The Co-operative Group

The co-operative

News Release

07 April 2016

Final results for Co-operative Group Limited for the 52 weeks ended 2 January 2016

CO-OP FIRMLY ON TRACK AS £400M INVESTMENT DRIVES REBUILD

- **Core convenience food business winning market share**
- **Funeralcare growing strongly and announces future plans**
- **General Insurance delivering against member-focused strategy**

Highlights:

- Group revenue stable at £9.3bn (2014: £9.4bn)
    - Food like-for-like sales grew by 1.6%, with like-for-like volumes up 5%. Core convenience business grew ahead of market after investment in price and products, with like-for-like sales up 3.8%
    - Funeral sales increased by 9.9%, driven by highest death rate since 2008. Plans to open another 200 funeral homes in the next three years, increasing size of estate to over 1,100 homes.
    - General Insurance (GI) sales performed in line with expectations, as it starts to deliver against its member-focused strategy
- Group underlying profit before tax* of £81m (2014: £73m)
- Profit before tax of £23m (2014: £124m), reflecting major investment in the business this year and 2014 profits being bolstered by £121m from one-off disposals last year, without which the statutory profit for 2014 would have been break-even
- First year of three-year Rebuild phase saw investment increase in line with plans
    - Costs of supporting functions increased to £160m (2014: £129m), in line with Rebuild plans
    - Group capex of £320m (2014: £294m)
    - 8.5% pay award for 40,000 front line store colleagues, driving pay above Government's National Living Wage threshold well ahead of its implementation
    - Significant investment to reduce prices in Food, including 15% reduction in fruit and vegetable prices
    - Group underlying operating profits in 2016 expected to be lower than in 2015 due to continued investment in Rebuild
- Net debt steady at £0.7bn (2014: £0.7bn), in line with stated aim to keep debt below £0.9bn through Rebuild
- New national charity partnership with the British Red Cross launched with campaign to tackle loneliness as Group returns to its campaigning heritage

Richard Pennycook, Chief Executive of The Co-operative Group, said:

“This has been a year of further progress at the Co-op as we have invested to drive the growth of our businesses. Underlying profits have increased but our priority this year has been on putting the building blocks in place for the long-term. Whether it’s our investment in lowering prices, rewarding colleagues or campaigning on key issues, we are taking the right steps and the performance of our businesses and the feedback from our members shows us we are on the right track.

“We are, however, only one year into our Rebuild and whether it is driving further growth in our businesses, improving member engagement or getting back to our campaigning roots, there is still much to achieve.

“We are championing a better way of doing business for our customers and communities and working with our colleagues and members we’re confident that we have a strong plan to achieve our goals.”

Allan Leighton, Independent Non-Executive Chair of The Co-operative Group, said:

“The Co-op’s confidence is growing and our members, customers and colleagues are starting to see the difference. We are now the UK’s most frequently visited food retailer, while our other core businesses, from Funerals to General Insurance, are also showing strong signs of progress.

“Our ownership model allows us to invest for the long-term and our members and our customers are seeing the results as we improve our offer and demonstrate what makes us different as an organisation.

“As well as investing in our businesses and our people over the last year, we have continued to invest in our governance to harness the passion our members and colleagues have for the Co-op. Our Board and Council are working together in support of our membership and later this year we will unveil exciting plans to drive member engagement even further.”

Summary of business performance

- Our core businesses made good progress, though their performances continue to reflect the different stage of each in the Rebuild process, with the new strategy for the Food business launched ahead of our other core businesses:

    - **Food**
        - Food like-for-like sales grew by 1.6%, with like-for-like volumes up 5%. Core convenience business grew ahead of market after investment in price and products, with like-for-like sales up 3.8%. On a two-year basis, convenience like-for-like sales were up 7%
        - Underlying profit rises 3.3% to £250m (2014: £242m), driven by strong sales and cost efficiencies
        - According to Kantar, we are the most frequently visited major retailer in the country, helping our customers shop little and often and at lower prices through our core convenience offer
        - 97 new Food stores opened, taking our estate to over 2,800 stores, and refitted a further 264 stores nationally
        - We invested £125m lowering Food prices and supported healthier eating choices by cutting the price of fruit and vegetables by more than 15% in 2015 alone
        - We further improved range availability and launched a pilot to work with 50 local suppliers in Yorkshire to champion locally sourced food. To reduce waste at our food depots, we joined with the charity FareShare to send surplus food to food banks

        - Over 800 of our colleagues volunteered to act as Community Pioneers across our stores nationally, acting to champion local causes and support communities

- **Funeralcare**
    - Our market-leading position has been further strengthened in a year when underlying profit rose to £78m (2014: £66m) on sales up 9.9% at £399m (2014: £363m)
    - The high death rate continued; it was busiest year since 2008 as business volumes were up 5.5% with over 97,000 funerals conducted
    - We continued to significantly invest in our services, spending £6m on our funeral homes and £9m on our vehicles
    - We opened 25 further funeral homes and continue to be the only UK funeral director to offer an apprenticeship in Funeral Operations and Services, signing up our 1,000th apprentice
    - Post the year-end, we launched our Simple Funeral, cutting the price of our lowest price funeral by 7%, making our products more affordable without compromising on quality

- **General Insurance**
    - Our sales performance was in line with expectations. The managed withdrawal from less profitable business lines in 2014 led to Net Earned Premiums declining to £343m (2014: £371m). However Gross Written Premiums increased due to a rise in new motor business during the final quarter of 2015
    - Profit was also in line with expectations until the impact of flooding in the North of England (£13m) led to the business recording a loss of £13m (2014: £1m loss)
    - Roll-out of our new member-focused strategy began following agreement with IBM to build and run integrated insurance IT platform, creating infrastructure to drive significant growth in the future
    - Response to the floods in the North of England during December demonstrated our commitment to our policyholders
        - 174 flood victims were temporarily re-homed
        - Severely affected customers received £50 of Co-op Food vouchers to help them through Christmas

- **Legal Services**
    - Legal Services returned to profit of £0.7m (2014: £5.0m loss) following work to reduce costs in 2014
    - Revenues in 2015 fell in line with our plans to £18m (2014: £21m) as we refocused the business back to core service propositions
    - Acquisition of Collective Legal Solutions Group Limited, a national provider of Wills, Trust and Probate services

- **Electrical**
    - Strong internet sales offset by lower wholesale volumes, leading to total sales falling to £79m (2014: £84m)
    - Challenging market conditions led to a full-year loss of £1m (2014: £0.8m profit)
    - Strong focus on customer service highlighted by 98% customer satisfaction rating
    - Success roll-out of cost price extended warranties, with three times as many customers buying them compared to 2014

Membership, democracy and governance

- We got back to our campaigning roots with the launch of a campaign with the British Red Cross to tackle the national issue of loneliness
- Members' Council established in May, following on from Transitional Council operating from November 2014, with Nick Crofts elected as new President in July 2015
- Strengthening of the Group Board with Stevie Spring and Peter Plumb appointed as Directors and Hazel Blears, Paul Chandler and Ruth Spellman elected as Member Nominated Directors
- Process underway to appoint an additional Member Nominated Director to the Group Board, which would increase their number to four
- In keeping with previous guidance, The Board anticipate dividend payments resuming after the three-year Rebuild programme completes at the end of 2017

Outlook

Our core businesses have enjoyed a strong start to 2016. In Food, convenience sales have continued to grow ahead of the market, with Co-op shoppers buying little and often as they welcome the investment we continue to make in prices, products and service. Our Funeralcare business has had a quieter start to 2016, with the mild winter reducing the death rate, but sales of pre-paid funeral plans continue to rise significantly. In General Insurance we have continued to enjoy strong new motor business sales.

We have exciting plans to drive the growth of our core businesses this year. In Food, we plan to open 100 new stores and refit a further 150 existing sites, while we invest even further in price and products, building on our recent price cuts to our own-brand meat and poultry products in support of British farming. In Funeralcare, we have clear plans for growth and expect to open more than 200 new funeral homes over the next three years, taking our estate above 1,100 homes across the UK. In General Insurance, we expect to make significant progress in 2016 as we provide greater service and product capability for our 1.4m customers as we begin to move across to our new IT platform.

While we expect conditions to remain challenging across our markets in 2016, we are looking forward to a year of further progress as our three-year Rebuild journey continues at pace. In line with our long-term plans to drive the Group forward, we will continue to invest in our businesses and this is expected to lead to underlying operating profits for the full year being below those in 2015. The Board anticipate dividend payments resuming after our three-year Rebuild programme completes at the end of 2017.

We are confident that the Rebuild, and the investment we are making as part of it, will further strengthen our businesses in 2016, for the benefit of our colleagues, members and customers. In line with our commitment to champion a better way of doing business for our members and their communities, we look forward to launching our new membership proposition at our AGM in May this year.

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Notes to editors

About The Co-operative Group:
The Co-operative Group, one of the world's largest consumer co-operatives, with interests across food, funerals, insurance, electrical and legal services, has a clear purpose of championing a better way of doing business for you and your communities. Owned by millions of UK consumers, The Co-operative Group operates a total of 3,750 outlets, with more than 70,000 employees and an annual turnover of over £9 billion
Amongst its other wholly-owned businesses are the UK's number one funeral services provider, a major general insurer and a developing legal services business.

The Group also has a minority shareholding in The Co-operative Bank and a joint-venture travel business with Thomas Cook.

* Underlying profit before tax is profit before tax but stripping out the effects of property disposal profits, changes in the valuation of investment property, one-off items, fair value movements on loans and borrowings, and pension interest. This is consistent with other retail plc underlying profit measures

Co-operative Group Limited announces that the 2015 Annual Report and Accounts have today been submitted to the National Storage Mechanism and will shortly be available for inspection at: www.hemscott.com/nsm.do

A copy of the Annual Report and Accounts are also available at: www.co-operative.coop/annual-results-2015

This announcement contains additional information for the purposes of compliance with the Disclosure and Transparency Rules. This information is extracted, in full unedited text, from the 2015 Annual Report and Accounts (the 'Annual Report'). References to pages and page numbers refer to page numbers and notes to the annual accounts in the Annual Report.

Report from Group Chair – Allan Leighton

I've had a busy, fulfilling and exciting first year as Chair of the Co-op.

When I arrived we'd just passed the vital reforms our members knew were needed to bring us back to being a great Co-op. One year on and our focus has switched decisively from the past to the future as we moved from the Rescue to Rebuild phase of our strategy and prepare ourselves for Renewal.

We've been investing in that future in every part of our business, and our members and customers are already seeing the difference, as this report will show.

But there's a great deal more to come. Our ambition goes far beyond restoring our commercial success. Our place in society is only justified if we can demonstrate, beyond doubt, that there's a Co-op difference – or, as we say, a better way of doing business for you and your communities.

Strengthening the Co-op

In Food, Funeralcare, General Insurance, Legal Services and Electrical, we've been pushing ahead with innovations that are improving our products and services and our customer experience. To achieve that we've been recruiting new talent and coupling it with existing expertise at every level of the Co-op.

I'm particularly proud of the new Board we've established and the breadth of experience now guiding our progress. When we passed our constitutional reforms in 2014 we didn't know if the Co-op would be an attractive option for directors of the calibre and character we wanted to attract. They needed to be commercially driven but co-operatively minded. They needed to understand that the Co-op was not just another PLC. We needn't have worried. Our directors joining us in 2015, Stevie Spring and Peter Plumb, clearly understand the importance of our ownership model and aim to strengthen the communities in which we trade. Stevie and Peter have joined Simon Burke and Sir Christopher Kelly as Independent Non-Executive Directors.

The same can be said of our three Member Nominated Directors (MNDs), voted on to the Board directly by our members for the first time. Hazel Blears, Paul Chandler and Ruth Spellman have provided a vital member voice, as well as sound business acumen, ensuring the interests and concerns of our most important stakeholders are never left outside of the Boardroom. The MND role has proved to be very worthwhile, so we look forward to adding a fourth MND to the Board this year, with the approval of our members at the Annual General Meeting (AGM).

Just recently, I am pleased to advise that the Board has appointed Ian Ellis, the Group's Chief Finance Officer, as an Executive Director and Lord Victor Adebowale as an Independent Non-Executive Director. You can learn more about all of our directors on page 38 of our main accounts.

Our new Members' Council and Council President are ensuring our Board and our senior management uphold our Co-op values and are held accountable to our members. The Council members are also becoming highly effective champions of the Co-op in their own communities up and down the country.

A highlight of 2015 was our first One Member One Vote AGM, which saw tens of thousands casting their votes, hundreds attending in person and more watching the proceedings live online for the first time. Our new Co-op democracy is up and running and it's off to a good start. We intend for this event to grow with even greater levels of participation as we demonstrate that the Co-op puts its members and their communities first.

Re-thinking Co-op membership

Even though we're only just into the second year of our three-year Rebuild programme, we're already confident enough of our progress to be planning a major relaunch of the Co-op in 2016. I can assure you this will be far more than a marketing makeover and the biggest thing to happen to our Co-op for 25 years.

We'll be announcing an entirely new Co-op membership that will be both innovative and compelling. This will be in addition to the annual member dividend which we hope to bring back once we start our Renewal phase.

We're also building a new network of Co-op Local Forums that will draw on the dedication and volunteer time of Member Pioneers, who'll work closely with our Community Champions to ensure we are fully integrated into the communities we serve.

Underpinning all of this is our intention to simply get back to 'Being Co-op', living our Values and Principles and doing the things that have always mattered most to our members.

So there's a great deal of good work going on at the Co-op. We're investing for the future and at the same time drawing on the values and lessons of our past.

The Co-op in the UK has survived because we've maintained our social relevance and demonstrated to our members that we can offer both value and values. We're now well set to build on that tradition with renewed passion and determination.

Our colleagues are at the forefront of our work to Rebuild the Co-op and on behalf of the Board I thank them for the great job they are doing as true champions of the Co-op.

Report from Group Chief Executive – Richard Pennycook

Our Rebuild programme is extensive, covering every aspect of our work, and the changes we have put in place to get our house in order have been considerable. I'm pleased to say that our progress has been faster than expected. I put that down not only to the approach we are following but the determination and commitment of colleagues at every level and the affection that our members and customers hold towards the Co-op. All of this means we will be ready to relaunch the Co-op in the second half of this year.

A solid performance

In 2015 all of our businesses performed solidly, with a particularly strong showing in our core Food convenience store estate (a market that remains fiercely competitive) and in our Funerals business where we are the market leader. General Insurance would have performed in line with expectations in the first year turnaround had it not been for the impact of the floods in Northern England at the end of the year.

For the Co-op as a whole, our underlying profit before tax is up from £73m in 2014 to £81m in 2015. This measure strips out one-off gains made in 2014 through the sales of our Pharmacy and Farms businesses – disposals we made to reduce our high levels of debt and to get our balance sheet back to good health. In early 2016 we also renegotiated the terms of our borrowing further to reduce interest rate payments and to allow headroom for the investment we want to make during the Rebuild phase of our recovery.

The increase in profit during 2015 needs to be seen in the context of our overall investment strategy. All of our investment is designed to bring either immediate or long-term benefit to our customers and members, their communities and our own colleagues. This year's profit figure would have been considerably higher if we were not following this planned and budgeted course of action, designed to create a successful, sustainable Co-op.

2015 saw us invest £125m in price and products in the Food business with an emphasis on fresh produce that's putting quality healthy food within everyone's reach. We've also continued the expansion of our convenience Food stores in 2015, adding a further 97 stores to the estate. That expansion will continue throughout 2016 with a further 100 stores, half of these in London and the South East.

Longer-term investment was also committed to General Insurance in 2015 where we announced a ten-year contract with IBM to provide a new integrated insurance IT platform which will transform our insurance offer and the customer experience.

In Legal Services we launched a new website making our offer clearer and easier to navigate. In 2015 Legal Services was firmly back in profit. And at the end of 2015 we demonstrated our confidence in the business with the acquisition of Collective Legal Solutions further to expand our reach into local communities.

Investing in colleagues has been central to our thinking since we began our Rebuild. In Food we raised the pay for the vast majority of our frontline store colleagues by 8.5%, taking us ahead of the initial level set for the Government's new National Living Wage.

Looking ahead, in Funeralcare we're making substantial investment through refurbishing the existing estate and adding over 200 extra branches in the next three years, bringing the network to over 1,100. A further £9m will go into replacing our fleet of funeral vehicles. We also want to address increasing concerns around the affordability of funerals for the less well off in our communities. In 2016 we've substantially improved our offering, including the choice of a Simple Funeral for under £2,000, which maintains our reputation for quality and customer care.

Maintaining responsible levels of debt has been an important part of our financial strategy. During 2015 our net debt reduced by £51m to £692m. Just two years ago, our net debt stood at £1.4bn. Reducing our debt has not been at the expense of investment, however. Our businesses generated £283m of cash, allowing us to invest to strengthen our business and grow the strongest parts of our Co-op. In 2015 we spent £320m on capital investment, principally on opening 97 new Food stores and refitting a further 264. We also opened 25 new funeral homes. Funding the investment in our Food business was helped by selling 91 Food stores that no longer fit with our focus on convenience food shopping, which helped to raise £175m.

We know we're lagging behind in how we operate online and through social media. The challenge stretches from how we present our products and services to the way we talk to our customers, and– essential for a Co-op – how we maintain an ongoing dialogue and build a deeper relationship with our millions of members.

To address this, we're recruiting much needed skills and experience from the digital world. Our aim is to catch up fast and then leap ahead of our rivals. The appointment of Mike Bracken as Chief Digital Officer brings us a leader with an international reputation in this area.

In 2015 I was also pleased to welcome Ian Ellis as our new Chief Finance Officer. I can also announce that Pippa Wicks, our Interim Chief Operating Officer who has helped steer us through our Rescue and the first part of our Rebuild, is joining us in this role on a permanent basis.

Tackling loneliness

Towards the end of 2015 we signalled a return to our heritage of campaigning on the issues that matter most to our members. Following extensive consultation and a national vote, our members and colleagues chose to focus our efforts on tackling loneliness among all ages and in all communities across the UK. We have formed a partnership with the British Red Cross. Together we have begun a detailed assessment of what's needed to address the isolation and distress faced by tens of thousands of people. We aim to raise £3.5m and involve our businesses, our colleagues and our members in addressing the issue. As we announce our 2015 results, I'm delighted to say we have just passed the £1m milestone.

When we relaunch the Co-op later in the year you'll see the fruits of much of our labour during 2015 and the first half of 2016. As Allan has said in his introduction, this will be a great deal more than a quick facelift or a brief advertising campaign. We plan fundamentally to reset our relationship with our members for the long term. Our commitment is to prove beyond question that the Co-op does things well and does things differently because it puts its members first.

Report from President of the Members' Council – Nick Crofts

I am extremely proud to be the President of the Members' Council. I love our Co-op, and serving as our Society's President during a time of such change is an extraordinary honour. Being part of the team working to restore our Co-op to its rightful place in the heart of our communities is tremendously exciting.

The Members' Council was 'born' in May. The Transitional Council, which operated from November 2014 until May 2015, developed much of our ongoing operational architecture and ways of working. I would like to pay tribute to the outgoing members of the Transitional Council and also to Lesley Reznicek who served as its Interim President until July and to Lesley's three Vice Presidents, Tricia Davies, Jenny de Villiers and Robin Stewart. I also want to thank the former Board members and Regional Chairs who gave so much of their time, energy and experience during the transitional phase to get us to such a good place in such a short space of time.

Stronger relationships with the Board and Executive

The Council's priority since May 2015 has been to make sure that we are fulfilling our constitutional responsibilities and are able to represent the interests of our millions of members. To achieve this we've focused on building relationships with the newly-established Group Board and Executive. These strong relationships are the bedrock on which everything else the Council hopes to achieve will be built.

The Council has set up regular formal meetings with the Board and the Executive to ensure member interests remain at the heart of the Co-op's decision making. Allan Leighton, the Co-op Board Chair, has attended meetings of both Council and Senate. Richard Pennycook, Chief Executive Officer, attends very regularly.

At each Council meeting, we hold a Directors' Forum, when Council members are able to put questions to our Board directors. I am always struck by the quality of the questions – probing, strategic, and reflective of a deep knowledge of and passion for our Co-op.

An important development in 2015 was the agreement to add an additional Member Nominated Director to our Group Board, increasing the number to four. This was accomplished after last year's contentious AGM. The Council played a key role in this and it is a sign of the developing maturity of the relationships that a positive agreement was reached.

We have also explored ways in which Council can work with the businesses, seeking to blend the co-operative knowledge and commitment of Council members with the commercial expertise of our Executive to help shape our Co-op's approach.

This is typified by the establishment of the new Co-op Way Policy Committee. The committee, composed of Executives and Council members, will review our Society's policies to ensure that our co- operative difference is deeply embedded in everything we do.

Joint piloting of the Co-op Local Forums, as part of the work to re- think Co-op membership and ground it in the communities we serve has been a useful example of this approach.

Holding the Co-op to account

2015 also saw the start of a major piece of work for the Council – Meaningful Holding to Account. Working with Co-operatives UK, we have commissioned research into the UK and global best practice of holding to account frameworks, to assist the Council in drawing up its own framework.

Holding the Group Board to account for the way in which our Society is governed is a key responsibility of the Members' Council and one which we will embed further in future years.

Over the coming three years, the Council will continue to develop the Meaningful Holding to Account Framework. Within this, there are four emerging priority areas – member value, how it is created, developed and sustained; being a leader ethically and sustainably; the member voice and member experience; and leadership within the national and global co-operative movement.

These four thematic priorities are linked by one golden thread – that everything our Society does demonstrates our co-operative difference.

Of course, the Members' Council itself needs to be held to account for the work that we do on behalf of our millions of members. To that end we held a series of Your Co-op meetings throughout the UK in spring 2016. Communication between Council and our members – in both directions – is a huge priority. I certainly recognise that there is very much more work to do on that front.

A particular highlight for me personally during 2015 was announcing our Charity Partnership with the British Red Cross. Tens of thousands of our members and colleagues voted, showing that democracy is alive and well at the heart of our Co-op. We're working with the British Red Cross to tackle loneliness and social isolation. Campaigning on social issues that matter to our members has always been an element that makes our Co-op unique. I'm tremendously proud of that work.

Finally, I would like to thank all members of the Council and Senate for their enormous commitment, passion, skills and enthusiasm. We work as a team to deliver on the priorities of our millions of members. Vice Presidents Dan Crowe and Marc Bicknell in particular have played a massive part in the leadership of the Council, and I am grateful for their support and wisdom.

Our Rebuild could be the great revival story of our times. This is certainly an exciting time for our Co-op.

Business Review

Food

Revenue	£7.0bn	Flat
Underlying operating profit	£250m	Up 3.3%
Colleagues	62,459	Up 1.9%
Number of stores	2,802	Up 6

Key facts at a glance

- £125m invested in lowering prices
- 97 new stores opened
- 91 non-core stores closed
- 264 stores refitted
- Over 800 community pioneers, up 65% on last year
- 1.6% like-for-like sales growth (3.8% in convenience)

Co-op stores have always existed to serve the needs of local communities, and in 2015 we made great progress in going back to our roots and back to the basics. We cut prices by over 15% on fruit and veg and saw volumes grow by almost 20%. We opened more convenience stores and worked hard to improve our range, making it more locally relevant. In return, customers and members have rewarded us with transactions up by 14 million (1.5%) on last year.

With over 2,800 shops – stretching from the Isles of Scilly to the Shetlands – we want to become the UK's number one convenience retailer, making a difference in every community. Through our strategy called True North, we're aiming simply to sell good food, provide an easy shopping experience and top this off with friendly colleagues.

We're adapting our stores to customers' changing shopping habits. Most people want to buy little and often these days. In 2015, we opened 97 new stores and closed 91 other sites. The Co-op now has just over 2,100 convenience stores and will continue to open more while closing some of our larger stores.

To make the Co-op shopping experience easier, we refitted 264 stores. In refitted stores, customers have a clear view into the front of the store, showcasing our produce offer, there's more space for tills and self-service, and the flow of the store is more intuitive and in line with their shopping trip.

To make sure people can buy what they want, we're tailoring our ranges to local communities and backing British products. In Yorkshire, we started to sell more local produce, such as beer, sausages and bread (see Our story on page 18), aiming to do the same across other parts of the UK in 2016. And always mindful of health, we cut the amount of sugar in products such as juices and cereals by nearly 250 million teaspoons.

The availability and quality of our range got better. Instead of just making sure that the full range was available in the morning, we did so throughout the day. And the Grocer presented us with five gold and eight silver awards for our products, while the Retail Industry Awards named us 'Chilled Retailer of the Year' for the second year in a row and 'Fresh Flower Retailer of the Year'. To reduce waste, we joined forces with the charity FareShare to turn surplus fresh food into nutritious meals for people in need. We redistributed 306 tonnes of food and have a target to increase this to 500 tonnes in 2016.

Finally, great customer service became a priority. Telling our colleagues that 'service rocks', we worked to be friendly, cut queues and enhance complaint handling. We also increased frontline shop workers' wages. They want to improve service and many suggested new ways to do so.

All of the measures described here, which are part of True North, are successfully reconnecting us with members and new customers. Data shows that people are spending more at the Co-op. Across our stores, sales grew by 1.6% on a like-for-like basis. This was a great achievement in a year when we saw food prices industry-wide fall by 1.2%, the first year of falling prices in a generation. Across UK food retailers generally, food sales fell by 1.6%.

Convenience stores did better than the market as a whole, but even here the Co-op outperformed. Like-for-like sales in our convenience stores rose 3.8% against 2.5% for the rest of the market.

As people spent more in our stores, so our profits rose 3.3% to £250m (2014: £242m), in spite of the money invested in new stores and cutting prices. Our profitability is growing, unlike our main competitors which saw profits fall. Falling petrol prices masked the effect of our better food performance on sales, which were in line with last year at £7.0bn (2014: £7.0bn). As our business becomes financially stronger, we'll continue to reinvest the profits in improving our customers' shopping experience.

We're committed to leading the way on food ethics in the convenience sector. Understanding what matters most to customers guides our actions. We support British farmers and growers by making British produce available in our stores. We help our customers to make healthier choices. We champion Fairtrade, and make sure that the many workers in our extended supply chain are treated fairly. We also minimise avoidable food waste within our operations and we're working to ensure that as much of our food packaging as possible can be recycled.

At our 2015 Annual General Meeting, our members called on us to reconfirm our commitment to leading the way on Fairtrade. We responded positively, and one of the highlights this year included the launch of an innovative website and social media campaign, www. growingstories.coop, where our customers and members can talk to our producers. Our Fairtrade sales were up 5.0% in 2015, in contrast to an overall decline of 5.9% in the UK Fairtrade market. Further details of our commitment to Fairtrade can be found on page 31.

Our Food business is on the up. 2015 was the year when our drive to reconnect with customers started to show results. Over the next two years we'll build on our momentum. As profitability increases, we'll plough the proceeds back into communities, improving our convenience offer and serving our members. And we'll help communities more directly, notably through the work of our community pioneers who engage in community outreach at a local level.

Our story
Championing Yorkshire

Eggs, bread, sausages and beer are among 130 foods from local suppliers that we started to stock in our Yorkshire stores in 2015. Working with 50 of the county's local manufacturers and micro producers, we're testing this initiative in Yorkshire ahead of introducing it across the UK.

This initiative is a direct response to customer feedback. Products made in the vicinity of our stores are prized by customers who want to support locally produced regional food, which often helps to define a specific area such as Yorkshire.

Sam Moss, Director of Leeds Brewery, said: "Leeds Brewery is proud to be a Yorkshire producer and we are delighted to be teaming up with our local Co-op stores to get our beer on shelves across the region. Yorkshire is renowned for producing some of the best food and drink products in the country and we are thrilled to be part of this new local sourcing initiative."

Funeralcare

Revenue	£399m	Up 9.9%
Underlying operating profit	£78m	Up 18.2%
Funeral homes	986	Up 25
Colleagues	4,292	Up 4.3%

Key facts at a glance

- 99% of customers satisfied or very satisfied (98.8% last year)
- 25 new funeral homes opened
- Over 97,000 funerals conducted, up 5.5% on last year
- Nearly 35,000 funeral plans sold, up 25.6% on last year

Already the UK's largest funeral director, we grew our market-leading position, arranging over 97,000 funerals across the country and opening 25 new funeral homes. Every year we open new funeral homes to serve an increasing number of communities, providing access to our high quality services. In 2015, we opened funeral homes as far apart as Billericay, Bournemouth and Rochdale.

We continued to significantly invest in our services, spending £6m on our funeral homes and crematoria, and £9m on our vehicles. This allows us to continue to provide first-rate standards of care to the bereaved at a reasonable price.

Investment in our colleagues is also critical, as it is through them that we deliver our high-quality care. We continue to be the only UK funeral director to offer an apprenticeship in Funeral Operations and Services, and in 2015 we welcomed our 1,000th apprentice to the business. Since its launch, the scheme has attracted thousands of applicants across a wide range of ages.

More people chose a Co-op funeral in 2015. While we held our market share, a high death rate led to us arranging 5.5% more funerals overall. Sales increased 9.9% to £399m (2014: £363m). Due to the economies of scale in our business, profit increased 18.2% to £78m (2014: £66m). This rise in profits strengthens Funeralcare, allowing us to invest significantly to serve more clients, members and communities across the UK and grow our business.

Sales of our pre-paid funeral plan also grew by more than 25%, with nearly 35,000 plan sales in total and the stock of funeral plans and funeral benefit option plans now totalling over 480,000. The Co-op remains one of the only funeral plan providers to cover all costs of a funeral, with most other providers' plans only covering a contribution towards third-party costs.

Our customers continued to be very pleased. Our promise is to arrange a loved one's funeral with care, respect, clarity and reassurance 24 hours a day, 7 days a week. Almost all customers (99%) said they were 'satisfied' or 'very satisfied', maintaining 2014's high rating. One of the main reasons for our high levels of client satisfaction is the personal care we provide. Every funeral we arrange is unique and tailored to each individual that comes into our care.

Following the relaunch of our website at the end of 2013, traffic on the site increased by 50% in 2015 compared with 2014. The site offers advice, online memorials and the ability to organise a pre-paid funeral plan online. Some 60% more funeral plans were arranged in 2015 compared to 2014.

Like the rest of the Co-op, we exist to serve our members and their communities. As well as delivering high-quality funeral services, we're also deeply involved in the communities we serve. In 2015, this ranged from producing DVDs helping children coping with bereavement (see Our story) to sponsoring local bowls clubs and events, to seminars for student nurses, to memorial Christmas trees helping people remember lost loved ones at a difficult time of year. We're also committed to sustainable sourcing of timber for coffins. In 2015, 95.6% of the coffins manufactured by Co-operative Funeralcare (FSC® C008811) were made from FSC® (Forest Stewardship Council®) certified wood from certified forests and other controlled sources.

2016 will be an important year for Funeralcare. We plan to step up our investment in expanding into new communities and improving our existing funeral homes and services. We want to accelerate our progress towards making high-quality, affordable funerals available nationwide. Most importantly we want to better support many more of our members through the traumatic experience of bereavement and to simply be there when it matters.

Our story
Support for bereaved children

To help bereaved primary school children come to terms with the loss of a loved one, we produced four animated films looking at the issues young people face when a parent or grandparent dies.

Teaming up with the Child Bereavement, Trauma and Emotional Wellbeing Service, we're offering these free films to schools, medical professionals, community groups and bereaved families. The four films include: 'Our Year Since Dad Died' and 'Our Year Since Gran Died'.

This follows the success of our Amy and Tom books, which similarly help bereaved children. More than 25,000 were given away across the country.

Bereavement affects many children. In the UK, a parent of a dependent child dies every 22 minutes, leaving 41,000 children without a parent each year.

General Insurance

Revenue	£343m	Down 7.5%
Underlying operating loss	£13m	Down £12m
Policies in force	1.42m	Up 10.1%
Colleagues	1,274	Up 8.5%

Key facts at a glance

- 1.42 million policies in force (1.29 million last year)
- Over £1m of Co-operative Food vouchers issued as part of Great Grocery Giveaway
- 174 flood victims temporarily re-homed

2015 marked the beginning of our journey to champion a better kind of insurance for our members and their communities. Through the launch of the Transforming General Insurance programme, with investment in a new IT platform, we took the first steps towards providing better pricing and tailored services for our members.

Our response to the floods in the North of England during December, and especially over Christmas, showed how committed our colleagues are to their communities (see Our story). We were one of the few insurers to open on Boxing Day, and senior management personally visited the flooded towns and villages, reassuring people that their claims would be dealt with promptly. The impact of the floods, which we estimate will cost us £13m, was one of the main reasons for Insurance reporting a loss of £13m in 2015 (2014: £1m).

The year's biggest step towards rebuilding our Insurance business was the appointment of IBM to build and run an integrated insurance IT platform. From 2017, this will give us a market-leading digital platform, allowing us to improve the products and services we offer, and to adapt them to our members' changing needs. The IBM platform will transform our business, making it sustainable in the coming years, not only increasing our competitiveness but also reducing operating costs. However, the cost of this investment for the future is substantial, with £47m spent in 2015, and treated as a one-off cost so not impacting on the underlying loss.

Intelligent use of members' data allows us to understand them better and to reduce insurance premiums accordingly, in line with our aim to deliver a better kind of insurance. By starting to deploy this predictive analysis in 2015, we were able to cut premiums for members.

The Great Grocery Giveaway was one of our most successful marketing campaigns in recent years. In 2015, over £1m of Co-operative food vouchers were sent to customers to use in their local stores.

Pricing in the motor and home insurance markets has been extremely competitive for several years, but towards the end of 2015 market conditions eased. Although motor premiums have increased, we have been able to offer our members great value insurance. While the cost of investing in our new platform will stretch into 2017, after that we expect a return to profitability, giving us the financial strength to continue giving our members an even better deal.

In line with our co-operative values and desire to make our products stand out, we continued to apply ethical screening to the investment portfolios backing our insurance policies. We avoided investing in bonds issued by companies that didn't meet our standards in areas such as human rights, the environment, trade and animal welfare.

In 2016, our members and other customers will see some big changes. Both our Home and Motor new business will move to the new IBM platform and our new website will launch, bringing with it a far more engaging and interactive service. Building on the success of 2015, this will allow more members to receive lower premiums thanks to our improved ability to be more specific and personal in our member pricing.

Our story
Helping Christmas flood victims

After storms Desmond, Eva and Frank swept through the North of England in December 2015, a large number of colleagues volunteered to work over the Christmas break to help the hundreds of policyholders whose homes were damaged by flooding.

They dealt with new claims and contacted customers within 250 metres of areas at risk of flooding to see if they needed help. Our loss adjusters also drafted in extra support and severely affected customers received £50 of Co-operative Food vouchers to help them through Christmas.

174 customers who were unable to stay in their homes were re-housed in temporary accommodation as quickly as possible. Affected customers were not required to follow the standard claims processes. They were immediately authorised to carry out any emergency repairs to their homes, safe in the knowledge we would reimburse the full costs to them.

Jonathan Guy, Head of Claims, said: “When I was out visiting our customers, it was clear that they all had differing priorities, so getting to understand what was important to them and then tailoring the claim appropriately to make sure their needs were taken into account was really crucial.”

We don’t expect individuals to be priced out of insurance as a result of the floods and we will not apply an increase to policy excesses for flood cover.

Legal Services

Revenue	£18m	Down 14.3%
Underlying operating profit	£0.7m	Up £6m
Customer satisfaction	88%	Flat
Colleagues	355 *	Up 5.0%

*Colleague numbers exclude Collective Legal Solutions independent associates who are not permanent members of staff

Key facts at a glance

- Return to profit despite significant investment in digital technology
- 88% customer satisfaction rating
- Acquisition of Collective Legal Solutions

Buying a house, writing a will, dealing with the financial affairs of a deceased family member or going through a divorce are all part of life. We help our members and customers to deal with these events as quickly, helpfully and transparently as possible. Simply put, we aim to give people an outstanding service (see Our story) and in 2015 we took important steps towards improving our ability to do so.

We appointed new experienced heads of probate, family law and personal injury to strengthen the Legal Services management team, and help us to develop our services and improve member loyalty. When added to investments being made in digital technology, they’ll help us to meet the needs and interests of our members across the UK.

Our customers gave us a satisfaction rating of 88% for 2015. This ranks us highly among legal services firms. But we know we can do better. So we’re investing in technology platforms, workflows and training, sharpening our focus on dealing with legal issues quickly and effectively.

Legal Services returned to profit, following 2014’s reduction in costs. Our investments in digital technology limited the profit to £0.7m but this was an improvement on 2014’s £5m loss. Revenue declined to £18m (2014: £21m) as personal injury volumes continued to normalise and as we shaped and refined the business back to core service propositions.

Strengthening our Wills, Trust and Estate planning services, we bought Collective Legal Solutions in December 2015. With over 100 associates and support colleagues, this business provides face-to-face services to customers in inheritance-related legal matters throughout England and Wales. We intend to enhance our estate planning services further in 2016 by offering digital products. The addition of digital will allow clients access through their channel of choice.

We launched our new website during the year, allowing us to use digital technology to improve our services. Enhancements will be made during 2016 to allow customers to engage more easily with us.

We continue to work closely with our Co-op business partners to look after members and customers at critical times in their lives, such as when they have an accident or are managing a bereavement. It is at these key moments of truth that our businesses can work together to better serve our members.

As we moved into 2016, our family legal aid contracts came to an end and we decided not to renew these contracts as we had a limited range and reach of services, and developing services required significant investment. The Government's Autumn Statement 2015 announced two proposals that, if implemented, will significantly change the personal injury market. It's too early to assess the full impact at this stage; the consultation process will clarify the changes which are likely to take effect in 2017.

Our Legal Services business is successfully rebuilding itself. 2015 was the year when our business returned to profitability, giving us the financial strength to continue improving our service to members and their communities. In 2016, we'll work to give people a better deal when they seek legal advice in the UK. We aim to make legal services more affordable, helpful and efficient.

Our story
From sound advice to warm friendship

Helping people at critical times in their lives means we often receive notes thanking us for our services. But in 2015, one email sent by the Plymouth Herald's classical music writer who'd recently lost his father stood out.

Mr B said: "Having enjoyed excellent service from the Co- operative Funeral Service, both when my mother passed away, and now my father, it seemed a natural, and essentially seamless transition to hand on the legal business to essentially the same firm, or rather, a different company but still under the Co-operative umbrella, and all the traditional values this still stands for.

"I realise that the appointment of a particular case-handler is arbitrary, but I want to say that in pairing me with Amy Arnold, I don't think you could have done any better. She handled everything with total professionalism, yet amazing warmth and friendship, and ensured that the all-important lines of communications between us were never compromised during the eight months it took to finalise."

Supporting people in this way is what we're in business for.

Electrical

Revenue	£79m	Down 6.0%
Underlying operating loss	£1.0m	Down £1.8m
Customer satisfaction rating	98%	Flat
Home deliveries	642,000	Up 5.0%

Key facts at a glance

- 98% 'excellent' customer satisfaction rating
- 642,000 home deliveries, up 5% on last year
- 16% increase in website conversion rates
- 89% rise in Black Friday sales
- 24% rise in Christmas sales

Co-operative Electrical prides itself on being the UK's fairest electrical retailer, committed to offering the best products together with excellent customer service, and championing honest pricing for warranties (see Our story). Our customers recognise this as our 98% Feefo (an online ratings and reviews provider) customer satisfaction rating for 2015 shows.

While internet sales remained strong, buying group volumes were lower than in 2014 due to other co-operative societies exiting their department stores. Profitability was also challenged due to aggressive market conditions, leading to a loss of £1m (2014: profit of £0.8m). However, there were strong sales in the key Black Friday and Christmas seasons. Our customers spent 89% and 24% respectively more on our goods at these times compared with 2014.

Our outstanding customer service defines us. When it comes to delivery, Co-op is the only electrical retailer to offer a 60-minute delivery slot free of charge.

2016 will be the year when we do even more for our customers. We are investing in improving our website, making it more engaging for shoppers, we plan to offer online credit and we will be launching click and collect, giving more reasons for our members and customers to shop at Co-operative Electrical.

Our story
Championing cost price warranties

Believing that the electrical goods warranty market treats customers unfairly, we've championed selling warranties at cost price. In 2015, our first full year of making cost price warranties available, three times more people chose to buy them than in 2014.

Co-op is the only electrical retailer not to make a profit on selling extended warranties. What's more, our warranty policy is market-leading, covering a wide set of possible claims. No other retailer in the UK gives this peace of mind.

"We've clearly staked out our position as the consumer's champion," says James Holland, Managing Director, Co- operative Electrical. "The extended warranty sector doesn't have a good reputation. What we are doing is making it fair."

Support functions

Key facts at a glance

- Over 200 ways to save money identified within procurement
- New Chief Digital Officer

Transforming how we operate

The Co-op's plans for recovery require a thorough reorganisation of how we do business. For our planned revival to be successful, we must reform our support functions – from human resources, to procurement and digital services.

Managing people

People come first, and the way we manage them is changing. We've appointed highly capable managers to all the key leadership positions, started to remove inconsistencies in how people are paid and made clear that the Co-op's Purpose as a members' organisation is at the heart of what we do.

Our people are learning to love the Co-op again – they're rediscovering their emotional attachment.

We're changing the Co-op's culture by encouraging people to perform as well as they can, and rewarding them if they do. To achieve this, we've introduced a rigorous performance review process. We've also rolled out a new grading structure, aligning roles and incentives across our businesses.

Becoming lean

Across the Co-op, we've made great progress cutting costs and re-prioritising where we spend. This releases money for investment in our Rebuild. We've saved money in lots of different ways, such as challenging business rates payments on our properties, forward buying of electricity and reshaping insurance premiums.

Within procurement, more than 200 ways were found to save money. To give a few examples, £974,000 was saved by rebidding waste contracts and increasing the income for our recyclate, around £390,000 from reviewing mobile phone contracts and around £275,000 from reducing layers in the facilities management supply chain.

Adapting to digital

Just as the internet is at its best when it joins people together, so it has great potential for serving the Co-op and our members. In 2015, we laid the foundations for wiring world-class digital capabilities into the core of our businesses. We appointed a Chief Digital Officer who sits on our nine-member Group Executive, hired a number of other specialists and planned how digital will improve our communication with members.

Nostalgia FM was an example of how digital services can make our products fun and interesting. General Insurance designed this tool for drivers to enter the date of their driving test and receive a music playlist from that month.

In 2016 and beyond, we will launch a series of digital services and businesses. This will enable us to better service our existing members, while building affinity and awareness of the Co-op to a new generation and it will strengthen our link with communities. In the years ahead, we may even explore entirely new Co-op digital businesses.

Principal risks and uncertainties

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

Persistent Risk	Description	What are we doing to manage and/or reduce the risk?
Strategic and Business	Ensuring effective implementation of our strategic plan to secure a sustainable future	Implementation of our strategy to rebuild the Group is progressing as planned. There is governance in place across most of the Rebuild programmes and work is underway to address the remaining inconsistencies. Disciplined, comprehensive programme and portfolio management to govern anticipated benefits is being put in place by the Group Transformation team, along with Group-wide communication.
	Delivering on the financial objectives of Food's True North strategy in the face of continuing volatility in the UK grocery market	Focus on convenience and own-brand development delivering market-beating sales growth and growing customer numbers and transactions. All key change and business development activities being managed through a structured and disciplined Transformation Office. Market movements monitored closely and plan execution adapted as necessary.
	Deliver the Bank Separation Programme within agreed time, cost and quality criteria with no impact to our customers	A robust Separation Programme capability is embedded and operating within a defined delivery and governance framework that interlocks with executive management, key stakeholders and the three lines of defence model. An experienced (IT) delivery partner is engaged on a fixed cost basis. The agreed separation delivery plans allow flexibility for the separation of the General Insurance and Bank infrastructure in line with their required timescales. This will reduce the delivery dependencies and ensure the Group programme is delivered within agreed time and cost. In addition, independent assurance has been undertaken by the Group's Outsourced Internal Audit Delivery Partner with no material findings.
	Strengthening the General Insurance (GI) business model	Achieve acceptable profits and return on equity, by ensuring insurance risks are carefully selected in accordance with risk appetite, risk strategy and priced to reflect the underlying risk. Three year GI Transformation programme addressing legacy operating model.

	Stabilising and strengthening governance model	Significant governance reform delivered and being embedded with establishment and implementation of a new Board (composed of a majority of independent directors), a Council and Senate. Relationship between the Board and Council continues to evolve; Board directors participate in Council meetings. Defined roles and responsibilities, inductions and training for new personnel and Board.
Brand and Reputation	Rebuilding the Group's reputation as a trusted corporate citizen	Key media, political and financial opinion formers/investors regularly engaged on progress on the Rebuild journey so they understand strategic actions being taken and why. Favourable media coverage over the course of 2015 as the Rebuild programme achieves momentum. New Committee being established, including members of the Council to ensure strategies and policies support the Group's Purpose and Values. Proactive engagement on local issues within local communities, which align with the Group's Purpose and needs of our members.
	Maintaining food standards and securing ethical sourcing through our supply chain in support of a better way of doing business	Robust technical quality assurance policies, auditing and monitoring to ensure ongoing compliance with standards, both ethical and technical. Clear sourcing policies, comprehensively reviewed and communicated. Fair, transparent relationships developed through supply chain. Rigorous due diligence, risk assessments and technical /social auditing on all new suppliers. Specific safeguards in relation to meat sourcing, increased testing and technical resource within the supply chain, approved primary and secondary supplier listings.
Financial and Treasury	Meeting our banking covenants	Robust action taken to return Group to a sustainable position, including major disposals to significantly reduce debt. Continual engagement with banks and bondholders on business performance and development. Refinancing of five-year £355m syndicated bank Revolving Credit Facility completed in February 2016, under which financial covenants provide comfortable headroom to progress with the Group's Rebuild plans.

	Pension scheme funding	Pension Strategy Committee established to manage the Group's pension risk exposure. New pensions offer agreed and implemented which will reduce future liabilities. Pace Complete, the defined benefit scheme, has been closed to future accrual. Trustees are required to perform triennial valuations and target full funding on an ongoing basis.
Regulatory Compliance	Acting responsibly and ethically towards colleagues, customers, or business partners ensuring compliance with the Code of Conduct	Social responsibility lies at the heart of the co-operative approach. Alignment of all activities throughout the organisation to our ethical values and principles.
	Fraud, financial crime or material misstatement	Regular financial controls testing, including semi-annual self-assessment exercises, and compliance with standard Group accounting policies. Independent testing by internal and external auditors. Confidential whistle blowing hotline in operation.
	Health & Safety or Environmental breach resulting in loss of life, litigation, financial penalties or reputation damage	Clearly defined policies in place specifying requirements for effective management of the risks and to drive compliance. Group-wide project to review all relevant processes and procedures delivered with introduction of 'Safe & Secure' programme to meet set standards of compliance. Health & Safety forums being set up across the organisation. Environmental reviews undertaken, including surveys. Full and continuous engagement with relevant authorities. Compulsory e-learning training across the organisation. Employment of suitably qualified and experienced compliance and risk officers.
	Data Protection or PCI breach	Data protection principles and PCI DSS requirements covered in appropriate policies. Employment of suitably qualified and experienced compliance and risk officers. Group-wide project to review all policies and procedures continuing. Full and continuous engagement with relevant authorities. PCI compliance programme being delivered in conjunction with the Barclaycard Risk Reduction programme. Compulsory e-learning training across the organisation.
	Breach of laws or regulations, including competition and anti-bribery	Appropriate policies in place, requirement to discuss possible breaches, with Group Legal and Group Risk monitoring compliance.

Operational Risk	Loss of capability due to major incident e.g. fire, flood, terrorism, war, political or civil unrest	Group Business Continuity Management Policy reviewed. Incident management strategies are tested on a regular basis. Programme in place to enhance the resilience of critical IT infrastructure.
	Strengthening arrangements to maintain the business in the event of an incident or major disruption	New Work Area Recovery Arrangements secured for 2016. Reporting to Executive Committee in relation to Business Continuity and Incident Management. Disaster Recovery testing completed against priority services.
	Providing a stable, resilient IT platform from which the Group's strategic objectives can be met	IT Resilience programme in place delivering improvement initiatives across critical systems following detailed review of IT resilience risk position.
	Protecting the IT environment from external threats, cyber risk and electronic data loss	Information Security Improvement Programme driving improvements to security controls across the Group. Approved governance structure implemented, security policies reviewed and being updated. Regular penetration testing conducted.
	Recruit, develop and maintain appropriate talent across the Co-op	Group-wide Talent Management process continues to facilitate design of robust development plans focusing on senior management. Objective, externally benchmarked capability assessments for recruitment to senior management roles.

Consolidated Income Statement

for the period ended 2 January 2016

In plain English - what does this show?

Our consolidated income statement shows all our earned sales for the year minus the expenses. The result is the net profit that we have made.

	Notes	2015 £m	2014 (restated*) £m
Revenue		**9,301**	9,388
Operating expenses		**(9,232)**	(9,208)
Other income		**43**	47
Operating profit	1	**112**	227
Finance income	2	**39**	69
Finance costs	3	**(117)**	(169)
Share of losses of associates and joint ventures	7	**(11)**	(3)
Profit before tax	1	**23**	124
Taxation	4	**(8)**	(17)
Profit after tax but before profit on discontinued operations		**15**	107
Profit on discontinued operations, net of tax	5	**-**	109
Profit for the period (all attributable to equity holders of the parent)		**15**	216

Non-GAAP measure: underlying profit before tax**

In plain English - what does this show?

The table below adjusts the profit figure shown in the consolidated income statement above by stripping out the impact of items that are not generated by our businesses' day-to-day trading. These are typically the profits or losses from selling businesses or properties or other one-off items. This helps readers of our accounts to understand how our businesses are performing.

	Notes	2015 £m	2014 (restated*) £m
Analysed as:			
Profit before tax (as above)		**23**	124
Add back losses/(deduct gains):			
One-off items	1	**62**	74
Property and business disposals		**14**	(99)
Change in value of investment properties		**(24)**	(16)
Finance income	2	**(39)**	(69)
Non-cash finance costs	3	**34**	30
Accelerated interest due to the early repayment of debt	3	**-**	26
Share of (profit) / losses of associates and joint ventures	7		
- Bank		**39**	10
- Travel		**(27)**	(6)
- Other		**(1)**	(1)
Underlying profit before tax		**81**	73

*See general accounting policies section on page 29 of this document for more details of the restatement.

**For a definition of underlying profit before tax, refer to note 1.

Consolidated Statement of Comprehensive Income

for the period ended 2 January 2016

In plain English - what does this show?

The consolidated 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 property, pension schemes and certain financial investments.

	Notes	2015 £m	2014 £m
Profit for the period		**15**	216
Other comprehensive income:			
Items that will never be reclassified to the income statement:			
Remeasurement gains on employee pension schemes		**105**	707
IFRIC 14 pension onerous liability remeasurement	8	**(19)**	-
Revaluation of property, plant and equipment		**-**	11
Related tax on items	4	**(5)**	(145)
		81	573
Items that are or may be reclassified to the income statement:			
Changes in value of available for sale assets		**(9)**	26
Share of other comprehensive income from associates	7	**-**	14
		(9)	40
Other comprehensive income for the period net of tax		**72**	613
Total comprehensive income for the period (all attributable to equity holders of the parent)		**87**	829

Consolidated Balance Sheet

as at 2 January 2016

In plain English - what does this show?

The analysis below provides a snapshot of the financial position of the Group at the end of 2015. It sums up the Co-op's assets and liabilities.

	Notes	2015 £m	2014 (restated*) £m
Non-current assets			
Property, plant and equipment		**1,965**	1,998
Goodwill and intangible assets		**948**	925
Investment properties		**87**	99
Investments in associates and joint ventures	7	**285**	316
Investments in funeral plans		**781**	661
Investments from insurance activities		**650**	661
Reinsurance contracts		**63**	67
Derivatives		**55**	67
Pension assets	8	**1,378**	1,247
Trade and other receivables		**23**	24
Deferred tax assets		**230**	263
Reclaim Fund assets		**73**	73
Total non-current assets		**6,538**	6,401
Current assets			
Inventories and biological assets		**445**	434
Trade and other receivables		**646**	566
Cash and cash equivalents		**405**	327
Assets held for sale	9	**-**	85
Investments from insurance activities		**241**	260
Reinsurance contracts		**6**	5
Reclaim Fund assets		**488**	407
Total current assets		**2,231**	2,084
Total assets		**8,769**	8,485
Non-current liabilities			
Interest-bearing loans and borrowings	10	**1,071**	993
Trade and other payables		**967**	841
Derivatives		**37**	48
Provisions		**352**	375
Pension liabilities	8	**227**	258
Deferred tax liabilities		**340**	344
Insurance contracts		**511**	334
Reclaim Fund liabilities		**487**	406
Total non-current liabilities		**3,992**	3,599
Current liabilities			
Overdrafts		**4**	8
Interest-bearing loans and borrowings	10	**22**	69
Income tax payable		**13**	13
Trade and other payables		**1,462**	1,381
Provisions		**87**	146
Insurance contracts		**235**	404
Total current liabilities		**1,823**	2,021
Total liabilities		**5,815**	5,620
Equity			
Members' share capital		**72**	70
Retained earnings		**2,787**	2,691
Other reserves		**95**	104
Total equity		**2,954**	2,865
Total equity and liabilities		**8,769**	8,485

*See general accounting policies section on page 29 of this document for more details of the restatement.

Consolidated Statement of Changes in Equity

for the period ended 2 January 2016

In plain English - what does this show?

The analysis 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 3 January 2015		**70**	**2,691**	**104**	**2,865**
Profit for the period		**-**	**15**	**-**	**15**
Other comprehensive income:					
Remeasurement gains on employee pension schemes		**-**	**105**	**-**	**105**
Pace pension surplus attributable to non Group entities		**-**	**(255)**	**-**	**(255)**
Adjustment to pension surplus under IFRIC 14		**-**	**255**	**-**	**255**
IFRIC 14 pension onerous liability remeasurement	8	**-**	**(19)**	**-**	**(19)**
Gains less losses on available for sale assets		**-**	**-**	**(6)**	**(6)**
Available for sale cumulative gains transferred to the income statement		**-**	**-**	**(3)**	**(3)**
Share of other comprehensive income from associates	7	**-**	**-**	**-**	**-**
Tax on items taken directly to other comprehensive income	4	**-**	**(5)**	**-**	**(5)**
Total other comprehensive income/(expense)		**-**	**81**	**(9)**	**72**
Contributions by and distributions to members:					
Shares issued less shares withdrawn		**2**	**-**	**-**	**2**
Contributions by and distributions to members:		**2**	**-**	**-**	**2**
Balance at 2 January 2016		**72**	**2,787**	**95**	**2,954**

Other reserves

Other reserves comprise the following:

Reclaim Fund capital reserve

This reserve comprises the surplus held within the Reclaim Fund Limited. The surplus has not been transferred to retained earnings because the profits are ultimately payable to the Big Lottery Fund and are therefore not available for distribution by the Group. The period end balance is £74m (2014: £74m).

Revaluation reserve – property, plant and equipment

This reserve relates to the surplus created following the revaluation of certain assets in the Trading Group in previous periods. The balance at the end of the period is £11m (2014: £11m).

Available for sale investments reserve

CISGIL mainly holds debt securities as available for sale investments. Subsequent valuation is at fair value with differences between fair value and carrying value recognised in other comprehensive income as they arise. The period end balance is a £10m credit (2014: £19m credit). There has been a £6m loss (2014: £29m gain) following the revaluation of available for sale assets during the period. £3m of gains (2014: £3m of gains) were transferred to the income statement during the period. A tax credit of £nil (2014: £nil credit) has also affected this reserve.

Consolidated Statement of Changes in Equity continued

for the period ended 3 January 2015

	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total shareholder interest £m	Non-controlling interests £m	Total equity £m
Balance at 4 January 2014		70	1,804	162	2,036	1	2,037
Profit for the period		-	216	-	216	-	216
Other comprehensive income:							
Remeasurement gains on employee pension schemes		-	707	-	707	-	707
Pace pension surplus attributable to non Group entities		-	(226)	-	(226)	-	(226)
Adjustment to pension surplus under IFRIC 14		-	226	-	226	-	226
Revaluation of property, plant and equipment		-	-	11	11	-	11
Gains less losses on available for sale assets		-	-	29	29	-	29
Available for sale cumulative gains transferred to the income statement		-	-	(3)	(3)	-	(3)
Revaluation reserve recycled to retained earnings		-	95	(95)	-	-	-
Share of other comprehensive income from associates	7	-	14	-	14	-	14
Tax on items taken directly to other comprehensive income	4	-	(145)	-	(145)	-	(145)
Total other comprehensive income / (expense)		-	671	(58)	613	-	613
Contributions by and distributions to members:							
Dividend - non-controlling interests		-	-	-	-	(1)	(1)
Contributions by and distributions to members:		-	-	-	-	(1)	(1)
Balance at 3 January 2015		70	2,691	104	2,865	-	2,865

Consolidated Statement of Cash Flows

for the period ended 2 January 2016

In plain English - what does this show?

This table analyses the cash coming in and out of the Group during the year. It splits the cash by type of activity - showing how much our businesses have generated and how or where we have spent that cash.

	Notes	2015 £m	2014 (restated*) £m
Net cash from / (used in) operating activities	6	**283**	(89)
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(297)**	(279)
Proceeds from sale of property, plant and equipment		**161**	341
Purchase of intangible assets		**(15)**	(15)
Acquisition of businesses		**(5)**	-
Acquisition of investments in joint ventures and associates		**(3)**	-
Proceeds from sale of investments		**-**	4
Disposal of businesses, net of cash disposed		**14**	796
Dividends received from investments	7	**6**	5
Net cash (used in) / from investing activities		**(139)**	852
Cash flows from financing activities			
Interest paid on borrowings		**(80)**	(150)
Issue / (repayment) of corporate investor shares		**4**	(13)
Repayment of borrowings, net of derivatives	10	**(50)**	(484)
Issue of borrowings, net of derivatives	10	**68**	-
Dividends paid to non-controlling interests		**-**	(1)
Finance leases repaid		**(4)**	(1)
Net cash used in financing activities		**(62)**	(649)
Net increase in cash and cash equivalents		**82**	114
Cash and cash equivalents at beginning of period		**319**	205
Cash and cash equivalents at end of period		**401**	319
Analysis of cash and cash equivalents			
Overdrafts		**(4)**	(8)
Cash and cash equivalents per balance sheet		**405**	327
		401	319

*See general accounting policies section on page 29 of this document for further details of the restatement.
Included in the above are cash flows from discontinued operations. An analysis of these can be found in note 5.

General Accounting Policies

In plain English - what does this note show?

This section outlines the general accounting policies of the Group that relate to the financial statements as a whole. Details of other accounting policies are included within the notes to the financial statements to which they relate. This allows readers quick and easy access to the relevant policy. This section also sets out new accounting standards, amendments and interpretations endorsed by the EU and their potential future impact on the Group's financial statements.

General information

The Co-operative Group Limited is a registered co-operative society domiciled in England and Wales. The address of the Society's registered office is 1 Angel Square, Manchester, M60 0AG.

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 2 January 2016. As permitted by statute, a separate set of financial statements for the Society are not included.

The accounts are presented in pounds sterling and are principally prepared on the basis of historical cost. Areas where other basis are applied are identified in the relevant accounting policy in the notes. Amounts have been rounded to the nearest £m.

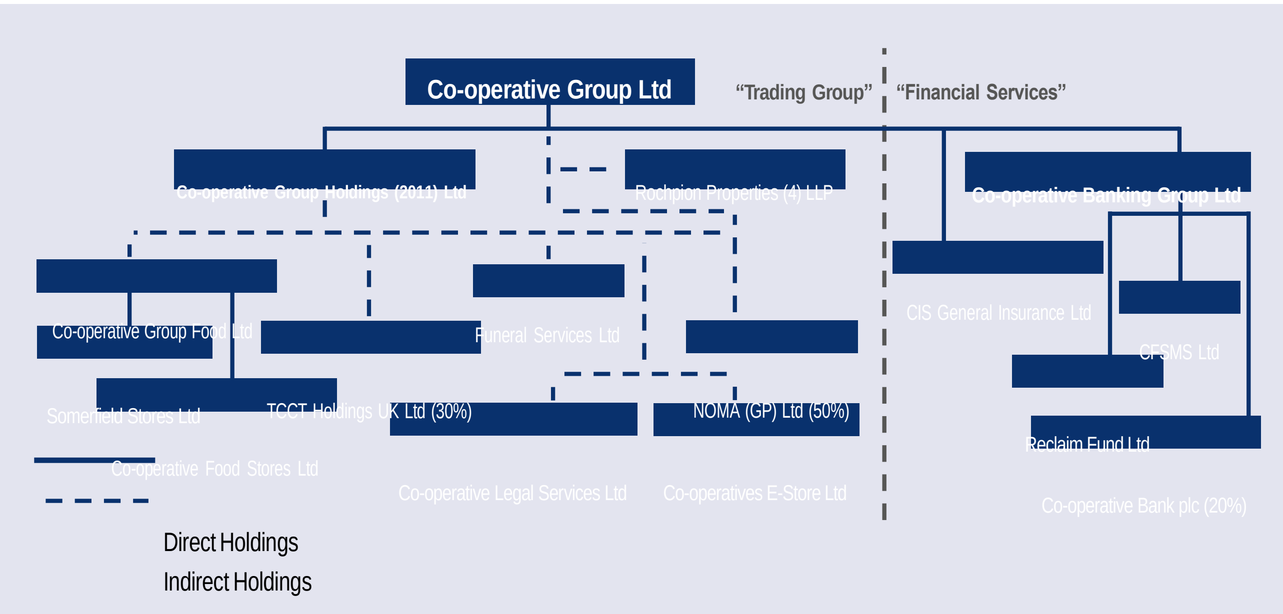
The accounting policies set out in the notes have been applied consistently to all periods presented in these financial statements, except where stated otherwise.

Basis of consolidation

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

The diagram below shows the composition of the Group and its principal subsidiaries, joint arrangements and associates. Further details can be found in note 34 of the Annual Report. A full list of subsidiaries that make up the Group for the purposes of these financial statements can be found at:

http://www.co-operative.coop/corporate/aboutus/oursubsidiaries/



All shareholdings are 100% owned unless otherwise stated.

General Accounting Policies continued

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total comprehensive income of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

A joint venture is an arrangement whereby the Group has joint control and has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Definition of Trading Group and Financial Services

Throughout the financial statements reference is made to the Financial Services activities of the Group to distinguish it from other Trading Group activity. The Financial Services entities comprise CIS General Insurance Limited (CISGIL) and other smaller entities (mainly holding, ancillary companies and the Reclaim Fund Limited) and the Group's remaining 20.2% investment in the Co-operative Bank Plc. This distinction is made as the Trading Group, CISGIL and the rest of Financial Services are separately funded.

Accounting dates

The financial statements are prepared for the 52 weeks ended 2 January 2016. Comparative information is presented for the 52 weeks ended 3 January 2015. Since the financial periods are virtually co-terminus with the calendar years, the current period figures are headed 2015 and the comparative figures are headed 2014.

The Financial Services subsidiaries of the Group have prepared accounts for the period ended 31 December. This differs from the parent of the Group and other Trading Group subsidiaries which have accounting periods ended on the first Saturday on or after 31 December. For the period ending 2 January 2016, there are no significant transactions or events which need to be adjusted to reflect the difference in reporting dates.

One-off costs and non-GAAP (Generally Accepted Accounting Principles) measures

One off costs include costs relating to activities such as large restructuring programmes and costs or income which would not normally be seen as costs or income relating to the underlying principal activities of the Group.

To help the reader make a more informed judgement on the underlying profitability of the Group, a non-GAAP measure: underlying profit before tax, has been presented. This is shown at the bottom of the income statement and is reconciled back to the statutory measure of profit before tax. In calculating this non-GAAP measure, property and business disposals (including individual store impairments), the change in value of investment properties, one off costs, profit / losses from associates / joint ventures and non-underlying interest are added back.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to do so and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

- Supplier income (Note 3)
- Non-current asset impairment (Notes 10 & 11)
- Accounting for the Group's investment in The Co-operative Bank Plc (Notes 13 & 26)
- Pensions (Notes 15 & 27)
- Inventories (Note 17)
- Provisions (Note 24)
- General Insurance claims and reserves (Notes 21 & 28)

General Accounting Policies continued

The Group has applied all endorsed IFRSs that are effective on a European basis for the Group's financial statements for the period ended 2 January 2016 and the comparative period.

Restatements

Revenue of £45m has been deducted from sales in Food and netted in cost of sales in the prior year. This relates to income received from suppliers for the Group hauling their products to the Group's depots and as such is more appropriately recorded as an adjustment to the cost of inventory. There is no impact on net assets.

The restatement of the comparative period cashflow, balance sheet and net debt figures reflects adjustments to exclude £53m cash deposits held in trustee-administered bank accounts (which can only be utilised to meet liabilities in respect of funeral plans) from cash and to include them instead within investments in funeral plans. As this restatement is not material from a balance sheet perspective, a third balance sheet as required under IAS 1 has not been included.

Payments to pension schemes of £48m relating to deficit payments made by the Group are now included within operating cashflows when they were previously shown in financing to better reflect their nature as an employee related expense.

Cash held in the Reclaim Fund of £488m (2014: £407m) is no longer shown in the cashflow statement as the cash is not available for use by the Group. Reclaim Fund cashflows have also been excluded from the reconciliation of operating profit to net cash flow used in operating activities (note 6).

The restatement of the comparative period operating segments note, the operating expenses note and non-GAAP measure of underlying profit before member payments reflects the following:

- the result from the Group's Estates business has been reported in the segmental analysis within Food (previously reported within in costs of supporting functions) to align with, and following a change in, the information that is reported to the Chief Operating Decision Maker (CODM) which is the Group Board;
- impairment charges on loss making food stores or funeral branches are now shown in profit or loss on property and business disposals (previously these were included within underlying segment operating profit). This reduces volatility in the underlying profit measure and therefore assesses the businesses on their true underlying performance;
- CISGIL transformation costs of £6m previously reported in underlying profit are now included within one off costs;
- certain central costs previously reported within costs from supporting functions are now reported within the Food result to align with, and following a change in, the operational responsibility in this area and consequently the information that is reported to the CODM.

The impact of the restatements noted above are summarised in the table below:

£'m	2014 reported	Estates	Impairment	CISGIL	Central Costs	2014 restated
Underlying segment operating profit:						
Food	251	(15)	8	-	(2)	242
Funerals	66	-	-	-	-	66
CISGIL	(7)	-	-	6	-	(1)
Other businesses	8	-	-	-	-	8
Costs from support functions	(146)	15	-	-	2	(129)
Total	**172**	**-**	**8**	**6**	**-**	**186**
One-off items	(68)	-	-	(6)	-	(74)
Property and business disposals	107	-	(8)	-	-	99
Change in value of Investment properties	16	-	-	-	-	16
Operating profit	**227**	**-**	**-**	**-**	**-**	**227**

General Accounting Policies continued

Standards, amendments and interpretations issued but not yet effective

The Group has not early adopted the following standards and statements. The adoption of these standards is not expected to have a material impact on the Group's accounts when adopted.

- IFRS 14 Regulatory Deferral Accounts;*
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11);
- Clarification of Acceptable Methods of Depreciation and Amortisation and Amendments bringing bearer plants into the scope of IAS 16 (Amendments to IAS 16 and IAS 38);
- Equity Method in Separate Financial Statements (Amendments to IAS 27);
- Annual Improvements to IFRSs 2010 -2012 Cycle – various standards;
- Annual Improvements to IFRSs 2012 -2014 Cycle – various standards;
- Disclosure Initiative (Amendments to IAS 1);
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12*);
- Disclosure Initiative (Amendments to IAS 7*).

The adoption of the following standards will or may have a material impact on the Group's accounts when adopted:

- IFRS 9 (Financial Instruments: Classification and Measurement (2013))*

  This new standard, issued in July 2014 replaces IAS 39 (Financial Instruments: Recognition and Measurement (2009)). IFRS 9 Financial Instruments includes requirements for the recognition and measurement, de-recognition and hedge accounting for financial instruments. IFRS 9 was originally issued in November 2009, reissued in October 2010, and then amended in November 2013. The standard will be effective for annual periods beginning on or after 1 January 2018. Management are assessing the impact of this standard on its financial statements.

- IFRS 15 Revenue from Contracts with Customers*

  This new standard, issued in July 2014 replaces a number of standards and interpretations, including IAS 11, 18 and IFRIC 13, 15 and 18. It will be effective for annual periods beginning on or after 1 January 2018. As the Group's operations are mainly in retail and not in long term contracts, the effects of this standard will be minimal, except with regards to member payments. As a member will usually expect a discount in the form of a dividend on the point of sale, the Group will need to recognise a liability at the point of sale rather than when the dividend is approved at the Annual General Meeting. In addition, the amount recognised as a liability will be presented as a reduction in revenue rather than as a charge to the Income Statement after operating profit. As the Group is still developing its future dividend strategy, the numerical impact of these changes is uncertain. Furthermore, the introduction of the new standard may affect revenue recognition on funeral plans and Management are currently assessing the potential impact of the new standard on the financial statements.

- IFRS 16 Leases*

  IFRS 16 fundamentally changes the accounting for leases by lessees. It eliminates the current IAS 17 dual accounting model, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases and, instead, introduces a single,

  on-balance sheet accounting model that is similar to current finance lease accounting. It will be effective for annual periods beginning on or after 1 January 2019. As the Group has material operating lease obligations the introduction of the new standard will have

  a material impact upon both assets and liabilities on the balance sheet and the rental charge recorded in the income statement. Management are assessing the impact of this standard on its financial statements. More information on the Group's operating leases commitments, which are currently off balance sheet, can be found in note 12.

  *Not yet endorsed by the European Union.

Going concern

The Directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position (as set out in the Business Review on pages 17 to 23 of the Annual Report). The Directors have also assessed the financial risks facing the Group, its liquidity position and available borrowing facilities. These are principally described in Note 22 to the Annual Report. In addition, Notes 22 and 30 of the Annual Report also include details of the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its financial instruments and hedging activities.

General Accounting Policies continued

In assessing the appropriateness of the going concern basis of preparation, the Directors have firstly considered the going concern position and outlook of the Trading Group, Co-operative Banking Group Limited ('CBG') and CISGIL separately, as they are independently funded. Details of the relevant factors in relation to the going concern position of each of these businesses are set out below. The Directors have then, taking these individual assessments into account, considered the overall going concern position of the Group.

The Trading Group

The Trading Group meets its working capital requirements through a number of separate funding arrangements, as set out in detail in note 30 of the Annual Report, certain of which are provided subject to continued compliance with certain covenants (Debt Covenants). Profitability and cash flow forecasts for the Trading Group, prepared for the period to April 2017 (the forecast period), and adjusted for sensitivities considered by the Board to be reasonably possible in relation to both trading performance and cash flow requirements, indicate that the Trading Group will have sufficient resources available within its current funding arrangements to meet its working capital needs, and to meet its obligations as they fall due.

CBG

CBG is the holding company that owns the Group's ongoing investment in the Co-operative Bank plc and other less material financial services subsidiaries. Following a change in the Group's company structure, CISGIL is no longer directly owned by CBG thus reducing the regulatory risk associated with CBG. CBG is self-funding. Profitability and cash flow forecasts for CBG, prepared for the period to April 2017 (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 CBG will have sufficient resources to meet its working capital needs, and to meet its obligations as they fall due.

CISGIL

CISGIL has significant deposits with credit institutions of £199.1m, considerably in excess of the Board's target minimum liquidity requirement of £21m.

CISGIL is required to comply with a number of regulatory capital requirements. At 31 December 2015, CISGIL's total regulatory capital was £258.6m which is in excess of all externally imposed regulatory capital requirements. In May 2015, CISGIL successfully raised £70m of sub-ordinated debt with a ten year term which will support the ongoing Transformation Programme whilst ensuring future capital targets are met.

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

CISGIL reported a statutory loss for the year of £66.1m, which includes claims expenditure as a result of the December 2015 severe weather events and expenditure related to the Transformation Programme. Losses are forecast to continue in 2016 and 2017, driven by the ongoing Transformation Programme.

From 1 January 2016, CISGIL will operate under the new Solvency II regulatory framework. Under this regime the regulatory capital requirement includes an Add on which is in respect of additional operational risks associated with the ongoing Transformation Programme. Including the Add on, current forecasts show that CISGIL's available capital will remain significantly above all Solvency II capital requirements for the foreseeable future.

The key risk to CISGIL throughout the Transformation Programme is execution risk. Poor governance or failure to deliver the new platform could result in the need for an alternative strategy to be deployed with cost, time and business sustainability impacted. CISGIL has sought to mitigate this risk through the development of a robust governance structure around the programme, to provide oversight and direction to the plan with an established escalation process for decision making and risk assessment.

Group Summary

After consideration of the factors set out above, and, after making all appropriate enquiries, the Directors have a reasonable expectation that the Society and the Group has access to adequate resources to enable it 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.

Notes to the Financial Statements

1. Operating segments

In plain English - what does this note 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.

	2015				
	Revenue from external customers[f] £m	**Underlying segment operating profit[a] £m**	**Operating profit £m**	**Additions to non-current assets[e, f] £m**	**Depreciation and amortisation[e] £m**
Food	**6,958**	**250**	**260**	**273**	**(213)**
Funeralcare	**399**	**78**	**78**	**16**	**(20)**
General Insurance	**343**	**(13)**	**(60)**	**55**	**(47)**
Other businesses	**97**	**9**	**9**	**-**	**(1)**
Federal[g]	**1,504**	**-**	**-**	**-**	**-**
Costs from supporting functions	**-**	**(160)**	**(175)**	**22**	**(29)**
Total	**9,301**	**164**	**112**	**366**	**(310)**

	2014 (restated - see d below)				
	Revenue from external customers[f] £m	Underlying segment operating profit[a] £m	Operating profit £m	Additions to non-current assets[e,f] £m	Depreciation and amortisation[e] £m
Food	7,041	242	331	238	(210)
Funeralcare	363	66	66	19	(21)
General Insurance	371	(1)	(7)	48	(63)
Other businesses	134	8	20	4	(4)
Federal[g]	1,479	-	-	-	-
Costs from supporting functions	-	(129)	(183)	19	(31)
Total	9,388	186	227	328	(329)

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

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

c) The Group identifies its operating segments based on its divisions, which are organised according to the differing products and services it offers its customers. The reportable operating segments (and the captions) reported above are based on the periodic results reported into the CODM (see general accounting policies for definition) and whether the respective division's results meet the IFRS 8 minimum reporting thresholds. The 'Other Businesses' category includes activities which are not reportable per IFRS 8. The significant constituent parts of 'Other businesses' are the Group's Legal Services, Electricals and, prior to its disposal in the previous year, the Sunwin Services Group, and their results have been combined as allowed by IFRS 8. The Farms business is included within Food in the comparative figures. Other Financial Services entities (mainly holding, ancillary companies and the Reclaim Fund Limited) are included within costs from supporting functions.

d) The operating segments for 2014 have been restated such that the results of the Estates division are now included within Food (previously within Costs from supporting functions). Impairment charges against Food stores that were previously included within underlying segment operating profit are now shown within property and business disposals and certain central costs previously shown within costs from supporting functions are now shown within the Food result (see general accounting policies section).

Notes to the Financial Statements continued

1. Operating segments continued

e) Additions to non-current assets are derived on a cash flow basis. Depreciation and amortisation excludes £9m (2014: £9m) amortisation of deferred income relating to the use of the Co-operative Travel brand by the Group's associate: TCCT Holdings UK Limited. Amortisation of £47m (2014: £63m) and additions of £55m (2014: £46m) on deferred acquisition costs are included within General Insurance.

f) The Group's external revenue and non-current assets arise primarily within the United Kingdom. The Group does not have a major customer who accounts for 10% or more of revenue. There are no material transactions between the main operating segments.

g) Federal relates to the activities of a joint buying group that is operated by the Group for itself and other independent co-operative societies. The Group acts as a wholesaler to the other independent co-operatives and generates sales because of this. This is run on a cost recovery basis and therefore no profit is derived from its activities.

h) Transactions between operating segments excluded in the analysis are £nil (2014: £20m) of sales by Sunwin Services Group (prior to the sale of this business), £9m (2014: £9m) sales by Co-op Electrical, £2m (2014: £2m) sales by Legal Services and £2m (2014: £2m) of sales by the General Insurance business.

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

	2015					
	Food £m	**Funeralcare £m**	**General Insurance £m**	**Other businesses £m**	**Costs from supporting functions £m**	**Total £m**
Underlying segment operating profit	**250**	**78**	**(13)**	**9**	**(160)**	**164**
One off items:						
– Restructuring costs	**-**	**-**	**(47)**	**-**	**(15)**	**(62)**
One off items	**-**	**-**	**(47)**	**-**	**(15)**	**(62)**
Property and business disposals	**(14)**	**-**	**-**	**-**	**-**	**(14)**
Change in value of investment properties	**24**	**-**	**-**	**-**	**-**	**24**
Operating profit	**260**	**78**	**(60)**	**9**	**(175)**	**112**

Restructuring costs primarily relate to expenditure incurred in relation to the on-going transformation programme and replatforming work being undertaken within our General Insurance business. The costs associated with the implementation of the transformation programme are charged to the income statement as incurred, with recognition of assets where the technical accounting criteria are met. The remaining restructuring costs relate to Rebuild activity within our supporting functions.

	2014 (restated)					
	Food £m	Funeralcare £m	General Insurance £m	Other businesses £m	Costs from supporting functions £m	Total £m
Underlying segment operating profit	242	66	(1)	8	(129)	186
One off items:						
– Restructuring costs	(23)	-	(6)	-	(56)	(85)
– Past service pension credit	-	-	-	-	11	11
One off items	(23)	-	(6)	-	(45)	(74)
Property and business disposals	96	-	-	12	(9)	99
Change in value of investment properties	16	-	-	-	-	16
Operating profit	331	66	(7)	20	(183)	227

Restructuring costs in 2014 mainly related to costs incurred in the restructuring of the Food distribution network, the executive restructure and the establishment of the Target Operating Model for the Group's support centres.

During 2014, certain former United Co-operative pension funds changed their rules decreasing retirement benefits for early retirees. This reduced estimated future liabilities by £11m and therefore created a one-off credit to the Consolidated income statement.

Notes to the Financial Statements continued

1. Operating segments continued

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

	Note	2015 £m	2014 £m
Underlying segment operating profit		**164**	186
Underlying interest payable	3	**(83)**	(113)
Underlying profit before tax		**81**	73
One-off items (see above)		**(62)**	(74)
Property and business disposals		**(14)**	99
Change in value of investment properties		**24**	16
Finance income	2	**39**	69
Non-cash finance costs	3	**(34)**	(30)
Accelerated interest due to the early repayment of debt	3	**-**	(26)
Share of profit of associates and joint ventures	7	**(11)**	(3)
Profit before tax		**23**	124

2. Finance income

In plain English - what does this note show?

The note gives further details of the finance income that the Group has recognised in the year. This income arises in two ways: (i) the interest earned on our pension scheme and, if a gain, (ii) the movement in the value of our interest rate swap positions (which are used to manage risks from interest rate movements).

	2015 £m	2014 £m
Net pension finance income	**39**	12
Fair value movement on interest rate swaps	**-**	57
Total finance income	**39**	69

Included in the above are interest and bonuses of £65m earned in the year on funeral plan investments. These have been offset by a £65m increase in the corresponding financial liability.

3. Finance costs

In plain English - what does this note show?

Our main finance cost is the interest that we've incurred during the year on the bank borrowings that help fund the business. Other finance costs include the movement in the fair value of certain elements of that debt from year to year, as well as the non cash charge we incur each year on long term provisions as the payout moves one year closer (the discount unwind).

	2015 £m	2014 £m
Loans repayable within five years	(73)	(99)
Loans repayable wholly or in part after five years	(10)	(14)
Underlying interest payable	(83)	(113)
Accelerated interest due to the early repayment of debt	-	(26)
Accelerated fee amortisation due to the early repayment of debt	(2)	(4)
Fair value movement on quoted Group debt	(14)	(15)
Fair value movement on interest rate swaps	(1)	-
Discount unwind of provisions	(17)	(11)
Other finance costs	(34)	(56)
Total finance costs	(117)	(169)

Fair value movements on forward currency transactions were immaterial in the current and prior period. Total interest expense on financial liabilities that are not at fair value through profit or loss was £17m (2014: £18m).

4. Taxation

In plain English - what does this note show?

Our tax charge is made up of current and deferred tax - this note explains how those items arise. Current tax is the tax arising on the taxable income for the year, whereas deferred tax relates to future periods. This year we have included additional explanatory footnotes (on the following page) to help better explain the key items. The Group were awarded the Fair Tax Mark in 2015 and the additional disclosures are in-line with best practice guidance.

	Footnote	2015 £m	2014 £m
Current tax charge - current year	(i)	-	-
Current tax - adjustment to group relief payable owed to Co-operative Bank Plc	(ii)	17	-
Net current tax credit		17	-
Deferred tax charge - current year	(iii)	(38)	(5)
Deferred tax credit - adjustments in respect of prior years	(iv)	13	1
Net deferred tax charge		(25)	(4)
Total tax charge		(8)	(4)
Deduct tax credit on discontinued businesses	(v)	-	(13)
Total tax charge on continuing businesses		(8)	(17)

Notes to the Financial Statements continued

4. Taxation continued

The tax on the Group's net profit before tax differs from the theoretical amount that would arise using the standard applicable blended rate of corporation tax of 20.25% (2014: 21.5%) as follows:

	Footnote	2015 £m	2014 £m
Profit before tax		**23**	124
Tax charge at 20.25% (2014: 21.5%)		**(5)**	(27)
Deferred tax reconciliation:			
Expenses not deductible for tax (including one off costs)	(vi)	**(5)**	(4)
Depreciation and amortisation on non-qualifying assets	(vii)	**(6)**	(5)
Non-taxable profits arising on share disposals	(viii)	**-**	29
Non-deductible costs of investments	(ix)	**(9)**	(13)
Adjustment in respect of previous periods	(iv)	**13**	1
Losses taxed at lower rate / utilisation of losses		**-**	2
Derecognition of tax losses	(x)	**(3)**	-
Restatement of deferred tax to 18% (2014: 20%)	(xi)	**(10)**	-
Subtotal of deferred tax reconciling items		**(20)**	10
Current tax reconciliation:			
Reduction in historic group relief payable owed to Co-operative Bank plc	(ii)	**17**	-
Tax charge on continuing business		**(8)**	(17)

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

	2015 Tax expense £m	2014 Tax expense £m
Actuarial gains and losses on employee pension scheme	**(5)**	(145)
	(5)	(145)

Of the tax taken directly to the consolidated statement of comprehensive income, £5m charge (2014: £145m charge) relates to deferred taxation charge of £17m arising on actuarial movement for the year, net of a credit of £12m which relates to the restatement of deferred tax rates on the pension scheme surplus.

The Finance Act 2013 reduced the main rate of corporation tax from 21% to 20% from 1 April 2015. The Finance Act 2015 will further reduce the main rate of corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020. This will reduce the company's future current tax charge accordingly. Each deferred tax balance has been measured individually based on the tax rate at which it is expected to unwind (either 18%, 19% or 20%). This results in a blended deferred tax rate of 18.8% at the balance sheet date.

Tax policy

The Group published its Tax Policy on our website http://www.co-operative.coop/corporate/investors/tax-policy/. The disclosures made in these financial statements comply with the commitments made in that policy.

Footnotes to taxation note 4:

i) The Group is not taxpaying in respect of 2015 (apart from an amount explained below) due to the fact it has a number of brought forward capital allowances and tax losses that are in excess of its taxable profit for the period. These allowances and losses are explained in more detail in Note 16 of the Annual Report. An amount of current tax of £170k (2014: £335k) is in respect of wholly owned IOM resident subsidiary, Manx Co- operative Society, an entity which made a profit of £2.3m in the period by undertaking convenience retailing in the Isle of Man. All other profits reported in these accounts arise solely from activities undertaken in the UK. This is the Group's only non UK resident entity for tax

4. Taxation continued

Footnotes to taxation note 4 continued

purposes. A full copy of the most recent accounts is available here: http://www.co-operative.coop/Corporate/PDFs/Annual-Report/2015/Manx-Co-operative-Society-Limited-2015.pdf . In addition the Group has one company registered in the Cayman Islands, Violet S Propco Limited. This dormant company has always been UK resident for tax purposes as it is managed and controlled entirely within the UK. All tax obligations in respect of this company are therefore reported in the UK.

ii) The Group hold a creditor balance in relation to group relief claimed from the Co-operative Bank Plc in 2012 and 2013. This group relief payable is intrinsically linked to and held at prevailing tax rates. As a result of the reduction in corporation tax rates, the total group relief payable has reduced.

iii) Deferred taxation is an accounting standard concept that reflects how certain income and expenses fall into the charge to tax in differing periods from the accounting period than the period the original income or expense arose. These differences are a result of tax legislation. Note 16 of the Annual Report explains how each deferred tax balance has moved in the year. £38m of net deferred tax assets have been utilised in 2015 which has resulted in a taxable profit of £nil for this year. It is expected that deferred tax assets will continue to be utilised against future taxable profits, and it is likely that the tax bill of the Group will remain at £nil until at least 2018 due to the utilisation of these assets. No forecasts are available after this date.

iv) Adjustments to tax charges in earlier years arise because the tax charge in the financial statements is an estimate that is prepared before the detailed tax calculations are required to be submitted to HMRC, which is 12 months after the year end. In addition, HMRC may not agree with a tax return some time after the year end and the liability for a prior period may arise as a result. In 2014 the differences are purely in respect of differences between the estimated position for the year and the position submitted to HMRC. During 2015 the Group has revisited the unwind of certain historic deferred tax balances, primarily arising on revaluation of land and buildings. This review has required a release of deferred tax liabilities which had crystallised in historic periods.

v) The tax credit arising on discontinued activities in 2014 was primarily due to the fact that no tax arose on the accounting profit arising on the sale of the Pharmacy business. This was 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. There are a number of tests to satisfy to obtain this exemption. The Group agreed with HMRC in advance of these disposals that the exemption would apply.

vi) Some expenses incurred by the Group may be entirely appropriate charges for inclusion in its financial statements but are not allowed as a deduction against taxable income when calculating the Group's tax liability. Examples of this include certain repairs, entertaining costs and legal costs.

vii) The accounting treatment of depreciation differs from the tax treatment. For accounting purposes an annual rate of depreciation is applied to capital assets. For taxation purposes the Group is entitled to claim capital allowances, a relief provided by law. Certain assets do not qualify for capital allowances and no relief is available for tax purposes on these assets. This value represents depreciation arising on such assets (primarily land and buildings).

viii) In 2014 the Group disposed of its shareholding in Farmcare Limited and Sunwin Security Services Group (2010) 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. There are a number of tests to satisfy to obtain this exemption. In addition, the Group agreed with HMRC in advance of these disposals that the exemption would apply. No shareholdings were disposed of during 2015.

ix) These represent the write off of the value of certain shareholdings sold in the year as well as the write off of certain land and buildings disposed of during the year.

x) Part of the deferred tax asset in respect of tax losses has been derecognised in the year, as it is considered that these losses will not be able to be utilised in future periods. As such, at 2 January 2016, there is an unrecognised deferred tax asset of £3m (2014: £nil).

xi) It is a requirement to measure deferred tax balances at the substantively enacted corporation tax rate at which they are expected to unwind. Due to the reduction in corporation tax rates from 20% to 18% deferred tax balances have been reduced, and hence released to the income statement, to reflect this decrease in tax rates.

Accounting policies

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in reserves, in which case it is recognised in other comprehensive income. Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

5. Profit on discontinued operations, net of tax

In plain English - what does this show?

When a key and separate major line of our business is either disposed of, or is classified as being held for sale, then the profit (or loss) of that business is shown separately in the income statement after profit after tax. This note provides further details of such businesses, including analysis of income and expenses, segmental sales analysis and assets, liabilities and cashflows.

In the prior year, on 6 October 2014, the Group announced the completion of the sale of its Pharmacy business to Bestway Group for consideration of £640m and the result of that business for the period up to disposal, and the profit on disposal, was disclosed within discontinued operations.

During the prior year the Group also disposed of its Farms division and the Sunwin Services Group. As these businesses were not considered to be separate, major operating activities of the Group, the results of these businesses were not disclosed as discontinued operations as defined by IFRS 5.

Results of discontinued operations	**2015 £m**	2014 £m
Revenue	-	578
Expenses*	-	(528)
Results from operating activities	-	50
Profit on sale of discontinued operations (see below)	-	61
Profit before tax	-	111
Tax - relating to operating activities*	-	(2)
Tax - relating to the loss on sale of discontinued operations	-	-
Profit/(loss) for the period	-	109

*The Pharmacy business was classified as held for sale from 26 February 2014. Its assets were therefore not depreciated or amortised from this date to the date of completion of the disposal. Expenses in 2014 therefore did not include depreciation and amortisation charges of £20m which would have been included in the operating result if Pharmacy had not become an asset held for sale at that date.

Profit on sale of discontinued operations	**2015 £m**	2014 £m
Cash consideration received for the sale of the Pharmacy business	-	640
Pharmacy net assets derecognised	-	(490)
Pharmacy disposal and separation costs	-	(28)
Profit on sale	-	122
Further disposal and separation costs in respect of the Co-operative Bank Plc	-	(49)
Further disposal costs in respect of the Life and Savings business and TCAM Limited	-	(12)
Profit on sale of discontinued operations	-	61

In 2014, following a review of the Group's separation of the Co-operative Bank Plc in December 2013, and in light of better information, the Group reassessed the estimated costs on separation and a further £49m charge was recognised in relation to costs to be incurred on the separation of certain IT systems and processes from the Bank.

Pharmacy segmental analysis

	Revenue from external customers £m	Underlying segment operating profit £m	Operating profit £m	Additions to non-current assets £m	Depreciation and amortisation £m
52 weeks ended 3 January 2015	578	30	30	7	26
52 weeks ended 2 January 2016	-	-	-	-	-

The amounts in the table above for the 52 weeks ended 3 January 2015 do not include the IFRS 5 adjustment to cease depreciation and amortisation from 26 February 2014 when the Pharmacy business became an asset held for sale. This is because the information given to the Executive (Chief Operating Decision Maker at the time) did not include this adjustment.

Notes to the Financial Statements continued

5. Profit on discontinued operations, net of tax continued

A summary of the assets and liabilities held by the Pharmacy business at the point of disposal is shown below:

	£m
Non current assets	
Property, plant and equipment	74
Goodwill and intangible assets	345
Investments in associates and joint ventures	1
Trade and other receivables	13
Current assets	
Inventory	51
Trade and other receivables	89
Cash and cash equivalents	29
Total assets disposed of	602
Non current liabilities – deferred tax provision	15
Current liabilities – trade and other payables	97
Total liabilities disposed of	112
Net assets disposed of	490

A summary of the cash flows used in discontinued operations is below:

	2015 £m	2014 £m
Cash flows used in discontinued operations:		
Net cash from operating activities	-	49
Net cash from investing activities	-	(21)
Net cash used in discontinued operations	-	28

Accounting policies

Discontinued operations are those operations that can be clearly distinguished from the rest of the Group, both operationally and for financial reporting purposes, that have either been disposed of or classified as held for sale and which represent a separate major line of business or geographical area or a subsidiary purchased exclusively with a view to resale.

6. Reconciliation of operating profit to net cash flow used in operating activities

In plain English - what does this show?

This note shows how our operating profit figure, as reported in the consolidated income statement, is reconciled to the net cash used in operating activities as shown, as the starting position in the cash flow statement. In the analysis below, non-cash items are added back to or deducted from the operating profit figure. The resulting figure is the cash from operating activities.

	2015 £m	2014 (restated*) £m
Operating profit	**112**	227
Profit on discontinued operations	**-**	109
Depreciation and amortisation charges (excluding deferred acquisition costs)	**263**	279
Non-current asset impairments	**27**	22
Profit on disposal of businesses and non-current assets	**(13)**	(311)
Change in value of investment properties	**(24)**	(16)
Retirement benefit obligations	**(38)**	(48)
(Increase) / Decrease in inventories	**(11)**	26
(Increase) / Decrease in receivables	**(130)**	106
Increase / (Decrease) in payables and provisions**	**98**	(504)
Net cash flow from / (used) in operating activities before asset and liability movements in Financial Services	**284**	(110)
Fair value through profit and loss movement	**(43)**	51
Assets available for sale movement	**66**	37
Movement in deferred acquisition costs	**(8)**	15
Reinsurance assets	**3**	(15)
Loan receivables at amortised cost	**(3)**	3
Insurance and other receivables	**(68)**	50
Insurance and participation contract provisions	**15**	(128)
Insurance and other payables	**37**	8
Asset and liability movements in Financial Services	**(1)**	21
Net cash from / (used) in operating activities	**283**	(89)

*See general accounting policies section on page 29 of this document for details of the restatement.
**The decrease in payables and provisions in the prior period includes the payment of the £313m capital contribution to Co-operative Bank Plc The cash flows above and in the cash flow statement include discontinued operations.

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

Accounting policies

Cash and cash equivalents comprise cash balances, call deposits and balances with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

7. Investments in associates and joint ventures

In plain English - what does this note show?

This note gives further details of the Group's interests in The Co-operative Bank Plc and TCCT Holdings UK Limited (Travel) as well as some smaller investments in our Manchester property joint venture, NOMA, and our Windfarm joint ventures. These items are called 'investments in associates' as the Group has a significant influence over their activities but does not have control. It shows how the value of these investments in the balance sheet has changed during the year, as well as what share of their profit or loss has been shown in our consolidated income statement. The full investments in associates and joint ventures note is shown in note 26 of the Annual Report.

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

	2015		2014	
	Income/(losses) £m	**Investments £m**	Income/(losses) £m	Investments £m
The Co-operative Bank plc (Bank)	**(39)**	**185**	(10)	224
TCCT Holdings UK Limited (Travel) - share of income / (losses)	**(5)**	**38**	6	48
NOMA	**1**	**34**	1	31
Other investments	**-**	**28**	-	13
	(43)	**285**	(3)	316
Income from dividend guarantee (explained below)	**32**	**-**	-	-
Total	**(11)**	**285**	(3)	316

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

	2015 £m	2014 £m
At beginning of period	**316**	285
Additions	**3**	31
Transfers from investment property	**15**	-
Share of losses	**(43)**	(3)
Share of other comprehensive income	**-**	14
Dividends received	**(6)**	(5)
Disposals	**-**	(6)
At end of period	**285**	316

Notes to the Financial Statements continued

7. Investments in associates and joint ventures continued

Travel

The travel associate made a £17m loss in 2015 of which the Group's 30% share was £5m. The Group has also recognised income of £32m in relation to a minimum dividend guarantee under the terms of the joint venture agreement. Under this agreement with Thomas Cook Plc, the Group is guaranteed a minimum of £37m of dividends within the first 5 years (i.e. by September 2016). During 2015, the final year of the agreement, it became clear that the joint venture would not be able to pay any further dividends beyond the £5m already paid. Consequently the remaining £32m of dividend payable to the Group will come from the guarantee and not the underlying profits of the joint venture. A financial asset of £32m has therefore been recognised reflecting the dividend guarantee. As well as the guaranteed dividends described above, the Group has a guaranteed put / call option with Thomas Cook Plc which allows the Group to sell its investment in Travel at the higher of £50m or four times the associate's EBITDA. The Group has not ascribed any value to the guarantee at the 2 January 2016 on the basis that the fair value of the investment and the guarantee are broadly the same.

Bank

The Group has impaired its investment in the Bank to £185m in the light of prevailing market conditions that impacted both the Co-op Bank and the wider banking sector in 2015. The lower for longer interest rate environment and increased Payment Protection Insurance ("PPI") claims provisions were key factors bringing downward pressure on the Bank's valuation. The Group has no access to the bank's plans and the valuation is based only on publicly available information. This has caused the Bank investment to reduce by £39m and this decrease has been reported in loss from associates and joint ventures line in the income statement.

Notes to the Financial Statements continued

8. Pensions

In plain English - what does this note show?

The analysis shows the value and net position (being either a surplus or a deficit) for all of the Group's defined benefit (DB) pension schemes. The subsequent tables also outline the present value of the obligations for the Group's DB schemes, as well as the fair value of the plan assets for those schemes.

The pension assets and liabilities in the balance sheet comprise:

	Assets 2015 £m	Assets 2014 £m	**Liabilities 2015 £m**	Liabilities 2014 £m	**Net 2015 £m**	Net 2014 £m
Schemes in surplus						
The Co-operative Group Pension Scheme (Pace)	**9,185**	9,154	**(7,919)**	(8,025)	**1,266**	1,129
Somerfield Pension Scheme	**931**	958	**(819)**	(845)	**112**	113
Lothian Borders & Angus Co-operative Society Ltd Employees' Pension Fund*	**-**	69	**-**	(64)	**-**	5
Total schemes in surplus	**10,116**	10,181	**(8,738)**	(8,934)	**1,378**	1,247
Schemes in deficit						
United Norwest Co-operatives Employees' Pension Fund	**493**	492	**(616)**	(641)	**(123)**	(149)
Other former United Co-operative Funds*	**104**	159	**(128)**	(203)	**(24)**	(44)
Plymouth and South West and Brixham Funds*	**86**	89	**(144)**	(151)	**(58)**	(62)
Britannia unfunded obligations	**-**	-	**(3)**	(3)	**(3)**	(3)
Total schemes in deficit	**683**	740	**(891)**	(998)	**(208)**	(258)
Total schemes excluding asset limitation / onerous liability (IFRIC 14)	**10,799**	10,921	**(9,629)**	(9,932)	**1,170**	989
Less asset limitation / onerous liability (IFRIC 14)	**-**	-	**(19)**	-	**(19)**	-
Total schemes	**10,799**	10,921	**(9,648)**	(9,932)	**1,151**	989

*Four schemes merged with Pace during 2015. Further details are provided in note 27 of the Annual Report.

Notes to the Financial Statements continued

8. Pensions continued

Changes in the present value of the defined benefit obligation (DBO) are as follows:

	2015 £m	2014 £m
Opening defined benefit obligation	**8,327**	6,615
De-recognised obligation for Britannia Pension Scheme and EFRBS liabilities from the Pace scheme (unfunded)	**-**	(609)
Current service cost	**48**	60
Interest expense on DBO	**302**	293
Participant contributions	**13**	19
Past service costs	**1**	(11)
Remeasurements		
a. Effect of changes in demographic assumptions	**(25)**	150
b. Effect of changes in financial assumptions	**(274)**	707
c. Effect of experience adjustments	**(25)**	(100)
Benefit payments from plan	**(295)**	(236)
Change in share of Pace attributable to Group from 60% to 80%	**-**	1,439
Closing defined benefit obligation attributable to Group	**8,072**	8,327
IFRIC 14 adjustment **	**1,576**	1,605
Closing defined benefit obligation	**9,648**	9,932

**This is the Co-operative Bank Plc's notional share (20% of the Pace scheme) which is added back to the Group's balance sheet (see note 27 of the Annual Report for more details). This IFRIC14 adjustment excludes schemes which merged with Pace during 2015.

Changes in the fair value of the plan assets are as follows:

	2015 £m	2014 £m
Opening fair value of plan assets	**9,090**	6,670
De-recognised assets of Britannia Pension Scheme	**-**	(631)
Interest income	**332**	300
Return on plan assets (excluding interest income)	**(227)**	1,336
Administrative expenses paid from plan assets	**(6)**	(6)
Employer contributions	**80**	101
Contributions arising from settlements*	**-**	33
Participant contributions	**13**	19
Benefit payments from plan	**(295)**	(236)
Change in share of Pace attributable to Group from 60% to 80%	**-**	1,504
Closing fair value of plan assets attributable to Group	**8,987**	9,090
IFRIC 14 adjustment **	**1,812**	1,831
Closing fair value of plan assets	**10,799**	10,921

*Within the prior year figures, a special, one-off contribution of £33m was paid to the Pace scheme. This was made as part of the agreement to sell the Pharmacy business to Bestway. As part of the agreement, Bestway contributed £33m to Pace with the Group reimbursing Bestway an amount of £3m, creating a profit of £30m within discontinued operations

**This is the Co-operative Bank Plc's notional share (20% of the Pace scheme) which is added back to the Group's balance sheet (see note 27 of the Annual Report for more details). This IFRIC14 adjustment excludes schemes which merged with Pace during 2015.

9. Assets and liabilities held for sale

In plain English - what does this note show?

The note shows the value of those Food stores that the Group holds for sale at the year end (these are stores we plan to sell soon). When this is the case, our balance sheet shows those assets separately as held for sale.

	2015 £m	2014 £m	2015 £m	2014 £m
	Assets held for sale		Liabilities held for sale	
Total	-	85	-	-

Assets classified as held for sale

	2015 £m	2014 £m
Property, plant and equipment	-	85
	-	85

Accounting policies

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter, generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

10. Interest-bearing loans and borrowings

In plain English - what does this note show?

The note provides information about the value and contractual terms of the Group's interest-bearing loans. This includes information about their value, interest rate and repayment terms and timings. Details are also given about other borrowings and funding arrangements such as Corporate investor shares and Finance leases. All items are split between those that are due to be repaid within one year (current) and those which won't fall due until after more than one year.

	2015 £m	2014 £m
Non-current liabilities:		
£450m 6 7⁄8% Eurobond Notes due 2020*	**477**	470
£350m 7 1⁄2% Eurobond Notes due 2026*	**376**	369
£21m 8 7⁄8% First Mortgage Debenture Stock 2018*	**21**	21
£109m 11% final repayment subordinated notes due 2025	**109**	109
£19m Instalment repayment notes (final payment 2025)	**17**	18
Corporate investor shares	**1**	2
Non-current portion of finance lease liabilities	**2**	4
Trading Group interest bearing loans and borrowings	**1,003**	993
£70m 12% Financial Services Callable Dated Deferrable Tier Two Notes due 2025	**68**	-
Total Group interest bearing loans and borrowings	**1,071**	993

On 8 May 2015, CISGIL issued £70m of Callable Dated Deferrable Tier Two Notes due 2025 at par.

	2015 £m	2014 £m
Current liabilities:		
Unsecured bank loans	**-**	50
Instalment repayment notes (final payment 2025)	**1**	1
Corporate investor shares	**16**	11
Current portion of finance lease liabilities	**3**	5
Other unsecured loans	**2**	2
	22	69

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

For more information about the Group's exposure to interest rate and foreign currency risk, and a breakdown of IFRS 13 level hierarchies in relation to these borrowings, see note 30 of the Annual Report.

Notes to the Financial Statements continued

10. Interest-bearing loans and borrowings continued

Reconciliation of movement in net debt

Net debt is a measure that shows the Group's net indebtedness to banks and other external financial institutions and comprises the total of cash and short-term deposits less deposits held in trustee-administered bank accounts and current and non-current interest-bearing loans and borrowings.

For period ended 2 January 2016	Start of period £m	Non cash movements £m	Cash flow £m	Movement in corporate investor shares £m	Transfer to current from non current £m	End of period £m
Interest bearing loans and borrowings						
- current	**(69)**	**2**	**50**	**(5)**	**-**	**(22)**
- non current	**(993)**	**(11)**	**(68)**	**1**	**-**	**(1,071)**
Total Debt	**(1,062)**	**(9)**	**(18)**	**(4)**	**-**	**(1,093)**
Group cash:						
- Group cash (per balance sheet)	**327**	**-**	**78**	**-**	**-**	**405**
- Overdraft (per balance sheet)	**(8)**	**-**	**4**	**-**	**-**	**(4)**
Group Net Debt	**(743)**	**(9)**	**64**	**(4)**	**-**	**(692)**
Comprised of:						
Trading Group Debt	**(1,062)**	**(9)**	**50**	**(4)**	**-**	**(1,025)**
Trading Group Cash	**247**	**-**	**84**	**-**	**-**	**331**
Trading Group Net Debt	**(815)**	**(9)**	**134**	**(4)**	**-**	**(694)**
CISGIL debt and overdrafts	**(8)**	**-**	**(64)**	**-**	**-**	**(72)**
CBG cash and overdrafts	**80**	**-**	**(6)**	**-**	**-**	**74**
Group Net debt	**(743)**	**(9)**	**64**	**(4)**	**-**	**(692)**

For period ended 3 January 2015 (restated*)	Start of period £m	Non cash movements £m	Cash flow £m	Movement in corporate investor shares £m	Transfer to current from non current £m	End of period £m
Interest bearing loans and borrowings						
- current	(1,544)	-	-	15	1,460	(69)
- Non current	(6)	(9)	484	(2)	(1,460)	(993)
Total Debt	(1,550)	(9)	484	13	-	(1,062)
Group cash:						
- Group cash (per balance sheet)	214	-	113	-	-	327
- Overdraft (per balance sheet)	(9)	-	1	-	-	(8)
Group Net Debt	(1,345)	(9)	598	13	-	(743)
Comprised of:						
Trading Group Debt	(1,550)	(9)	484	13	-	(1,062)
Trading Group Cash	150	-	97	-	-	247
Trading Group Net Debt	(1,400)	(9)	581	13	-	(815)
CISGIL debt and overdrafts	(9)	-	1	-	-	(8)
CBG cash and overdrafts	64	-	16	-	-	80
Group Net debt	(1,345)	(9)	598	13	-	(743)

*See general accounting policies section on page 29 of this document for details of the restatement.

10. Interest-bearing loans and borrowings continued

Terms and repayment schedule

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

The 6.875% (inclusive of 1.25% coupon step up) Eurobond Issue 2020 has an original value of £450m (carrying amount of £477m) and the 7.5% (inclusive of 1.25% coupon step up) Eurobond Issue 2026 has an original value of £350m (carrying amount of £376m). These bonds have each been paying an additional 1.25% coupon since 8 July 2013 following the downgrade of the Group's credit rating to sub investment grade. Both these Bonds are to be paid to holders upon maturity.

In December 2013 the Group issued two subordinated debt instruments; £109m 11% final repayments notes due 2025 and £20m instalment repayment notes, final payment 2025. As at 2 January 2016 the amounts outstanding are final repayments notes of £109m and the instalment repayment notes of £18m.

The unsecured bank loans consist of a £411m Revolving Credit Facility which is undrawn as at 2 January 2016, which was due to terminate on 26 July 2017. The Group subsequently refinanced on 11 February 2016. More details can be found in note 30 of the Annual Report.

The Group also holds £17m (GBP equivalent) of uncommitted facilities, renewed annually.

Corporate investor shares

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. The rate of interest payable is determined by the London Interbank Offered Rate (LIBOR).

Finance lease liabilities

Finance leases have the following maturities in the Trading Group:

	2015 £m	2014 £m
Less than one year	**3**	5
Greater than one year but less than five years	**2**	4
	5	9

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

Accounting policies

The Group measures its interest bearing loans and borrowings in two main ways:

Fair value through profit or loss. Debt is fair valued at each period with the fair value movement going through the income statement. The Eurobond quoted debt is accounted for this way. This is because the Group has used interest rate swaps to hedge the impact in movements in the interest rate and the movement in the fair value of the quoted debt is partially offset by the fair value movement in the interest rate swap.

Amortised cost. Borrowings are recognised initially at fair value, which equates to issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

No interest bearing loans and borrowings are classified as held to maturity.

Notes to the Financial Statements continued

11. Financial Instruments

Fair values of the Trading Group

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value (e.g. trade and other receivables).

	2015			2014		
	Quoted market prices in active market	**Valuation techniques using observable inputs**	**Valuation techniques using**	Quoted market prices in active market	Valuation techniques using observable inputs	Valuation techniques using unobservable inputs
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	Level 1 £m	Level 2 £m	Level 3 £m
Non financial assets held at fair value						
Investment properties	**-**	**-**	**87**	-	-	99
Financial assets						
Trade and other receivables	**-**	**664**	**-**	-	574	-
Cash and cash equivalents	**-**	**331**	**-**	-	247	-
Investments in funeral plans	**-**	**-**	**781**	-	-	661
Derivative financial assets and liabilities						
Interest rate swaps:						
Assets	**-**	**55**	**-**	-	67	-
Liabilities	**-**	**(37)**	**-**	-	(48)	-
Non-derivative financial liabilities						
Secured debt:						
- First mortgage debenture 2018*	**(21)**	**-**	**-**	(21)	-	-
Unsecured bond issue:						
- Fixed-rate sterling eurobond	**(853)**	**-**	**-**	(839)	-	-
Unsecured subordinated notes:						
- Final Repayment Subordinated Notes	**(109)**	**-**	**-**	(109)	-	-
- Instalment Repayment Subordinated Notes**	**(18)**	**-**	**-**	(19)	-	-
Unsecured bank facilities						
- Other unsecured loans	**-**	**(2)**	**-**	-	(52)	-
Corporate investor shares		**(17)**			(11)	
Finance lease liabilities	**-**	**-**	**(5)**	-	-	(9)
Trade and other payables (excluding accruals and deferred income)	**-**	**(2,037)**	**-**	-	(1,847)	-

* This debenture is secured against a £100m Trading Group portfolio of land and properties.
** Due to the expected illiquid nature of these notes they are reflected at a par valuation.

Notes to the Financial Statements continued

11. Financial Instruments continued

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Investments in funeral plans

At the point of sale, both the initial plan investment and the liability for the funeral delivery are recorded at the plan value less the revenue recognised on sale. The plan investment is a financial asset, which is recorded at fair value each period through the profit and loss account. Investments are held in insurance policies or cash based trusts and attract interest and bonus payments throughout the year dependent upon market conditions. The funeral bond contract between the Trading Group and customer conveys certain rights of cancellation or transfer, and as such there is a contractual obligation, in certain circumstances, for the Trading Group to deliver cash in the form of a refund to the customer or preferred provider. This liability is therefore classified as a financial liability and is subsequently measured at the amount contractually repayable on demand.

Derivatives

Forward exchange contracts, such as the Trading Group's interest rate swaps, are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate. For interest rate swaps, broker quotes are used. Those quotes are back-tested using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market-related data at the balance sheet date.

Interest bearing loans and borrowings

These are shown at amortised cost which presently equate to fair value or are determined in whole by using quoted market prices.

Trade and other receivables / payables

For receivables / payables, the notional amount is deemed to reflect the fair value.

Hierarchy of fair values

The fixed rate sterling eurobond and the first mortgage debenture values are determined in whole by using quoted market prices. The interest rate swap values are determined in whole by counterparties who use quoted market prices. The forward exchange contracts are valued using an internal valuation technique. All other assets and liabilities stated in the table above are held at par value.

Interest rates used for determining fair value

The Trading Group uses the government yield curve as of the period end plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

	2015	2014
Derivatives	**0.72% - 2.07%**	0.63% - 1.91%
Loans and borrowings	**3.97% - 10.23%**	3.88% - 10.16%

12. Commitments and contingent liabilities

In plain English - what does this note show?

The note shows the value of capital expenditure that the Group is committed to spending in the coming year, as at the balance sheet date, as well as showing what the Group's future commitments under operating leases (mainly in relation to Food store rents) is over the coming years.

a) Capital expenditure not accrued for, but committed by the Group at the year end was £4m (2014: £5m). This all related to property, plant and equipment.

b) Commitments under operating leases:

The Group's operating leases include stores, warehouses and vehicles. These have varying terms, restrictions and renewal rights. The commercial terms of the Group's operating leases vary, however they commonly include either a market rent review or an index linked rent review. The timing of when rent reviews take place differs for each lease. At 2 January 2016, the future minimum lease payments under non-cancellable operating leases were:

	2015		2014	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Within one year	**191**	**5**	176	10
In two to five years	**680**	**4**	631	9
In over five years	**1,436**	**-**	1,540	-
	2,307	**9**	2,347	19

The total of future minimum sublease payments expected to be received under non-cancellable subleases less than 50 years is £198m (2014: £206m).

CISGIL has entered into a long term software service contractual agreement. This contract will end no earlier than 2023. The estimated value of the remaining commitment is £153m (2014:£nil). These amounts have not been provided for in the financial statements.

13. Related party transactions and balances

In plain English - what does this note show?

Related parties include people (such as the directors and key management personnel) as well as entities (such as subsidiaries or associates like The Co-operative Bank Plc). The note outlines the nature of the relationship of any related parties and the extent of material transactions and balances with them.

		2015	2014
	Relationship	**£m**	£m
Sales to associated undertakings and joint ventures on normal trading terms	**(i)**	**0.2**	0.6
Subscription to Co-operatives UK Limited	**(ii)**	**0.7**	0.7

i) Details of the Society's associates and joint ventures are set out in notes 13 and 26 of the Annual Report.

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

The Society's corporate members include consumer co-operative societies which, in aggregate, own the majority of the corporate shares with rights attaching as described in note 25 of the Annual Report. The sales to corporate members, on normal trading terms, were £1,504m (2014: £1,479m) and the amount due from corporate members in respect of such sales was £113m at 2 January 2016 (3 January 2015: £83m). No distributions have been made to Corporate members based on their trade with the Group in either the current or prior years.

Notes to the Financial Statements continued

13. Related party transactions and balances continued

Transactions with directors and key management personnel

Disclosure of key management compensation is set out in the Remuneration Report. A number of trading transactions are entered into with key management in the normal course of business and are at arms length. Key management are considered to be members of the management executive and directors of The Co-operative Group. At the balance sheet date, one related party is a guarantor to an annual residential tenancy agreement with the Group to the value of £6,000. Another related party bought a funeral plan to a value of £4,000 during the year. The transactions are on equivalent terms to those that would prevail on an arms length basis. Other than the compensation set out in the Remuneration Report, there were no other transactions greater than £1,000 with the Group's entities (2014: £nil). Total compensation paid to key management personnel is shown below.

Key management personnel compensation	**2015 £m**	2014 £m
Short-term employee benefits	**10.3**	11.8
Post-employment benefits	**0.7**	0.7
Other long-term benefits	**2.9**	-
Termination benefits	**0.8**	4.4
Total	**14.7**	16.9

Of the above, £1.3m (2014: £0.9m) was paid via a management entity.

Transactions with associates and joint ventures

The following balances are outstanding with the Co-operative Bank Plc for the period ends in which it has been an associate:

	2015 £m	2014 £m
Loans	**(1)**	(51)
Intercompany assets	**6**	126
Bank balance	**105**	247
Intercompany liabilities	**(156)**	(163)

Net interest and fees paid to the Co-operative Bank Plc were £3m (2014: £5m).
The Group owns 20.2% of the Co-operative Bank plc's ordinary shares and has the right to representation on the Board of the Bank. As such the Bank is an associate of, and related party to, the Group and there are material transactions between the two entities. As part of the Liability Management Exercise (LME), when the Bank ceased to be a wholly owned subsidiary of The Co-operative Group, the Bank and the Group entered into the following agreements and arrangements:

Relationship agreement

In anticipation of the completion of the LME and the Bank ceasing to be a wholly-owned subsidiary of the Group, the Group and The Co- operative Banking Group entered into an agreement with the Bank on 4 November 2013 (the Relationship Agreement) to regulate the basis of their on-going relationship.

Principles

The Co-existence Principles govern the use of trademarks containing 'Co-operative' or 'Co-op' and other associated trademarks owned by both parties.

2014 Commitment Agreement

On 4 November 2013, The Co-operative Banking Group entered into the 2014 commitment agreement with the Bank (the 2014 Commitment Agreement), conditional on the successful implementation of the LME, to subscribe for new ordinary shares satisfied by an irrevocable undertaking to pay £333m (the Undertaking to Pay to the Bank). These commitments were satisfied with the final tranche paid by the Group in December 2014.

Notes to the Financial Statements continued

13. Related party transactions and balances continued

Pensions Undertaking

On 4 November 2013,The Co-operative Group and the Bank entered into an undertaking whereby The Co-operative Group agreed with the Bank not to require the Bank to cease to participate in Pace in connection with the LME. The parties also agreed at the request of one of the parties to enter into good faith discussions to reach agreement on the separation of Pace and agree the Bank's proportion of employer contributions in Pace (and if not agreed, the matter will be referred to an independent third party). Good faith discussions have not yet concluded and no Pace separation terms have been agreed. The Bank has expressed an intention to conclude negotiations over its exposure, the scale of contributions and its role in the longer-term scheme. The aim is to conclude these discussions during 2016.

Britannia Pension Scheme

On 23 December 2015 the Bank entered into a deed of Amendment, Cessation, Substitution of Principal Employer, Apportionment, Augmentation and Release (The "Deed") relating to the Britannia Pension Scheme with CFSMS and other parties. Under the Deed, the Bank agreed to become Principal Employer and Sponsor of the Britannia Pension Scheme in place of CFSMS with effect from 25 December 2015. In addition, the Bank was released from previous guarantees given in favour of the Scheme Trustees and for the benefit of the Scheme.

IT separation costs agreement

The Bank and the Group entered into an IT Costs Separation Agreement on 22 January 2015. In consequence of the Bank's IT outsourcing agreement with IBM for enterprise computing services, the Bank is not progressing the proposed revised IT Service Agreement (ITSA) and Professional Services Master Service Agreement (PSMSA) which were described in the 2013 Annual report and accounts. A number of service contracts under the PSMSA have now been terminated and services repatriated to the Bank, with the intention that all will be terminated by the end of Q1 2016 except pensions and membership. Under the IT costs separation agreement, the Group will undertake to support activities for the separation of the Bank's IT infrastructure from the wider Co-operative Group's IT infrastructure, to enable the smooth transition to IBM. As part of this, the Bank entered into an amendment agreement on 21 December 2015 to the Third Party Access agreement that is in place between the Bank, IBM and the Group governing how the Group delivers services on behalf of the Bank in the Bank's target IT infrastructure. Further, the Group undertake that any notice to terminate the existing IT services agreement and the CFSMS-Bank Framework Agreement would not take effect prior to 31 December 2017 to give the Bank sufficient time to separate the Bank's IT infrastructure. The IT separation costs agreement also allocated the contributions to be made towards the Group's own costs of keeping the wider Group's existing IT infrastructure stable and operable during and following the Bank's separation of its IT infrastructure; to this end, the Group undertook to contribute a maximum of £95m towards such Group costs, with the Bank to make a contribution of up to £25m, based on a formula in the event that the total cost of this Group project falls between £76m and £120m.

Deed of surrender and release – Bank ATMs in Group Food stores

On 1 January 2008 the Bank was granted a licence by the Group to install and operate ATMs at a number of Food stores in the UK. On 14 April 2014, the Group served notice on the Bank to terminate this licence with effect from 1 January 2016. As part of a new arrangement between the Group and another third party, on 20 November 2014, the Group and the Bank entered into a deed for the Bank to surrender immediately any rights of occupation it may have in relation to these premises. In consideration for this early surrender, the Group paid to the Bank £2.9m, and a further £5.2m was paid in 2015. The Bank entered into a simultaneous agreement with Cardtronics UK Limited for the sale of these ATMs in Group premises.

Tax loss share

As part of the negotiations relating to the separation of the Bank from the Group, the Bank and the Group also agreed terms relating to the surrender of group relief between the entities in the Bank's tax group and entities in the Group tax group. A deed sets out the basis of the agreement by the Group to take proactive steps to allow it to maximise its claim for tax losses from the Bank for the accounting periods to 31 December 2012 and 2013. The deed also addresses the terms of the payment by the Group to the Bank for those tax losses. The Group has recognised a creditor of £143m (2014: £181m) with the Bank for this. The Bank receives payment from the Co-operative Group when the Group realises the benefit of the losses surrendered and at the corporation tax rate at which the benefit is realised.

CFSMS transactions

CFSMS is a subsidiary of the Co-operative Banking Group and continues to undertake the provision of supplies and services on behalf of the Bank. Further details of the CFSMS – Bank Framework agreement are disclosed below.

Notes to the Financial Statements continued

13. Related party transactions and balances continued

CFSMS-Bank Framework

On 16 February 2006, the Bank and CFSMS entered into the CFSMS-Bank Services Agreement pursuant to which CFSMS provides assets such as office equipment, materials and office space, other facilities and services, and consultants who act as secondees to the Bank. The Bank provides CFSMS with an indemnity for all liabilities, losses, damages, costs and expenses of any nature as a result of CFSMS entering into and performing the agreement in respect of the assets, services and personnel provided to the Bank.

The Bank and CFSMS commenced unwinding this arrangement during 2014 with the transfer of the employment of most staff to the Bank (see 'Transfer of Staff from CFSMS to Bank' below), the transfer of assets to the Bank (see 'Tangible and Intangible Assets' below) and the Bank entering in to numerous contracts with third party suppliers to replace those previously provided through CFSMS or the wider Group. These activities continued into 2015, in particular in respect of the Bank's transition of enterprise services to IBM.

Transfer of staff from CFSMS to Bank

As explained in relation to the CFSMS-Bank Framework above, from 16 February 2006 CFSMS provided consultants acting as secondees to the Bank. The employment of substantially all Bank dedicated staff provided under that arrangement was transferred to the Bank under the Transfer of Undertakings (Protection of Employment) Regulations, on 23 January 2014. The employment of a further tranche of IT security personnel took place in November 2014.

IT Security

The Bank's specialist IT security team will continue to provide an IT security service in relation to the IT infrastructure which the Bank and Co-operative Insurance Services General Insurance Limited (CISGIL) share until that infrastructure is separated. This service comprises a small number of people. The Bank has historically provided ad hoc IT security services to the Group. Whilst no services are currently being provided, the Bank and the Group entered in to an agreement to provide a framework for future services on 28 November 2014. Following the TUPE transfer of IT security personnel from CFSMS to the Bank in November 2014, the Bank entered into a letter agreement with CFSMS that regulated the terms on which certain IT security personnel would have transferred from CFSMS to the Bank, and the terms on which the Bank would provide an IT security service that the transferred IT security personnel used to provide, in relation to the IT infrastructure which the Bank and CFSMS share. This service is provided by a small number of people who are provided to CFSMS by way of secondment.

Tangible and intangible assets

A number of assets were originally purchased by CFSMS using funds advanced by the Bank and then provided to the Bank by CFSMS under the 2006 CFSMS-Bank Services Agreement referred to above. In 2013, the Directors of the Bank concluded these assets met the accounting criteria to be shown as assets for the Bank, and therefore reported them on the balance sheet. Legal title of these assets transferred to the Bank in 2014. As part of the separation activity, in November 2014 the Bank purchased the legal title of all Bank specific assets held by CFSMS (shared assets remained with CFSMS) through an SPV called CBG Asset Management Limited. The carrying value of these assets on the balance sheet at 31 December 2015 is £nil (2014: £126m).

Travel

The Group has transacted with the Travel associate for corporate travel management services in both periods. In addition, the Travel associate has bought energy services off the Group in both periods. These transactions were all at arms length.

NOMA

The Group has transacted in both periods with the NOMA joint venture in relation to the headlease of the CIS Tower in Manchester. The Group has sublet this lease onto the Bank and CISGIL who occupy it. These transactions were all at arms length.