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A message from Ursula Lidbetter

This report will make painful reading for our Members, customers, colleagues and other stakeholders. 2013 was the worst year in our history, and the report that follows lays bare some fundamental failings of management and governance. Against such a backdrop, the many good things that occurred in the past year will inevitably be drowned out. I therefore want to take the opportunity to highlight some of them here:

- We celebrated our 150th anniversary, with a chance to look back over a proud history that has seen the Co-operative Group as a force for good for millions of people over many generations.

- In November we welcomed Her Majesty the Queen with HRH Prince Philip to open our new home in Angel Square, Manchester.

- Also in November, we were delighted to be joined by HRH Princess Anne as Patron of Carers Trust at a dinner to mark our most successful ever period of charity fundraising, with over £5m raised for this highly worthwhile charity.

- We established the Co-operative Young Members’ Board to provide an insight into the views, issues and aspirations of young people aged between 16-25.

- Through our Apprenticeship Academy we identified 810 opportunities for young people to study for a nationally recognised qualification while working in one of our businesses, earning a competitive salary and gaining transferable and professional skills. Over 2,000 young people have now benefited from this programme.

During a most difficult period, our c.87,000 colleagues stuck resolutely to the task of serving our Members and customers throughout our diverse businesses. I am hugely grateful to them for their loyalty and for sticking with us in adversity. We owe it to all of them to recover the fortunes of this great organisation, an obligation that I and the Executive team are determined to fulfil.

Ursula Lidbetter
Chairman
Key Events

January 2013
- The Co-operative Group reveals Carers Trust as the Charity of the Year for 2013

February 2013
- The food industry was impacted by the contaminated meat product issue. The Co-operative Group responded swiftly taking a leadership position.

April 2013
- Withdrawal from the process of buying Lloyds Banking Group branch assets (‘Project Verde’)

May 2013
- Moody’s Rating Agency downgrade the Co-operative Bank
- Euan Sutherland joins the Co-operative Group as Chief Executive Officer
- Barry Tootell, Paul Flowers, Steve Humes and Martyn Wates leave the business
- Richard Pym and Niall Booker appointed to the Co-operative Bank’s Board, Richard Pennycook, Alistair Asher and Nick Folland appointed to the Group Executive

June 2013
- The Co-operative Group announces requirement for £1.5bn recapitalisation of the Co-operative Bank
- Treasury Select Committee announces enquiry into Lloyds Banking Group assets sale

July 2013
- Independent review of the events surrounding the Co-operative Bank announced, to be led by Sir Christopher Kelly
- The Group completes its sale of the Life and Savings business

November 2013
- Recapitalisation plan for the Co-operative Bank confirmed
- Len Wardle resigns as Chair of the Co-operative Group with immediate effect following revelations about the former Bank Chairman
- Ursula Lidbetter appointed as Chair of the Co-operative Group
- One Angel Square declared the most environmentally-friendly building in the world by Building Research Establishment Environmental Assessment Method (BREEAM)
- Her Majesty The Queen and HRH Prince Philip officially open One Angel Square

December 2013
- HRH the Princess Royal, Patron of Carers Trust, recognises the work of the Co-operative’s charity champions at a ‘Dinner of Dreams’ event
- The Co-operative Group and the Co-operative Bank announce successful completion of the Liability Management Exercise – £1.5bn recapitalisation plan for the Co-operative Bank
- Lord Myners appointed to Group Board as Senior Independent Non-Executive Director and to Chair Governance Review

January 2014
- The Co-operative Group announces the Terms of Reference for the Independent Review of the Group’s governance led by Lord Myners
- The Co-operative Group confirms retention of its General Insurance business

February 2014
- Decision reached that Pharmacy and Farms business disposals are required in order to reduce Group debt

March 2014
- Euan Sutherland resigns as Co-operative Group Chief Executive
- Richard Pennycook appointed as Interim Group Chief Executive

April 2014
- Paul Myners announces he will not seek election for his position as Senior Independent Non-Executive Director at the Group AGM
Key Performance Indicators

Our key performance indicators focus on Financial, People, Customer, Membership and Social Responsibility. Over the past year we have faced significant challenges across many of these key areas and work is underway to make significant improvement.

Financial

As a Co-operative business we operate for the benefit of our Members, with whom our profits are shared. Our key financial aims are to grow profitability, measured in terms of underlying profit before member payments, and to deliver an acceptable return on capital employed (ROCE). Overall Group underlying profit before member payments (excluding discontinued businesses) shows that even without the losses attributed to the Bank, there is still a downward trend on the rest of the Group’s profits. Trading Group ROCE of 6.9% was down from 8.6% in 2012. The fall in profitability is largely due to the decline in the Food business’ profits from £383m in 2010 to £247m in 2013 and the rise in central overheads from £98m in 2010 to £192m in 2013.

People

Our people are vital to our success and given the challenges faced by the Group in recent years it is essential that colleagues continue to feel a sense of belonging and commitment to the business. Changes were made to how the Group compiled and measured the sustainable engagement score for the 2013 Talkback survey. Core engagement scores under the old scoring system have been taken comparing 2013 with just 2012 which shows the Trading Group scored 74 (2012: 70) and the Banking Group 59 (2012: 68). Under the new scoring system, the score was 78% for the Trading Group and 62% for the Banking Group. Due to the new performance metrics, a direct comparison cannot be struck for previous years before 2012.

Customer

One of our strategic aims is to build trust and loyalty with our customers whilst at the same time sharing concern for each community we operate in. Performance in customer satisfaction is measured through regular customer surveys in Food, Pharmacy and Funeralcare while in the Banking Group the survey places greater focus on advocacy.

In Food a new customer satisfaction study replaced the Customer Satisfaction Index (CSI) measure and reports a score out of 10 rather than a percentage. This business achieved its 7.4 target. As this is a new study, no direct comparisons can be performed with previous years. Pharmacy still uses CSI as a measure scoring 93.4% v 93.2% (2012), above the 2013 target of 90%. In Funeralcare, 98.5% of customers were ‘very satisfied’ or ‘fairly satisfied’ compared to 98.6% (2012). Customer service questionnaires are also used to calculate a Funeral Excellence Score (FES). The 2013 FES was 93.8 v 93.3 (2012), exceeding the 2013 target of 91.

The Banking Group introduced a new Customer Satisfaction tracker which reports on ‘relationship satisfaction’ (the percentage of customers scoring between 8 and 10 on satisfaction). Both the Bank and General Insurance scored 77%. Prior year comparatives cannot be provided due to the new scoring system.

Membership

Membership engagement lies at the heart of our business. The more engaged our Members are the more successful our business is.

The Group measures Membership engagement in three ways:

- Total number of Members
- The number of Members trading with more than one Co-operative business
- Total customer dividend paid to customer Members

During 2013 our Membership grew from 7.6m to 8.1m. As a profit share, our dividend* will fluctuate according to Group profitability. Due to the reduced profit the Group has not been able to pay a dividend as large as in prior years and in 2013 we returned £38.5m to Members, down £12.9m from 2012. However, the Group has rewarded its Members with an additional voucher scheme at the end of 2013. The £38.5m includes £12.7m of redeemed discount vouchers** which received positive feedback from Members across the country and produced an exceptional redemption rate of 72%. The strategy on Membership and how Members will be rewarded for their trade is constantly evolving and will be part of the strategy review announced in May.

Social responsibility

Since 2009, we have been benchmarking ourselves against the Corporate Responsibility Index (CRI) operated by Business in the Community (BitC). This is the foremost UK corporate responsibility standard and assesses management practice in a range of environmental and social impact areas, including:

- Community
- Environment
- Marketplace
- Workplace

2013 saw a slight reduction in our score from 98% to 97%, but the Co-operative Group retained its ‘Platinum Plus’ status (now called Platinum Big Tick). This was achieved by 32 businesses in 2013 and by only 3 other retail businesses.

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* Because Member payments are approved by Members at the Annual General Meeting (AGM), the dividend paid to Members in 2013 is based on 2012 trade with the Group.

** £12.7m has been charged to operating expenses.
The Group entered 2013 focused on the future development of the organisation. Our Food business was developing its True North strategy and underlying performance from our trading businesses was encouraging.

In April, however, following a protracted period of due diligence, we withdrew from the planned expansion of our banking arm by way of the acquisition of branches and accounts from Lloyds Banking Group (Project Verde).

In May, we welcomed our new Chief Executive, Euan Sutherland, recruited from outside the organisation to revitalise the Group for the next generation. Within days of his joining, an unfolding crisis in our Bank emerged that risked not only its future but that of the entire Group. There followed a six notch downgrade by Moody’s in the credit rating of the Bank, as the extent of a significant capital shortfall became apparent. In order to meet regulatory capital requirements as laid down by the Prudential Regulation Authority (PRA) the Bank was required to raise a further £1.5bn of new Tier 1 capital which it achieved by means of the Liability Management Exercise (LME) explained on page 11. Although this reduced the Group’s ownership in the Bank to a 30% stake, this action was essential in order to safeguard the Bank for customers, colleagues and Members. The battle to save the Bank dominated our activity for the remainder of the year, only concluding on 20 December 2013.

The near-collapse of the Bank led to a wholesale change of leadership at both the Group and Bank. Euan moved decisively to recruit a new team well equipped to deal with the crisis. We were particularly fortunate that Richard Pym agreed to take the role of Chair at the Bank during such a crucial period. His experience and authoritative leadership have helped steer the Bank through this difficult phase. Appointments to the Group Executive team were equally important, with Richard Pennycook, Alistair Asher and Nick Folland all contributing greatly to the process of recapitalising the Bank. In that effort, they were helped enormously by a large team of professional advisers from UBS, HSBC, Allen & Overy and Alix Partners. Additionally, we could not have succeeded without the support of our syndicate banks and the considered response of our pension trustees, and I thank them too for their contribution. Finally, I would like to acknowledge the contribution of Andrew Bailey and his team at the PRA for their calm guidance through a difficult time.

It was at this point that I was appointed by the Board as Chair of the Group, with a determination to resolve the weaknesses of our governance structure which had been made plain by the events of the year.

The unprecedented nature of our crisis has inevitably led to the establishment of a number of inquiries by official bodies, including the Financial Conduct Authority, the Treasury, the Prudential Regulation Authority, the Treasury Select Committee and the police. We are co-operating fully with each of these. We also commissioned our own reviews. The first, by Sir Christopher Kelly, has been examining the circumstances that led to the Bank crisis, and will report its findings ahead of our Annual General Meeting. This will give us detailed and clear insight into what went wrong. Later in the year, Lord Myners agreed to undertake an independent governance review on behalf of the Board, whilst also agreeing to join the Group Board as Senior Independent Non Executive Director. His review produced a preliminary update in March 2014, with the full report expected ahead of the AGM. This will give us clear recommendations for dealing with the governance weaknesses which have been exposed in recent months and which we expect to be highlighted in the Kelly Review. Lord Myners will stand down from our Board at the AGM in May. We are indebted to him for being so generous with his time and expertise.

The near-failure of our Bank also highlighted wider financial weaknesses across the Group. In particular, our overall indebtedness is too high for an organisation of our nature. When the recent problems arose, we had limited resources with which to cover losses. Consequently, and regrettably, we have had to take some difficult decisions to sell some of our businesses. This will change the shape of the Group significantly as we adapt our strategy and cost base accordingly. Our new strategy will be presented to Members at the 2014 Annual General Meeting, along with further plans to reduce our debts.

It is a matter of great regret that Euan Sutherland felt compelled to resign subsequent to the year-end. Without question his leadership saved our Bank, and he built a top-flight team capable of redefining the purpose and relevance of our Co-op. We wish Euan every success in his future career, and we thank Richard Pennycook for agreeing to step in as interim Chief Executive during this difficult time for the Group. We will commence the search for a new permanent Chief Executive once the Governance Reforms have been completed.

As Group Chair, I recognise the scale of the change required to our governance. This essential and urgent work is critical to our future and will enable us to build a more effective organisation which can deliver for all our Members, customers and colleagues.
A disastrous year – 2013

I joined the Group in the summer of 2013 as your Interim Finance Director, and have since taken on the role of Interim Chief Executive. At both points, the Group faced a crisis. This annual report goes some way to explaining how this happened, and what we intend to do about it. It is in the nature of business that crises do occur, and need to be fixed. A large part of my career has been spent in similar situations, having arrived at moments of crisis in six other organisations. Whilst the issues at the Co-operative Group need urgent attention, it is clear to me that with the right, decisive action we can once again restore the Group to financial health. That action will include the need for fundamental reform of the way the Society is governed, if the Group is to be able to navigate successfully the issues that a business of its size and complexity faces. With the continuing support of our Members and colleagues, the Executive team now in place will make that happen.

Equally as important, we need to redefine the fundamental purpose of the organisation. The credibility, trustworthiness and financial strength of the Group built up over nearly 150 years have been stripped away over the past five years. And yet if ever there was a time for the revival of a campaigning organisation owned by its Members, all of whose profits can be put to work in the communities where they live, it is now.

In the detail of our annual report, we provide commentary on the performance of each of our key businesses, some of which performed adequately in 2013. The year itself, though, will always be remembered for an overall statutory comprehensive loss of £2.487bn (2012: loss of £529m). The scale of this disaster will rightly shock our Members, our customers and our colleagues, the Executive team now in place will make that happen. Equally as important, we need to redefine the fundamental purpose of the organisation. The credibility, trustworthiness and financial strength of the Group built up over nearly 150 years have been stripped away over the past five years. And yet if ever there was a time for the revival of a campaigning organisation owned by its Members, all of whose profits can be put to work in the communities where they live, it is now.

The loss arose principally from three causes. Firstly, the continuing losses reported by the Bank as a result of the impairment of corporate loans, conduct issues and failed computer development projects. Secondly, the write-off of our accumulated 115 year investment in the Bank following its emergency recapitalisation, in which we participated but in the process saw our shareholding fall from 100% to 30%. And thirdly, a partial write-off of the goodwill created on the 2009 acquisition of the Somerfield food business following a strategic review of that business.

Whilst 2013 was disastrous for the Group, when set in a longer term context we also have to recognise that underperformance has characterised the past few years. Our Bank also posted heavy losses in 2012 (loss before tax £673m), whilst Trading Group Operating Profit is down 71% over the past three years. Additionally, just under £1.3bn of one-off costs and charges have been recorded over the past five years. The classification of these charges as “significant items” signalled that they were non-recurring, or one-off in nature, but even in 2009 when the lowest level of charges were recorded they totalled over £100m.

Whilst the near-failure of the Bank was a disaster, Members can take some pride in the rescue response by the Group. Had the Bank failed, the consequences would have been far reaching. Current account holders and savers may well have been inconvenienced in accessing their money for a period of time, whilst those saving above the level at which the government provides protection may have faced losses on their savings. Small business customers may have been starved of vital liquidity and there could well have been contagion risks to other small financial institutions. Additionally, the many retail bondholders in the Bank who depend upon their investment with us to provide a pension income would have lost everything. And the effects would not have been limited to the Bank – the impact of cross default provisions in certain of the Group’s borrowing agreements, had they not been addressed, would have put the whole Group at risk of going into administration. Over a six month period, we worked hard to put in place a solution to save the Bank, and this concluded in December. It was the first rescue of a European Bank since the Banking Crisis began that did not involve recourse to the taxpayer. It required the Group to contribute well above its “fair share” of the rescue funding, in particular in order to protect small bondholders. Without question, this was the Co-operative Group ‘doing the right thing’. In addition, we ensured that, for the first time, the Bank has its ethical agenda enshrined in its constitution. This was vital, given that we were unable to retain our 100% ownership of the Bank. Through this mechanism, we can ensure that the Bank operates in a way that is true to its name, and if this were ever to change, it can no longer call itself the Co-operative Bank.

The operational separation of the Bank from the Group is underway – it is both complex and costly. This is an unfortunate consequence of an ownership change that was never planned for.

During the intense and protracted period where key Executives were absorbed with saving the Bank, we were fortunate to have colleagues throughout the wider Group who stuck to the task of delivering for their businesses and their customers. You can learn more about their performance in the business review section from pages 15 to 18.

A weakened state

The Group’s balance sheet reflects the recent history of poor results. Debt has risen from £0.6bn five years ago to £1.4bn at 4 January 2014. At this level, most Group debt ratios are adverse to those recorded by listed company peers, reflected in our sub-investment grade credit rating of B+ awarded by Standard and Poor’s in January 2014. Group debt did in fact reduce by £286m in the year, but as a result of business disposals and a sale and leaseback of the Group’s new head office (itself another form of debt) rather than through solid cash generation by our businesses. The Group’s balance sheet also reflects the accumulated legacy of obligations taken on in the past, but now holding back our financial progress.

The onerous lease provision of £197m (with over rented provision and holding costs £232m), included within note 26 to the accounts reflects an allowance for future rents on 645 units nationwide that are not in use by the Group, but where we have the rental obligation. The net rent liability for these properties through the full term of their leases totals £443m, and we have to work hard to mitigate that by finding sub-tenants for all this surplus property, itself the size of a national retail business. We reduced the goodwill recorded on the balance sheet relating to the Group’s acquisition of Somerfield by £247m (£226m impairment and £21m relating to 2013 disposals) reflecting our change in strategy for the Food business. By the conclusion of the True North programme, over 60% of the store space acquired in the Somerfield transaction will have been divested by the Group.
Turnaround and transformation – 2014 to 2016

We have stabilised the Group, with the support of many stakeholders, and we are ready to begin the process of recovery, but the deep, sustainable change needed is only deliverable with governance reforms. As Ursula mentions in her report, a combination of the Kelly Inquiry and the Myners Review will help us to ascertain where failings have arisen and what needs to be done to address them. This will be painful for those concerned, but there will be no sugar-coating. Whilst we await the detailed reports, it is clear that they will reveal major failings of governance, leadership and accountability. Eighty seven thousand colleagues and 8.1m Members will look to the Group Board, our Regional Boards and the independent societies for an appropriate response.

Our short term plan for the Turnaround Phase is simple. We need to invest in our retained businesses, and operate them effectively in highly competitive markets. We need to reduce a bloated cost base in order to generate cash for that investment and to enable us to reduce our levels of debt. And finally we need to ensure that we generate good proceeds from the businesses that are for sale in order to accelerate further the necessary debt reduction. All of these activities are under way. In our largest business, Food, the True North strategy announced last year is bearing fruit, and we have seen a sustained period of market outperformance. We have also begun a rigorous programme to take costs out of the business. Whilst there will be difficult decisions ahead, we have made a great start, identifying a budgeted £100m of savings by the end of 2014, with much more required.

The transformation phase of our recovery is ready to begin. A new Executive team is in place and leading the way. Over many months, a detailed review of all our businesses has been undertaken, and plans developed for each. Additionally, a fundamental review of the Purpose of our organisation has been undertaken. Whilst we have no automatic right to exist, it has confirmed to us that in the 21st Century, just as in the 19th, we should have a place in the communities of the United Kingdom. The work has been undertaken co-operatively with the Group Board, with extensive input from colleagues, Members, customers and the general public. It has been further informed by the Have Your Say poll, conducted on our behalf by YouGov and representing one of the largest such consultations ever undertaken. Over 180,000 people responded and the results are currently being analysed. At the heart of our Purpose will be our determination to be distinct, remain true to the essence of our Co-operative roots and deliver for our Members, customers and the communities in which they live. We know we need to make that meaningful to everyone who cares about the Co-operative.

Looking ahead

When I look back over the last year, while the problems created by a few have made the headlines, the quiet determination of the many gave us much to be proud of. First and foremost, our colleagues worked tirelessly for our customers and Members. In return, they have shown us huge loyalty. I thank them all.

The Group is now very publicly at a crossroads – past mismanagement means we lost our way, but we will revitalise our Purpose, improve our commercial operations and rebuild belief in the Co-operative. Whilst I am not going to reveal the results of the Have Your Say poll here, I can make clear that we still enjoy the goodwill of the nation, and they are urging us to succeed. We have a huge job ahead of us – transforming this organisation will take at least four years and the path will not always be smooth. Through all the events of the past year, however, I have never lost my faith that this is a great business that holds a special place in the hearts and minds of people in communities up and down the United Kingdom. This country needs a strong Co-operative and that is what the management team and I are determined to deliver.

Thank you for your support.

Richard Pennycook
Chief Executive Officer
Our organisation

The Co-operative Group is a national Co-operative society operating primarily in the retail, funeral care and financial services’ sectors.

Our roots date back to 1844, when the Co-operative Model was established by the Rochdale Pioneers. The principles of Members purchasing a share to join a Co-operative Society that trades fairly with its Members was established over 150 years ago and to this day the founding principles set by the Rochdale Pioneers provide the basis for our business model.

As a Co-operative, we provide goods and services to the communities in which we operate. Our surplus profits are distributed to our Members and local communities and our democratic structure means Members can have a real say in how the organisation is run, including giving Members the opportunity to be elected to positions on the Group Board.

How we create value

In each of our business areas we look to procure goods and services in an ethical and sustainable way that meet the needs of our Members and customers. We operate a food buying group which includes Independent Society Members, some of which trade under their own Co-operative Society brand. We invest heavily in our communities and each year donate considerable sums of money to local organisations through our community fund and ‘Social Goals’ projects. As a Co-operative, Members and customers have a real say in how the organisation operates. At our twice-yearly meetings, Members are able to table motions, challenge the Board and vote on decisions that directly affect the way the Group operates.

Our future strategy

In mid 2013 at the same time as developing and successfully completing the Liability Management Exercise to recapitalise the Bank (further detail can be found in the Financial Review on page 10), the Group Board began a strategic review of the business. The results of this, together with the wider strategic plans and Purpose for the Group are due to be unveiled at the Group’s forthcoming AGM.

Our operational structure 2014

Decisions related to the Group’s share in the Co-operative Bank and the Group joint venture with Co-operative travel lie with the Group Board.
Finance review

Overview
There are several main features of the Group’s financial performance in 2013 that need to be reviewed and considered separately:

- The significant issues around the recapitalisation of the Bank and the reduction in the Group’s shareholding;
- The underlying performance of the other trading businesses all of which demonstrated robust performances in challenging markets;
- The partial impairment of the goodwill which arose on the Somerfield acquisition, which has turned the Trading Group’s performance into an operating loss; and
- The increase in central corporate costs, which have resulted in erosion to the overall Group underlying profit. These corporate costs have built up over a number of years, with a significant spike in 2013.

The Bank’s trading performance, coupled with the loss which resulted from the reduction in the Group’s ownership of the Bank to 30% following completion of the Bank’s recapitalisation plan, are the dominant figures in the Group income statement, with a £2.1bn loss reported within discontinued operations. In addition, impairment charges against goodwill within the Food (£226m) and Legal Services (£13m) businesses have caused the Trading Group to also report an operating loss for 2013. Due to these impairment charges, an operating loss of £148m has been recorded, compared to an operating profit of £142m in the previous period.

Our trading businesses delivered a solid performance in tough markets. Underlying operating profit from businesses, excluding central corporate costs, was down £6m to £402m. The Food business, with its increased focus on its core convenience market, showed clear signs of stabilisation in the second half of the year, culminating in an excellent sales performance over the Christmas and New Year period that was ahead of several of its rivals. For the last four months of the year it consistently tracked ahead of the Institute of Grocery Distribution (IGD) market pool. Funerals held market share and its underlying operating profit exceeded the prior year. The Pharmacy business, despite further reductions in government funding, outperformed the market and also exceeded its prior year performance.

In terms of cash flow, the Trading Group continued to invest in its trading businesses, spending approximately £239m (previous period £410m), principally on Food (store refits, acquisitions and supply chain), Funeralcare (motor vehicles and crematoria) and Pharmacy (store refits). This reduction in overall capital expenditure compared to the prior year arose as a result of the need to provide an initial injection of £50m into the Bank under the terms of the Liability Management Exercise at the end of January 2014. A further £70m of capital expenditure savings have been identified for 2014. The Trading Group has also agreed significant amendments to its syndicate banking arrangements to accommodate their commitments to the Bank, and the continuing divestment programme will release additional capital tied up in trading and non-trading assets. Net debt was reduced by £286m to £1.4bn in the Trading Group, mainly as a result of the sale of non-core businesses and property disposals.

Financial statements
The financial statements are prepared for the year ended 4 January 2014. For Trading Group and corporate entities this represents a 52 week accounting period compared to 53 weeks for 2012. The results of the Bank for the period prior to completion of the recapitalisation on 20 December 2013 are included in the discontinued operations line, which includes the trading loss for the period, together with the loss which arose on disposal on 20 December 2013. Discontinued operations also include the results of the Group’s Life and Savings business, prior to its disposal on 31 July 2013.

In 2013, the Group ceased to present significant items separately on the face of the Income statement and has instead included one-off items within the reconciliation of underlying profit (a non-GAAP measure) to reported profit (as described in detail in the accounting policies section). These one-off items are considered to be outside normal operating activities and are material by size and/or nature.

Trading performance
Overall Group revenue was down by £433m (3.9%) from 2012, reflecting the fact that there was an extra trading week in the prior year (£182m adverse impact), the disposal of a number of motor branches in the first half of the year (£182m adverse impact) and slightly weaker trading performance (£90m).

In Food, total sales (excluding VAT) fell 2.8% from £7,442m to £7,237m. Like-for-like food store sales (excluding VAT and fuel) fell by 0.2% across the estate as a whole, however like-for-like sales in the core convenience estate rose 1.6%. Positive like-for-like sales of 0.6% in the second half of the year showed a marked improvement on the first half performance of –1.1%. This improvement was as a result of the impact of the new Food Strategy including successful promotions in Quarter 4. Sales over the Christmas trading period (3 weeks to 4 January 2014) were particularly encouraging, with like-for-like sales in the total Food estate up 3.4% compared to the prior year and up 5.3% in our core convenience stores. Food underlying operating profit fell 8.2%, mainly due to additional discount vouchers, but was supported by a much better second half performance which, coupled with tight control of operating and overhead costs, enabled investment in prices and promotions to improve value for customers. We continued our strategic priority of tightening our focus on the convenience sector, with 30 new convenience stores added to the estate and 67 closures/disposals during the year.

### Headlines

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<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>Change</th>
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<tr>
<td>Revenue</td>
<td>£10,534</td>
<td>£10,967</td>
<td>(3.9%)</td>
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<tr>
<td>Underlying operating profit from businesses</td>
<td>£402</td>
<td>£408</td>
<td>(1.5%)</td>
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<tr>
<td>Central corporate costs</td>
<td>(£192)</td>
<td>(£111)</td>
<td>(73.0%)</td>
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<td>Underlying segment operating profit</td>
<td>£210</td>
<td>£297</td>
<td>(29.3%)</td>
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<td>Loss before tax</td>
<td>(£277)</td>
<td>(£64)</td>
<td>(332.8%)</td>
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<tr>
<td>Member payments</td>
<td>(£59)</td>
<td>(£104)</td>
<td>(47.1%)</td>
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<td>Loss on discontinued operations</td>
<td>(£2,069)</td>
<td>(£511)</td>
<td>(304.9%)</td>
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<tr>
<td>Trading Group Capital Expenditure</td>
<td>£239</td>
<td>£410</td>
<td>(41.7%)</td>
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<tr>
<td>Trading Group net debt</td>
<td>£1,400</td>
<td>£1,686</td>
<td>17.0%</td>
</tr>
</tbody>
</table>

### Financial statements

The financial statements are prepared for the year ended 4 January 2014. For Trading Group and corporate entities this represents a 52 week accounting period compared to 53 weeks for 2012. The results of the Bank for the period prior to completion of the recapitalisation on 20 December 2013 are included in the discontinued operations line, which includes the trading loss for the period, together with the loss which arose on disposal on 20 December 2013. Discontinued operations also include the results of the Group’s Life and Savings business, prior to its disposal on 31 July 2013.

In 2013, the Group ceased to present significant items separately on the face of the Income statement and has instead included one-off items within the reconciliation of underlying profit (a non-GAAP measure) to reported profit (as described in detail in the accounting policies section). These one-off items are considered to be outside normal operating activities and are material by size and/or nature.

**Trading performance**

Overall Group revenue was down by £433m (3.9%) from 2012, reflecting the fact that there was an extra trading week in the prior year (£182m adverse impact), the disposal of a number of motor branches in the first half of the year (£182m adverse impact) and slightly weaker trading performance (£90m).

In Food, total sales (excluding VAT) fell 2.8% from £7,442m to £7,237m. Like-for-like food store sales (excluding VAT and fuel) fell by 0.2% across the estate as a whole, however like-for-like sales in the core convenience estate rose 1.6%. Positive like-for-like sales of 0.6% in the second half of the year showed a marked improvement on the first half performance of –1.1%. This improvement was as a result of the impact of the new Food Strategy including successful promotions in Quarter 4. Sales over the Christmas trading period (3 weeks to 4 January 2014) were particularly encouraging, with like-for-like sales in the total Food estate up 3.4% compared to the prior year and up 5.3% in our core convenience stores. Food underlying operating profit fell 8.2%, mainly due to additional discount vouchers, but was supported by a much better second half performance which, coupled with tight control of operating and overhead costs, enabled investment in prices and promotions to improve value for customers. We continued our strategic priority of tightening our focus on the convenience sector, with 30 new convenience stores added to the estate and 67 closures/disposals during the year.
**Finance review continued**

Funeral sales rose by 3.4% to £370m, with underlying profit increasing by £2m (3.3%) due to tight cost control. This profit improvement came in spite of a £1.5m adverse impact of the business changing its accounting estimate in relation to prepayments on funeral benefit options.

Pharmacy sales overall declined by £4m to £760m. Like for like prescription growth remained positive at 2.2% and over-the-counter sales grew by 1.7%. This sales growth, along with a continuance of strong cost control and distribution efficiencies, led to a 17.9% increase in underlying operating profit.

Co-operative Legal Services saw sales fall 1.2%, impacted by an inability to accept referral fees having a detrimental effect on Personal Injury income. The business remains loss making as it continues to invest in its expansion through marketing, advertising and personnel costs.

Electricals performed well considering the challenges faced in this competitive market, with sales up 5.8% and underlying profits up 19.0% to £1m.

Corporate costs in the Trading Group increased by £81m, largely due to:

- A £10m increase in pension costs, mainly due to increased participation brought on by auto enrolment;
- A £10m increase in I.T. costs, from new I.T. projects;
- A £15m increase in property costs mainly relating to the move to the new head office;
- A £16m increase in provisions for legal and onerous lease costs following a re-assessment of court claims and changes to assumptions on onerous lease liabilities; and
- A £13m reduction in costs recovered from the Bank.

**Banking Group**

In May 2013, it was announced that the Bank had a capital shortfall of approximately £1.5bn. In response to this, the Group developed a plan (the Liability Management Exercise or ‘LME’) to create an additional £1.5bn of capital, the key elements of which comprised:

- A preference share waiver by the Co-operative Group;
- Tier 2 debt held by the noteholders was replaced by new equity;
- A cash subscription by the Co-operative Group (£333m) and bondholders (£125m) for new equity; and
- The cancellation of existing debt with the issuance of new debt (£129m) which created additional Tier 1 capital in the Bank.

The £333m cash subscription by the Group is payable in four tranches with £20m paid prior to the year-end, £50m paid on 31 January 2014, £100m payable by 30 June 2014 and the remaining £163m payable by 31 December 2014. As a result of the LME, as of 20 December 2013, the Group’s equity stake in the Bank fell from 100% to 30% and therefore the Bank became a separate standalone business and its assets and liabilities were deconsolidated from the Group financial statements. However, the trading losses up to that date are consolidated in the Group’s income statement. The capital benefit (increase in Tier 1 capital) in the Bank has not been consolidated as this happened after the loss of control.

The General Insurance business produced an underlying operating profit of £36m (2012: £13m) driven by strong performance in the home portfolio and a better year in the motor portfolio, partly offset by reducing premiums and investment income.

**Loss on discontinued operations**

The loss on discontinued operations comprises:

<table>
<thead>
<tr>
<th></th>
<th>2013 £m</th>
<th>2012 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank result to 20 December 2013*</td>
<td>(1,441)</td>
<td>(509)</td>
</tr>
<tr>
<td>Bank loss on disposal (see below)</td>
<td>(625)</td>
<td></td>
</tr>
<tr>
<td>Project Verde costs</td>
<td>(2)</td>
<td>(13)</td>
</tr>
<tr>
<td>Life and Savings result</td>
<td>(1)</td>
<td>11</td>
</tr>
<tr>
<td><strong>Loss on discontinued operations</strong></td>
<td>(2,069)</td>
<td>(511)</td>
</tr>
</tbody>
</table>

* as described in the accounting policies section, the results at 31 December 2013 have been approximated to 20 December 2013 given the limited days’ trade occurring during the period.

The Bank’s trading loss up to the date of disposal of £1.4bn was driven mainly by corporate loan and credit impairments, high operating costs, impairment of the I.T. intangible asset, known as Finacle, and increased conduct provisions.

The loss on disposal of the Bank arises as follows:

<table>
<thead>
<tr>
<th></th>
<th>2013 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in associate recognised at fair value</td>
<td>221</td>
</tr>
<tr>
<td>Net assets derecognised as at 20 December 2013</td>
<td>(331)</td>
</tr>
<tr>
<td>Deferred cash consideration payable</td>
<td>(320)</td>
</tr>
<tr>
<td>Debt issued as part of LME transaction</td>
<td>(129)</td>
</tr>
<tr>
<td>Disposal and separation costs</td>
<td>(78)</td>
</tr>
<tr>
<td>Recycle of available for sale and cashflow hedge reserves</td>
<td>12</td>
</tr>
<tr>
<td><strong>Loss on disposal of Bank</strong></td>
<td>(625)</td>
</tr>
</tbody>
</table>

The loss on disposal of the Bank reflects the deconsolidation of the assets and liabilities of the Bank together with a commitment to pay £320m (discounted) of cash and the issuance of £129m of debt for which the Group received shares valued at 30% of the equity of the Bank. Following the Liability Management Exercise and the disposal of 70% of the Bank, there was a requirement by the Prudential Regulatory Authority (PRA) to separate the people and systems of the Bank from the Trading Group. Together with the costs of the LME transaction this resulted in an overall loss on disposal of £625m.

The result of the Life and Savings business includes £52m of separation costs to build a separate clone system for the business and was net of a receipt of £50m to release the business from certain pension obligations.
Finance review continued

Financial position and cash flow

During the year, the Trading Group renegotiated its syndicated bank facilities in order to allow it to meet its obligations under the Bank recapitalisation plan. The capital injections into the Bank required by the PRA during 2014 are permitted within the new agreement terms which are designed to ensure that future investment in the Trading Group can continue. Including the bond issuance in 2011, which totalled £800m, net debt stands at £1.4bn, which will allow the Group to continue to fund its ongoing investment plans.

At the year-end date, principally as a result of the recognition of an impairment charge of £239m in respect of goodwill, the net assets of the Trading Group fell below the level required by the Total Net Asset covenant within the terms of the Group’s secured and unsecured bank loan facilities. In addition, following the reduction in the Group’s investment in The Co-operative Bank, the tangible net assets of the Group fell below the level required by the Total Borrowings to Tangible Net Assets Ratio covenant within the terms of the Group’s 7.5/8% First Mortgage Debenture stock 2018, which had previously been measured against the gross assets of the Group including the Bank. Both of these covenant issues have been remedied subsequent to the year-end by agreement of an amendment to the covenant calculation within the syndicated loan facility, and agreement with the Debenture holders to remove the Total Borrowings to Tangible Net Assets Ratio covenant within this facility.

Despite these issues having been remedied and the fact is that the debt remains payable in accordance with its original repayment terms, from an accounting perspective, as the covenant amendments were obtained after the year-end, the Group is deemed not to have had an unconditional right to defer payment as at the balance sheet date. As a consequence the balance sheet is required to be presented as if all debt that could technically have become repayable as a result of failure to meet the original covenant definitions, whether by default, cross default or cross acceleration, has become a current liability. It is worth noting, however, that at no stage in this process was the debt commercially repayable on demand.

An adjusted Balance Sheet, Loans and Borrowings Note (note 24) and risk management tables (note 33) have been included within the accounts to illustrate the amended terms of the debt as at the date of signing the accounts.

There remain plans to continue controlled divestment of non-core, non-trading assets to release capital to support continued investment in customer-facing trading businesses and to help keep overall debt at an acceptable level.

Trading Group net debt reduced in the year by £286m driven principally by the receipt of proceeds from the sale and leaseback of the new Head Office (£143m), the sale of a large portion of the investment property portfolio and other estate disposals (£220m) and the disposal of the remaining motor dealerships (£39m). Working capital also improved significantly due to a reduction in underlying Food stockholdings and a general improvement in creditor terms. A summary of the movements in net debt are below:

<table>
<thead>
<tr>
<th>(£m)</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening net debt</td>
<td>(1,686)</td>
<td></td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>312</td>
<td>107</td>
</tr>
<tr>
<td>Working capital movements</td>
<td>-239</td>
<td></td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>432</td>
<td></td>
</tr>
<tr>
<td>Proceeds from disposal of property and businesses</td>
<td>(129)</td>
<td>(64)</td>
</tr>
<tr>
<td>Payments to Members</td>
<td>(56)</td>
<td>(100)</td>
</tr>
<tr>
<td>Underlying interest on borrowings</td>
<td>(23)</td>
<td></td>
</tr>
<tr>
<td>Closing net debt</td>
<td>(1,400)</td>
<td></td>
</tr>
</tbody>
</table>

Reconciliation of underlying operating profit to loss before tax

Underlying operating profit (a non GAAP measure) is used as the primary indicator of business performance. The reconciliation of underlying operating profit to loss before tax is summarised and explained below:

<table>
<thead>
<tr>
<th>(£m)</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying segment operating profit</td>
<td>210</td>
<td>297</td>
</tr>
<tr>
<td>Underlying interest payable</td>
<td>(100)</td>
<td>(108)</td>
</tr>
<tr>
<td>Underlying profit before payments to Members</td>
<td>110</td>
<td>191</td>
</tr>
<tr>
<td>One-off items</td>
<td>(311)</td>
<td>(80)</td>
</tr>
<tr>
<td>Property and business disposals</td>
<td>(29)</td>
<td>(50)</td>
</tr>
<tr>
<td>Change in value of investment properties</td>
<td>(18)</td>
<td>(25)</td>
</tr>
<tr>
<td>Finance income</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>Non-cash finance income/(costs)</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Share of profit of associates and joint ventures</td>
<td>-4</td>
<td></td>
</tr>
<tr>
<td>(Loss)/profit before Member payments</td>
<td>(222)</td>
<td>40</td>
</tr>
<tr>
<td>Member payments</td>
<td>(65)</td>
<td>(104)</td>
</tr>
<tr>
<td>Loss before tax</td>
<td>(277)</td>
<td>(64)</td>
</tr>
</tbody>
</table>
One-off items

These principally comprise goodwill impairment of £239m (2012: £nil), acquisition and restructuring costs of £56m (2012: £86m) and a change in accounting estimate regarding funeral benefit options of £12m (2012: £nil).

Goodwill which arose on the Somerfield acquisition has been partially impaired (by £226m) as a result of the impact of Food’s new business strategy, “True North”. One key focus of “True North” is the planned disposal or closure over time of larger stores in the Food’s business’s retail estate. Goodwill in relation to Co-operative Legal Services has also been impaired by £13m following a reassessment of its business plan, which has allowed a slower growth rate than previously anticipated.

Acquisition and restructuring costs principally relate to:

- Executive restructuring and development of the new strategy;
- Corporate reorganisation costs (Project Unity);
- The completion of the modernisation and rationalisation of the Food business’s physical distribution network which has taken place over several years, accommodating merger and acquisition impacts along the way; and
- Acquisition and deal costs relating primarily to costs incurred in connection with the planned sale of General Insurance before the decision was made to retain this business.

Costs in relation to the aborted purchase of the Lloyds branches (Verde) have been included within the loss on discontinued operations.

Since 2008, the Group has entered into contracts with a number of insurance companies in respect of life planning products (funeral benefit option plans). A refinement of the estimated prepayment attached to these sales has resulted in a one-off charge of approximately £12m to the Funeral business.

Pension finance income relates to net pension scheme interest derived from the difference between the interest on scheme liabilities and the expected return on scheme assets.

Non cash finance income/costs include non-cash mark to market adjustments on quoted debt and interest swaps. These are both volatile, non-trading items and collectively amounted to a £13m credit in 2013 compared with a £10m debit in 2012.

Net capital expenditure

<table>
<thead>
<tr>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>239</td>
</tr>
<tr>
<td>Disposal Proceeds</td>
<td>(432)</td>
</tr>
</tbody>
</table>

Capital investment of £239m chiefly comprised store/branch refurbishments of £56m (2012: £63m), acquisition of new stores/branches of £31m (2012: £69m), distribution depots and equipment of £48m (2012: £45m) and vehicles of £34m (2012: £34m).

Disposal proceeds principally arise from the sale and leaseback of the new head office completed very early in the year that released cash of £143m back into the Group, together with significant disposals of investment property, of which in excess of £100m was disposed of in a single transaction in the final quarter of the year.

Tax

The tax credit on continuing business is £45m (2012: £18m restated) reflecting the loss in the year and the recognition of payments for Group relief to The Co-operative Bank plc at a rate of 20%. The effective tax rate was 16.2% (2012: 28.1%), compared to a standard blended rate of tax of 23.25% (2012: 24.5%). The main reasons for the effective tax rate being different to the standard rate of tax are explained in note 8 to the financial statements. Due to the trading loss arising in the period, the Group will not be taxpaying in respect of the current year.

Pensions

The key movements in the pension schemes’ valuations during the year were:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012 (restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Combined opening surplus/net deficit</td>
<td>191</td>
<td>132</td>
</tr>
<tr>
<td>Service and administrative costs</td>
<td>(89)</td>
<td>(97)</td>
</tr>
<tr>
<td>Net pensions interest income</td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td>Net actuarial (losses)/gains</td>
<td>(82)</td>
<td>16</td>
</tr>
<tr>
<td>Contributions</td>
<td>150</td>
<td>146</td>
</tr>
<tr>
<td>Other</td>
<td>(11)</td>
<td>(16)</td>
</tr>
<tr>
<td>Combined closing net surplus</td>
<td>173</td>
<td>191</td>
</tr>
</tbody>
</table>

The IAS 19 net surplus reduced by £18m during 2013. Changes in actuarial assumptions produced a net increase in liabilities of £461m. These increases were largely offset by an increase of £386m in asset values due to the Group’s asset-liability matching strategy and also strong equity and property asset rises in 2013.

There have been three main changes to the actuarial assumptions from the prior year. Firstly, the discount rate used to assess the pension liabilities has reduced from 4.6% to 4.45%, following a fall in the corporate bond rate. Secondly, the inflation rate has increased from 3.3% to 3.6% following changes to the Office of National Statistics’ inflation metrics. These two changes both had a negative effect on the net surplus and accounted for a £550m increase in pension liabilities during 2013. The third change to actuarial assumptions, related to future salary increases, which have decreased from RPI + 1.5% to CPI + 1%, following a Group review of likely future trends. These three changes produced a net increase in pension liabilities of £461m.

The service cost reduced by £9m compared to 2012. This is mainly due to a fall in pensionable wage within the Group following redundancies and non-Core business disposals made in 2012-2013 and in particular, the sale of the Life and Savings business in July 2013.

Contributions to the scheme are up £4m year on year due to a special one-off contribution of £15m into Pace. This was made by the Group’s former Life fund as part of the agreement to sell the Life and Savings business to Royal London. The £15m special contribution was partially offset by reduced contributions from the Group due to the fall in pensionable wage as detailed above. This £15m has been included as income within the loss on discontinued operations in the income statement.

The way in which the Group has accounted for net pension interest income has changed in 2013 following the Group’s mandatory adoption of IAS 19 revised. Prior year net pension income, operating profit and actuarial losses have been restated to reflect the change in accounting policy. Further details of the restatement can be found on page 108.
Within the statement of other comprehensive income, the Pace pension surplus attributable to non-Group entities relates to the notional estimated share of the Pace surplus attributable to the Bank for accounting purposes at 4 January 2014. As the Group is the only participating employer with a right to refund in respect of any remaining surplus, the Group accounts for the entire scheme. Further information is provided in note 16.

### Member payments

Members can earn a share of Group profits (a ‘dividend’) based on their level of trade with the Group’s family of businesses. The total dividend paid is based on the previous year’s performance. The current policy follows a guideline of 40% of underlying trading profit, less underlying finance costs, minority interests and tax, being available for distribution. This is calculated as the sum of distributable profits from the two parts of the Group, being the Trading Group and the Banking Group. Subject to profitability, the ability and desirability of paying dividends from the Banking Group is also dependent on the need to retain capital within that business.

Dividends are recorded in the income statement once they have been approved. In 2013 the Group approved and paid a final dividend relating to 2012 profits. The split of the dividend between the various member categories is subject to Board approval. Dividends paid in 2012 are summarised in the table below.

The dividend payment fell 47.1% compared to the prior year, due to the reduced profits across the Group.

<table>
<thead>
<tr>
<th>2013 (£m)</th>
<th>2012 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To individual Members</td>
<td>(26)</td>
</tr>
<tr>
<td>To employees who are Members</td>
<td>(13)</td>
</tr>
<tr>
<td>To corporate Members</td>
<td>(10)</td>
</tr>
<tr>
<td>Community distribution</td>
<td>(6)</td>
</tr>
<tr>
<td>Total</td>
<td>(55)</td>
</tr>
</tbody>
</table>

**Individual dividend:** Dividends paid in 2013 related to trade conducted in 2012, when 5.7 million Members traded with the Group earning 3.4 billion points. This generated a payment of £34m including a discretionary top up of £8m which together with the interim dividend paid in 2012, brought the pay out to 1.0p per point (2011: 1.75p).

**Employee dividend:** A dividend totalling £13m (after National Insurance) was paid to more than 85,000 eligible employee Members in 2013, equating to a rate of £164 per full time employee (2012: £300). Employee dividend is paid to all employee Members on an equal basis pro rated to hours worked, subject to them being a member and in employment for greater than 12 months prior to the start of the financial year.

**Corporate dividend:** Corporate Members receive a dividend based on their participation in Co-operative buying groups operated by the Group, the largest of which is run within the Food business. In 2013 Corporate Members received a £10m dividend based on their federal trade with these various buying groups, at a rate of 64p per £100 of qualifying transactions (2012: £1).

**Community dividend:** A community dividend of £7m (including a £1m discretionary top-up from unclaimed dividend reserves) was made available for the benefit of communities in which we trade and to support Co-operative organisations including the Co-operative Party and Co-operatives UK. These initiatives are determined through the Group Values & Principles Committee. Further details of many of the initiatives and good causes some of which are supported by Community dividend, are given in the Group’s Sustainability Report which is published later this summer.

In total, the Group spent £27.3m of cash on a variety of Member engagement, Co-operative support and community investment initiatives. Of this, £22.6m was paid by the Group itself either as a revenue expense (£7.3m) or from dividends on profit generated in previous years (£15.3m), of which £7.9m relates to the Community Dividend and £7.4m relates to the Individual Member Dividend. This includes amounts paid out of distributions carried over from previous years. Expenditure was broken down between team costs (£6.5m), regional democratic costs (£4.2m), Co-operative subscriptions (£2.4m) and Membership and community activity (£9.5m).

A further £4.7m was managed and spent by the Group on behalf of other organisations, £4.5m of this was spent on behalf of the Co-operative Community Investment Foundation, a registered charity (number 1093028). This organisation paid out £2.8m in grants from the Community Fund, £1.4m to projects involving young people and £0.1m on Environmental projects in the former United Co-operatives trading region.

The charity is funded from four sources: donations from Group Members who forgo all or part of their dividend from Group; grants from the Group in the form of dividends on profit generated in previous years; affinity partnerships with the Salvation Army and Unilever; and income generated on an investment held with Royal London, currently valued at £11.9m. The investment was started using £9.6m of grants made by United Co-operatives Limited, prior to the transfer of engagements to Group in July 2007.

In addition, £0.2m has been generated from a levy on carrier bags in Wales. This has been used to fund environmental projects in that region, chiefly through Wildlife Trust Wales.
Business review

**Food**

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Underlying operating profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>£7.24bn (down from £7.44bn)</td>
<td>£247m (down from £269m)</td>
</tr>
</tbody>
</table>

Operating loss (after goodwill impairment charge and other one-off costs):

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Underlying operating profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>£35m (down £218m)</td>
<td></td>
</tr>
</tbody>
</table>

Our Food business is in a period of transition, and the 2013 results reflect this. Sales fell from £7.44bn to £7.24bn as a result of store disposals, a shorter accounting period and price reductions, and underlying operating profit was down from £269m to £247m.

The Food operating loss is after an impairment charge of £226m relating to goodwill which arose on our investment in Somerfield, reflecting the fact that, moving forward, the business’s focus will increasingly be on convenience stores within the estate.

**True North strategy**

True North is the start of an exciting, five-year journey to transform our business and the way it operates. It is also part of our long term commitment to providing real value to our customers and putting them at the heart of everything we do as a food retailer: promising fair value, streamlining promotions, developing our own label range to a high standard and refreshing our estate of stores, including new store formats.

Launched in March 2013, the True North journey has been the absolute focus of our activity and has been brought to life for our customers and colleagues in a number of ways.

In September, we began refreshing and revitalising our own brand ranges, launching ‘Loved by Us’ with new lines across Food to Go, Ready Meals, Pizzas and Pies supported by successful multi-channel media campaigns. Pricing has been identified as a key priority and we have launched a number of initiatives to improve our value proposition in the eyes of our customers, including reducing nearly 1,000 prices on products that were most out-of-line with our competitors.

In the last quarter of the year Members spending between £5 and £100 with our competitors.

In November, we began the roll out of our new store formats and we have been pleased with their early performance. Improving the look and feel of our stores is a key priority and resource continues to be applied to our new formats and the store refit programme. By the end of 2014, 75% of the Food estate will have been refreshed since 2012.

While we have been selling larger stores, we have also been adding new outlets that are more suited to our focus on the convenience store market. In 2013, we opened 32 stores and a further 32 contracts were exchanged for stores that will open in 2014. A large number of these are situated in and around London, where we have traditionally been under-represented. Our London stores in particular have outperformed our initial expectations.

In early 2014, we confirmed that the Farms division was no longer part of our go-forward strategy, and we are currently exploring options for the sale of this part of the business.

**General Insurance**

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Underlying operating profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>£476m (2012: 580m)</td>
<td>£36m (2012: £13m)</td>
</tr>
</tbody>
</table>

When we announced our 2012 year-end results we indicated our intention to sell our General Insurance (GI) business to concentrate the Banking Group on its core Bank retail offer. As the scale of the Bank’s capital shortfall became clear, it was decided that the proceeds of the sale of GI would be used as part of the Group’s contribution to the Bank’s refinancing. Following the recapitalisation, however, we were able to review our plans and we decided to keep this profitable business.

In 2013 GI achieved a significant improvement in underlying operating profit to £36m (2012: £13m), on revenue of £476m sales (2012: £580m) due mainly to better claims experience compared to the prior year, more than offsetting the impact of the fall in premium income and the significant reduction in investment income. The result is driven by the continued strong performance of the Home portfolio, supported by markedly improved profitability in the Motor portfolio. Key successes include our award-winning service, improved underwriting performance and increased customer reach due to our brand campaign and appearance on aggregator, or price comparison, websites. We will continue to grow our business around our core proposition of fairness and we believe our General Insurance business can build on its current success and has considerable future potential.
Business review continued

Separation of Banking Group Functions

A key challenge faced by the Group towards the end of 2013 was the work required to separate many of the unified back office functions that were brought together throughout the Group in 2012 as part of Project Unity. A number of corporate functions were merged as part of this cost saving exercise, which although delivering significant savings for the Group, needed to be reversed as the Co-operative Bank plc became a separate employing entity following separation. This work will continue into early 2014.

Funerals

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Underlying operating profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>£370m (£358m)</td>
<td>£62m (£60m)</td>
</tr>
</tbody>
</table>

Employees 4,230

Branches 926

The Co-operative Funeralcare had a successful 2013, with strong sales and healthy profits driven by the expansion of our estate, the introduction of new products and services and the establishment of new channels and partners. Sales for 2013 were £370m, 3.4% up on 2012. Underlying operating profit was also up at £62.1m, a 3.3% increase on last year.

In 2013, we opened 16 new funeral homes, invested £3.1m in crematoria development and £9.5m in our fleet of vehicles.

We have also invested heavily in our online services. In December, we introduced a new website where clients can purchase, as well as manage, a pre-paid funeral plan online. A significant number of people have taken advantage of this service.

Training and development of colleagues is critical in ensuring clients receive the best service and having officially introduced a National Vocational Qualification in Funeral Operations and Services, 2013 saw 415 employees join Funeralcare as apprentices.

We also introduced a new management development programme, MySteps, to support all leaders across our funeral business.

Pharmacy

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Underlying operating profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>£760m (£764m)</td>
<td>£33m (£28m)</td>
</tr>
</tbody>
</table>

Employees 6,980

Branches 782

branches including Out Patient Departments

Our Pharmacy business delivered a creditable performance in a tough market, which continued to suffer from the impact of government funding on medicine pricing. Sales were down £4m or 0.5% on 2012, underlying operating profit was up £5m on the prior year, which was a 17.9% increase on 2012. Prescription like-for-like sales were up 2.2% and Over the Counter (OTC) like for likes were up 1.7%.

Pharmacy achieved these results as a result of an increased focus on customer care. Success was enabled by market leading like for like prescription growth and maintenance of our number one position for customer service. We further improved our OTC offering, again delivering sector-leading growth.

Following a successful pilot in 2012, we have rolled out our Branch Transformation Programme which remodels our branches to provide customers with an improved pharmacy experience. The programme also involves dedicated training to support our focus on excellent customer service.

In total we have remodelled 80 branches as part of the programme. We have successfully relocated 11 branches to maximise market share potential and meet customer demand, with a further 20 identified for 2014. This is in line with our ongoing commitment to protect, grow and enhance our business for the benefit of our customers.

We have maintained our strong scores in the Customer Satisfaction Index – our average score was 93.4% – reflecting our focus and investment in training and colleague engagement and an improvement on the 2012 figure of 93.2%.

Our diversification into new areas has continued and in May we won our first three year dispensing contract to supply HM Prisons in Nottinghamshire and Doncaster with patient medicines. Medicines are delivered from our nearby existing pharmacies and this has created additional jobs within the business. Our five outpatient contracts in NHS hospitals continue to perform well with excellent customer service and strong sales across all sites.

As part of the wider strategic review of all its businesses, The Group has decided that the Pharmacy business will not be part of its future strategy. The business is currently being considered partially or in its entirety, for sale. Further updates on this decision will be included in the half year report for the Group.

Co-operative Legal Services

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Underlying operating loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>£33m (£33m)</td>
<td>£9.1m</td>
</tr>
</tbody>
</table>

Employees 560

Operating loss after goodwill impairment £22m

Sites 3

(Manchester, London, Bristol)

The Legal Services business remains in the early stages of its development, and this is reflected in the performance for 2013. Sales were broadly flat with losses arising from regulatory change, uncertainty about the future of our General Insurance business, and decisions to invest in future growth.

We are now looking to consolidate and optimise the portfolio, with further restructuring planned, to work more closely with Funeralcare and General Insurance as part of the newly formed Consumer Services division.

Regulatory change, including the Jackson reforms, had the most significant impact upon our Personal Injury business. The restructuring of the PI business announced at the end of 2013 has been completed in line with our plans. However, following the decision not to sell the General Insurance business we are now able to explore opportunities to work more closely with our insurance business.
Business review continued

Goodwill of £13m relating to this business has been impaired during the year following a reassessment of its business plan, which has assumed a slower growth rate than previously applied. This means that the overall operating loss of this business stands at £22m for 2013 (2012: £2m loss).

During 2013 we continued to invest in our Family Law business developing a transparent fixed fee pricing proposition for our customers. The business achieved £1.2m revenue in its first full year of trading; however, we remain focused on ensuring we have an efficient operating model to take the business forward.

Probate and Wills remain key areas for growth and we will continue to work more closely with Funeralcare during 2014.

**Electrical**

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Underlying operating profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>£88m (£83m)</td>
<td>£1m (£1m)</td>
</tr>
</tbody>
</table>

Co-operative Electricals saw a strong sales increase in 2013. The second half of the year saw like-for-like increases in 25 of the 26 weeks. Sales and traffic peaked on ‘Cyber Monday’ (the first Monday in December – the Monday after Thanksgiving in America) and Christmas Day, with a 56% increase in web traffic in December (22% increase overall in 2013). To support customer demand and to enhance our service to customers we provided a free Sunday delivery option for customers. Our profits remain flat, reflecting our commitment to offering customers value in this competitive market.

The year also saw the launch of our social media marketing strategy, using the social media platforms ‘Snapchat’ and launching the ‘#FightthePrice’ marketing campaign on twitter.

The UK is expected to see a recovery in the housing market which will lead to an increase in kitchen appliance sales. We also expect to see demand increase this summer, particularly for large screen TVs, thanks to the World Cup.

**Estates**

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Underlying operating profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>£28m (£36m)</td>
<td>£11m (£19m)</td>
</tr>
</tbody>
</table>

The Co-operative Estates generated an income for the Group of £28m at year-end (2012: £36m) with an underlying operating profit of £11m (2012: £19m).

The commercial property market saw signs of improvement in 2013, particularly in the second half of the year, although this varied considerably by geographical region and property sector.

One of the key strategies for Estates in 2013 was to increase non-core property disposals, freeing up funding capital for use in the trading businesses. Examples of this include the exit of 40 properties generating £103m as part of a non-core disposal project. This had an impact on 2013 income and profits, which were therefore lower than in 2012.

Estates also continues to deliver large parts of the Group’s sustainability agenda, with further progress on renewable power and pioneering work on energy-saving fridge doors in the Food business. Estates has achieved its 2007 target of reducing the Group’s energy usage by 40%, delivering a cost saving of over £100m.

During 2013, 1 Angel Square, the Group’s new business support centre based in Manchester, won a number of prestigious awards and was accredited as the greenest office building in the world during the year. In November, the building was opened by Her Majesty the Queen and His Royal Highness the Duke of Edinburgh. The sale and leaseback of the building generated cash proceeds during the year of £143m. The Co-operative Group has retained the right to lease the building beyond an initial term of 25 years.

The regeneration of North Manchester will continue through delivery of the NOMA masterplan scheme as the Group’s legacy buildings are vacated and prepared for redevelopment. In April 2014 the Group announced a joint venture partnership with Hermes Real Estate. The deal is expected to complete in mid-May.

A new office base has also been established near St Paul’s in London, allowing for consolidation of Group activities currently based in the capital.

During 2013 a number of longer term collaborative partnerships were developed with core suppliers, with a strategic lifecycle approach to key assets across our stores, branches and office buildings. This approach is exemplified by the launch of a new online facilities helpdesk and wide-ranging related projects in store and depot maintenance, cleaning and refrigeration.

In 2013 the Group picked up the prestigious ‘Business Continuity Team of the Year’ at the Continuity Insurance & Risk Awards. A major focus in the second half of the year has been the development of a new risk management system to be rolled out in 2014.

**Discontinued operations**

**The Co-operative Bank Plc**

During 2013 a number of now well-documented factors contributed to the Bank’s overall loss of £1,441m. The main factors that continued to significantly impact the profitability of the business were credit impairment, provisions for conduct risk, intangible asset impairment, high operating costs and the overall flat market conditions caused mainly by a low interest environment. Further detail specific to the Bank’s performance can be found in the Co-operative Bank’s separate Annual Report.

**Recapitalisation plan**

The financial results for the Banking Group in 2013 reflect the underlying issues at the Co-operative Bank that came to light in May 2013 and that were dealt with through the Bank’s LME which was successfully implemented in December 2013 without recourse to Structured State support.

Under the terms of the Bank capital recovery plan, the Bank is now a separate, stand-alone business with the Group holding a significant shareholding. In this Annual Report for the Group, the Bank’s results are within ‘discontinued operations’ and going forward, the Bank’s result will be shown within the ‘profit/loss from associates’ line.

Through the capital recovery plan, we raised £1.5bn of core Tier 1 equity, as required by the banking regulator (PRA) by December 2013. This was achieved without any government help and is so far a unique solution to resolving a bank crisis in the UK. The Bank’s unique ethical stance has been protected and recognised as central to its future development and has been enshrined within its new constitution.
Life and Savings

In July 2013, The Banking Group successfully completed the sale of the Life and Savings Business to Royal London. To ensure a smooth transition for customers the Banking Group operates a number of Service Level Agreements with Royal London while the infrastructure is embedded with the new owner.

Our people

The challenges that the Group faced in 2013 underlined the immediate and urgent need to improve leadership and performance across our businesses. Euan Sutherland took up his post as Chief Executive in May and we then reframed, reshaped and raised the calibre of the Group Executive all of whom have contributed to guiding the business through the crisis. This was a significant investment in attracting talent from outside the business in order to tackle the issues that we faced and the challenges that we know lie ahead. In March 2014 Richard Pennycook stepped into the role of Interim CEO following the decision by Euan to leave the business. Richard’s appointment ensures a stability as the Group focuses on rebuilding. The business started 2014 with a team of experienced leaders who are focussed on the transformation of the Group, of which one of their key priorities is to continue to upgrade talent and people performance. The People Strategy for 2014 will focus on ensuring that our workforce becomes a high performing team, each member of which has clear accountabilities aligned to the organisation’s purpose and objectives.

2013 developments

Clear communications

The Executive made a commitment to communicate more openly and frequently with colleagues on an ongoing basis. Members of the Executive Team, including the Chief Executive, issue regular messages via the intranet and senior leaders frequently host informal face to face briefings in the Support Centre and other sites. In addition, there has been full internal communications around all major announcements – including an increased use of video. These initiatives are designed to break down some of the barriers and silos that have traditionally existed within the Group and demonstrate the Executive’s strong commitment to two-way communication, whilst encouraging colleagues to become ambassadors for change.

Reinforcing the two-way nature of our communications has been a consistent theme of 2013. In October, colleagues and managers of all grades, from all business units and functions, took part in focus groups to discuss their perceptions and experiences of the Co-operative Group. The outputs of these focus groups have been fed into discussions about the Group’s future direction and Strategy. Throughout 2014 colleagues will be invited to participate in strategy meetings and workshops as the business moves into the next phase of its development.

Colleague feedback and resultant action

The Group’s colleague engagement survey, Talkback, has been running for 11 years. Every employee has the opportunity to have their say about working at the Co-operative. Talkback measures employee engagement within each team. It asks colleagues about a range of workplace issues, such as their manager’s performance, how valued they feel by their business and what they think of the Group’s retail products.

Colleagues identified two clear priorities for the business to improve on: inspirational leadership and a focus on delivering great customer experience every time, every day. All colleagues believe the business can do this better.

Equality and diversity

Our commitment to fairness and diversity for colleagues remained high on the Group’s agenda in 2013 and the business was named the UK’s third best organisation to work for by The Stonewall Workplace Equality Index which grades private and public sector organisations across the UK on how well they are doing in their support of lesbian, gay and bisexual (LGB) matters. For the fifth consecutive year the Group is the only retailer in the Top 100. The Group’s inclusive LGBT employee network Respect has also been awarded Stonewall’s ‘Star Performer Network Group’ for the fourth consecutive year.

Gender breakdown

A breakdown by gender of the number of persons who were Directors of the Company, senior managers and other employees as at the year-end, is set out below. Our gender diversity throughout the Group remains strong. At Executive level, 3 out of 7 current Executives are female. On the Board, 2 out of 21 are female one of which is the Group Chair.

A breakdown of the number of men and women across the business at the end of the financial year and the number of men and women who were managers is below (excluding Bank).
Business review continued

Inspiring young people

The Co-operative Group continues to motivate and inspire young people and provide them with opportunities to gain skills, knowledge and experience, helping prepare them for the future. We launched our Apprenticeship Academy in 2011 to address growing youth unemployment and the lack of training opportunities for young people, aiming to benefit at least 2,000 people between 2011 and 2013. Apprentices have the opportunity to study for a nationally recognised qualification while working in one of our businesses, earning a competitive salary and gaining transferable and professional skills. During 2013 we identified 810 apprenticeship opportunities across the Group, bringing the total number of apprentices to 2,025. We work in partnership with third-party training providers to ensure our apprenticeship and training opportunities are of the highest quality and reflect our values and principles. The Apprenticeship Academy has been awarded several accolades, including a Business in the Community Big Tick Award for Inspiring Social Action in Young People and the North West (Manchester, Cheshire and Staffordshire) Award for Employer Newcomer of the Year 2013.

In September 2013 we launched The Co-operative Legal Services (CLS) Academy to improve access to legal careers and greater professional development opportunities. Learning pathways through the Academy have been designed in partnership with Manchester Metropolitan University and are delivered to CLS employees online by its law and business academics. By incorporating CLS’s existing apprenticeship scheme and MMU’s postgraduate programmes, employees can access a career pathway that will enable them to progress from an apprentice to a qualified lawyer during their employment.

In 2013, The Co-operative Young Members’ Board was established to provide a greater understanding of the thoughts, views, issues and aspirations of people aged between 16 and 25. The Young Members’ Board, made up of 15 young people, has been working on specific business challenges set by the Group Board, as well as taking part in projects with Co-operative employees and senior managers. They have been contributing to the Group’s Strategy and Purpose work, the development of our next generation of food stores and product development. They are also working on projects to enable the Group to engage with as wide a group of young people as possible, including a young Members’ website.

Into 2014

As part of our commitment to transform the Group, we will continue to develop more effective and cost efficient ways of working. This work is part of the wider Transformation Strategy for the Co-operative Group and is essential as we move into the next phase of our journey. Close scrutiny and challenge on all costs will become workplace culture and every colleague will play an important role in making this happen.

One of the people priorities for 2014 is to transform the culture of the organisation; this is being led by the Executive team and is designed to build a more aligned and effective workforce. We believe this will result in a significant shift in expected behaviours. To deliver on the business’ renewed ambition, changes will be made to colleague reward and recognition. The ambition for 2014 is to ensure colleagues are paid fairly, undertake meaningful work and have opportunities for personal growth. We will continue our focus of putting colleagues at the heart of the Co-operative Group.

Social goals

In 2013, we continued to deliver on our commitment to adhere to the highest social and environmental standards for the benefit of our customers, Members, colleagues and communities. Our Sustainability Report contains a full overview of our performance, with the highlights from the past year set out below.

As an organisation with a strong heritage in being socially responsible, we remain focused on responding to the needs of all those with an interest in our business. Looking ahead, our future will continue to be shaped by listening and responding to the needs of the communities we serve.

Keeping communities thriving

We are proud to be a community retailer and, through our presence in every UK postal area, we provide access to products and services at the heart of the local community. In 2013, our work led to an investment of £15.7m in UK communities.

The Co-operative Membership Community Fund supports local groups and voluntary organisations throughout the UK, by awarding small grants. In 2013, the Fund awarded £2.8m, providing support for 2,270 community groups and charities.

In 2013, over £5m was raised by colleagues, Members and customers through our Charity of the Year partnership with Carers Trust. The money raised is being used to deliver a programme of support, advice and opportunities, designed by and for young adult carers to help transform the lives of over 20,000 carers aged 14-25 throughout the UK.

Inspiring young people

Since its launch in 2010, over 1 million young people have benefited from our Inspiring Young People programme – a range of projects that motivate and inspire young people, and provide them with opportunities to gain skills, knowledge and experience.

The programme has a strong education theme, as can be seen in the Green Schools Revolution, which brings inspiring and engaging activities on sustainability issues to over 6,100 primary and secondary classrooms across the country. We also continue to work with Co-operative Academies, delivering an innovative curriculum, with a values-led ethos. This forms part of wider work supporting Co-operative Schools, of which there are now 520.

Supporting co-operatives

The Co-operative Enterprise Hub provided its unique offer of free, bespoke business support to aspiring and existing Co-operative businesses throughout 2013. Almost 400 enterprises received support during the year, with over 1,800 enterprises to date being assisted by the Hub at critical points in their development. We saw a continuation of the trend towards communities ‘doing it for themselves’ in 2013, with the Hub supporting many local communities determined to save or reopen their local shops, pubs and village halls.
Business review continued

Responsible retailing

Responsible retailing was at the heart of our founding principles and we have sought to make healthy and ethical offerings accessible to as many people as possible.

We have made our healthier range options no more expensive than our standard lines, with the nutritional content of our value range being at least as good as our standard lines. We are committed to providing consumers with open and honest food labelling, and have led the way on restricting the marketing of less healthy products to children.

In 2013, we extended our farming group model across our chicken, pork, beef, lamb and dairy suppliers, helping us deliver good baseline animal welfare standards and high quality products, reduce our environmental impacts, and bring benefits to British farmers.

Protecting the environment

Since October 2013, new Government regulations require all UK quoted companies to report on their greenhouse gas emissions (GHG) as part of their annual Directors’ Report. The Co-operative has long campaigned for the introduction of such regulation and for this requirement to apply to all large businesses.

The Co-operative Group measures its direct GHG emissions in carbon dioxide equivalent (CO₂e) using the latest UK Government guidance. The direct GHG footprint encompasses energy consumption (electricity, gas, diesel, gas oil), refrigerant leakages in our Food business, all business travel (air, rail and road) and fertiliser consumption. All greenhouse gas data and related commentary is externally assured.

The Co-operative Group reduced its total GHG emissions by 3% in 2013, achieving an overall reduction of 45% compared to 2006 - equivalent to saving almost 600,000 tonnes of GHG emissions — and putting us on track to achieve our target of 50% emissions reduction by 2020. We have achieved these reductions through a range of measures on energy, transport and refrigerants, with the majority coming from a 41% reduction in energy consumption since 2006. This has not only saved around £71 million in energy costs (based on 2013 prices) but has also significantly reduced the Co-operative Group’s exposure to future energy cost and carbon price increases.

We sourced just over 98% (887GWh) of our electricity from renewables in 2013, generating 7.5% of our total electricity needs from our own portfolio of wind, hydro and solar power projects. Our Pharmacy and Funeralcare businesses maintained their policies of achieving carbon neutrality in 2013 by offsetting operational greenhouse gas emissions, for the second and third year in a row respectively.

<table>
<thead>
<tr>
<th>Direct greenhouse gas emissions (unaudited)</th>
<th>Total emissions (CO₂e)</th>
<th>Carbon intensity (emissions per unit revenue) (CO₂e/£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>1,307,975</td>
<td>n/a*</td>
</tr>
<tr>
<td>2010</td>
<td>889,931</td>
<td>76.84</td>
</tr>
<tr>
<td>2011</td>
<td>780,548</td>
<td>66.93</td>
</tr>
<tr>
<td>2012</td>
<td>738,738</td>
<td>62.21</td>
</tr>
<tr>
<td>2013</td>
<td>715,722</td>
<td>62.85</td>
</tr>
</tbody>
</table>

45% since 2006
3% since 2012

* Metric for 2006 is not available, due to changes in our business portfolio.

<table>
<thead>
<tr>
<th>Source of emissions (unaudited)</th>
<th>Total emissions (CO₂e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel combustion (Gas, Gas Oil)</td>
<td>42,049</td>
</tr>
<tr>
<td>Electricity consumption*</td>
<td>402,052</td>
</tr>
<tr>
<td>Refrigerant leakages</td>
<td>120,752</td>
</tr>
<tr>
<td>Transport**</td>
<td>145,717</td>
</tr>
<tr>
<td>Fertiliser use</td>
<td>5,153</td>
</tr>
</tbody>
</table>

Total 715,722

* If electricity from renewable sources is accounted as zero carbon then emissions from electricity would be 7,393 CO₂e
** includes all road distribution, home delivery, business travel and rail freight

3. We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors’ Report) Regulations 2013. These sources fall within our consolidated financial statement. We do not have responsibility for any emission sources that are not included in our consolidated statement.
4. Assurance is provided by DNV GL in accordance with the AA1000 Assurance Standard (2008). For further information please see the Co-operative Group Sustainability Report 2013.
5. Excluding the Co-operative Bank.
6. Remaining emissions from gas, brown electricity, business travel, and head office refrigerants once green electricity supply is discounted.
Business review continued

We have reduced the volume of waste produced by 40% since 2006 whilst increasing the proportion of waste that is reused or recycled by 15%.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total waste (tonnes)</th>
<th>Percentage recycled/reused</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>158,176</td>
<td>57%</td>
</tr>
<tr>
<td>2009</td>
<td>120,198</td>
<td>59%</td>
</tr>
<tr>
<td>2010</td>
<td>116,394</td>
<td>60%</td>
</tr>
<tr>
<td>2011</td>
<td>102,213</td>
<td>58%</td>
</tr>
<tr>
<td>2012</td>
<td>100,550</td>
<td>59%</td>
</tr>
<tr>
<td>2013</td>
<td>94,577</td>
<td>72%</td>
</tr>
</tbody>
</table>

Reduction (%) since 2006: 40%
Reduction (%) since 2012: 6%

In 2013, we rolled out our project to backhaul waste from our food stores to regional depots. By removing waste collections from 2,800 stores and collecting from depots instead, we will save 225,000 skip collections every year. Not only is this significantly reducing the amount of unrecyclable waste we send to landfill, but it will also save around £2m from our waste bill in our Food business.

We have gained recognition for our sustainable product sourcing, and are one of the UK’s leading retailers on forest and marine stewardship, as well as having market-leading commitments on the sustainable procurement of high-risk products such as palm oil.

International communities

We believe that, when undertaken fairly, trade has an unparalleled capacity to improve quality of life.

We remain second to none in the UK for availability of Fairtrade products and continue to sell more Fairtrade for the size of our business than any of our competitors. Uniquely, we have gone beyond Fairtrade – seeking to deliver benefits for producer communities above and beyond what can be achieved by the Fairtrade premium alone. In turn, this helps to secure supply across many of our Fairtrade product categories. Our approach also involves championing the role that smallholder farmers and co-operatives can play in feeding the world’s growing population.

In partnership with CARE International UK, we support lendwithcare.org, which allows people in the UK to lend directly to entrepreneurs in the developing world, helping them work their way out of poverty. By the end of 2013, over 105,000 loans had been made with a total value of almost £3.8m.

For every sale of our own-brand bottled water – Fairbourne Springs – three pence per litre is donated to The One Foundation to fund clean water projects in rural communities across Africa. Since the start of our partnership with The One Foundation in 2007, our customers have funded improved access to clean water for over 1 million people.

Human rights

We are a member of the Ethical Trading Initiative and our Sound Sourcing Code of Conduct identifies the labour standards we expect to be applied across suppliers of our own-brand products. Our approach combines: a robust monitoring programme to help ensure fair treatment of workers in our supply chains around the world; working in partnership and building capacity with suppliers to achieve continuous improvement; and employee training to improve awareness and understanding of our own impacts on workers and communities.

We are the only major UK retailer to have a Human Rights and Trade Policy, which sets out the exceptional circumstances in which we will curtail trade with a particular state or settlement and Co-operative General Insurance’s investments in fixed-income bonds that underpin home and car premiums are ethically screened against human rights criteria. We also factor human rights considerations into our choice of suppliers of goods not for resale through our Sustainable Procurement and Supplier Policy.

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i All figures restated to account for sale of the Co-operative Bank.
ii Reduction in recycled rate predominantly due to the introduction of reusable trays. In 2011, reusable trays removed the need for an estimated 12,500 tonnes of cardboard.
iii Figure restated to account for overstating of card and plastic recycling.
iv Ibid.
v Increase in reuse/recycling rate is largely due to the introduction of waste backhauling and the increase in waste sent to recycling and anaerobic digester facilities rather than disposal by landfill.