred income and reflected in the consolidated balance sheet as an increase in contract liabilities until the funeral is performed at which point the revenue is recognised.

4 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 3). 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	2018
	£m	£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 10)	**(7)**	-
Fair value movement on interest rate swaps	**(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.

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

Total interest expense on financial liabilities that are not at fair value through the income statement was £49m (2018: £38m).

5 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 profit 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 credit 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.

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) 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. 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 consolidated statement of changes in equity.

5 Taxation

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

ix) This represents the share of post-tax profits from associated companies that are not included in the Group's tax charge, as tax is already included in the accounts of the associate. 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.

6 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**	2018
	£m	£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).

Segmental analysis - Insurance	**Revenue from external customers**	**Underlying segment operating loss**	**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)

Notes to the financial statements

6 Loss on discontinued operations, net of tax

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.

	2019	2018
Disposal group at fair value less costs to sell	**£m**	£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
Overdrafts	**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	2018
	£m	£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

7 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	2018 (restated*)
	£m	£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.

Notes to the financial statements

8 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	Plant and equipment	Total
	£m	£m	£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.

8 Leases

Sale and leaseback

During the year the Group completed sale and leaseback transactions on some of its freehold buildings used within food retail and our funerals business. Aggregate consideration of £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.

Notes to the financial statements

9 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 6)	**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 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. Further detail is given in note 6 (Loss on discontinued operations, net of tax) including a line-by-line balance sheet detailing the impact of the remeasurement adjustments to fair value less costs to sell and the carrying value of all insurance assets and liabilities held for sale.

	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

10 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**	2018
	£m	£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
£20m 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**	2018
	£m	£m
£11m 6.875% Eurobond Notes due 2020 (fair value)*	**11**	-
£165m 6.875% Eurobond Notes due 2020 (amortised cost)	**167**	-
£165m 6.875% Eurobond Notes due 2020 (amortised cost) - interest accrued	**5**	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.

10 Interest-bearing loans and borrowings

Reconciliation of movement in net debt

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

For period ended 4 January 2020	**Start of period**	**Impact on adoption of IFRS 16***	**Acquisition of Subsidiary**	**Non-cash movements**	**Cash flow**	**End of period**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Interest-bearing loans and borrowings:						
- current	**(66)**	**-**	**-**	**(182)**	**48**	**(200)**
- non-current	**(976)**	**-**	**-**	**176**	**(3)**	**(803)**
Lease liabilities*						
- current	**(4)**	**(177)**	**-**	**(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	Impact on adoption of IFRS 16*	Acquisition of subsidiary	Non-cash movements	Cash flow	End of period
	£m	£m	£m	£m	£m	£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
- Overdraft	(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.

** For more details on the restatement, refer to the general accounting policies section.

10 Interest-bearing loans and borrowings

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 repayment 2025. As at 4 January 2020 the instalment repayment notes has an outstanding value 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 CO_2 emission targets (such that if the agreed CO_2 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.

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.

11 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.

11 Pensions

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 mutli-employer scheme but following sectionalisation of the scheme in 2018, the Group accounts only for the Co-op section of Pace. CFSMS, a subsidiary of the Group, participates in the Co-op's section with a material share of accrued DB obligations. There are other participating employers in the Group section which include Group subsidiaries, non-associated and associated entities, but these do not have a material share. Non-associated entities account for pension contributions in respect of the scheme on a DC basis.

As a multi-employer pension scheme, Pace exposes the participating employers to the risk of funding the pension obligations associated with the current and former colleagues of other participating employers. The sectionalisation of Pace removes The Co-operative Bank's (the 'Bank's') 'last man standing' obligation to the rest of the Pace scheme but an obligation on the Group to support the pension liabilities of the Bank section could arise in limited circumstances if the Bank were to not meet its own section's pension liabilities.

Legislative framework for DB schemes - pension scheme governance

As required by UK legislation, the Group's five DB schemes are run by Trustee boards which operate independently from the Group. The Trustees are responsible for the development and implementation of appropriate policies for the investment of the scheme assets and for negotiating scheme funding with the Group. The Trustees consult with the Group in developing investment strategy and delegates the responsibility for implementing and monitoring the strategy to Investment Committees.

Each Trustee board has at least one professional Trustee and there is also a requirement for the boards to have some member representation. The Pace Trustee Board is made up of three professional independent Trustee Directors appointed by the Group and a further professional Independent Trustee Director appointed by the Bank. Other Trustee Boards are made up of professional independent Trustee Directors, Co-op appointed Trustee Directors and Member Nominated Directors elected by scheme members. The Chair is appointed by the Trustee Directors.

Legislative framework for DB schemes - scheme funding regime

Under the scheme specific funding regime established by the Pensions Act 2004, trustees of DB pension schemes have to undertake a full actuarial valuation at least every three years. The purpose of the valuation is to determine if the scheme has sufficient assets to pay the benefits when these fall due. The valuation targets full funding (scheme assets equal to the value of pension liabilities) against a basis that prudently reflects the scheme's risk exposure. The basis on which DB pension liabilities are valued for funding purposes differs to the basis required under IAS19. The Group may therefore be required to pay contributions to eliminate a funding shortfall even when a surplus is reported in the IAS19 disclosure.

Any shortfall in the assets directly held by the Group's DB schemes, relative to their funding target, is financed over a period that ensures the contributions are reasonably affordable to the Group.

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

11 Pensions

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.

11 Pensions

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 onDBO	**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

11 Pensions

Changes in the fair value of the plan assets	2019	2018
	£m	£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 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	2019	2019	2018	2018	2018
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
	£m	**£m**	**£m**	£m	£m	£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	2018
	£m	£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	2018
	£m	£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 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.

12 Related party transactions and balances

What does this show? Related parties are companies or people which are closely linked to the Co-op, such as members of our Board or Executive (or their families), or our associates and joint ventures. This note explains the nature of the relationship with any related parties and provides information about any material transactions and balances with them.

	Relationship	**2019** **£m**	2018 £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. 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 arm's length. Key management are considered to be members of the Executive and directors of the Group. At the balance sheet date, certain key management personnel had transacted with our Legal and Insurance divisions. 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** **£m**	2018 £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

13 Events after the reporting period

What does 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 105, 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 non-current 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.

14 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 £m**	**Nisa Adjustments £m**	**Deferred Tax net off £m**	**As restated £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**

Consolidated balance sheet as at 5 January 2019	**As previously reported £m**	**Nisa Adjustments £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**

14 **Prior year restatement** continued

Consolidated statement of cashflows for period ended 5 January 2019	As previously reported £m	Nisa Adjustments £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)	**113**
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. This section also gives details of the impact of any new accounting standards that we've applied for the first time and the expected impact of upcoming standards that will be adopted in future years where that impact is likely to be significant.

Status of financial information
The financial information, which comprises the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated statement of cash flows and related notes, is derived from the full Group financial statements for the 52 weeks to 4 January 2020 and does not contain all information required to be disclosed in the financial statements prepared in accordance with International Financial Reporting Standards.

The Group Annual Report and Financial Statements 2019, on which the auditors have given a qualified report in relation to the accounting treatment adopted by the Group for pre-need funeral plans in accordance with the requirements of IFRS 15 'Revenue from contracts with customers' as set out in the General Accounting Policies, and which does not contain a statement under part 7, section 87(4) or (7) of the Co-operative and Community Benefit Societies Act 2014, will be submitted to the Financial Conduct Authority following the 2020 Annual General Meeting.

General information

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

Basis of preparation

The Group accounts have been prepared in accordance with 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 other bases are applied are explained in the relevant accounting policy. Amounts have been rounded to the nearest million.

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

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

Basis of consolidation

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

A diagram of group structure can be found on page 196 of the group accounts. 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/

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 though continuing use. As such the assets and liabilities of CISGIL are shown as held for sale in the Group's consolidated balance sheet and the results of CISGIL have been classified as discontinuing operations in the income statement. A key judgement within the classification as held for sale is the valuation of the assets and liabilities of CISGIL which are shown at fair value less costs to sell.

As part of the calculation of the fair value of the business, the expected consideration of circa £185m was taken into account. Of this consideration £84m will be treated as deferred income upon completion of the sale of the insurance group (in line with the requirements of IFRS 3 paragraph 52 b) in respect of remuneration for future marketing and distribution services. The calculation of this deferred income was subject to detailed scrutiny by management. Of the remaining £101m proceeds allocated to assets and liabilities held for sale, this was then reduced by costs to sell and discounting of deferred consideration in arriving at the fair value less cost to sell of £56m. See note 6 for details.

- *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 (note 8)*

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 8)*

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. 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.

<u>Key estimates and assumptions:</u>

The key assumptions and areas of uncertainty around key assumptions at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Group based its assumptions and estimates on information available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

• *Pensions (note 11)* – 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 11 along with associated sensitivities to those assumptions.

• *Impairment of non-financial assets* - the carrying amount of non-financial assets (such as property, plant and equipment, 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 note 8,

• *Tax and Deferred tax (note 5)* – the Group's tax charge is made up of current and deferred tax and is calculated based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Significant management judgement is required to determine the amount of deferred tax assets and liabilities that can be recognised, including estimates as to the likely timing and the level of future taxable profits, together with future tax planning strategies.

• *Provisions* – a provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The most significant provision for the Group relates to property provisions for non-rental costs associated with properties that are no longer used for trading purposes and significant assumptions and estimates are made in relation to the estimation of future cash flows and the discount rate applied.

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 13 (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 5th 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
Total	**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 finance 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 Groups 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 Stronger Co-op section on). 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 Group accounts. In addition, notes 21 and 29 to the Group accounts 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, 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.