Co-op Interim Report

2019

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We're creating value for our members

12%
Growth in Group revenue

£78m
Group operating profit

Co-op Health
launched

£29m
Returned to members through **5% reward**

£6m
Returned to local communities through **1% reward**

5 more
Co-op Academy Schools opened

3
Co-op franchise stores opened on **University campuses**

£2.5m
Weekly Co-op own brand product sales through **Nisa partners**

£290m
Invested in sustainable businesses by **Co-op pension fund**

Chair's introduction

"Our job is to run a commercial enterprise on behalf of our members that's responsible and successful and creates a better, fairer and more co-operative world."

Through 2019 we're marking the 175th anniversary of the birth of the UK co-operative movement. The social and economic challenges of 2019 are very different from 1844, but fundamentally our approach to them remains the same.

Our job is to run a commercial enterprise on behalf of our members that's responsible and successful and creates a better, fairer and more co-operative world. And at a time of growing political and social polarisation, thinking co-operatively looks more urgent than ever.

This report on the first half of the year shows that we continue to focus on being a competitive, innovative, responsible, and growing business. By building a stronger Co-op we can create stronger communities. We're using this anniversary year to identify the challenges of today for individuals, communities and the planet as a whole. We've been refining our work to better address those challenges.

Democratic accountability has always been a core principle of the co-operative movement. In 2019 we demonstrated this through our AGM and the elections of our Member Nominated Directors (MNDs) and Members' Council Representatives.

Sarah McCarthy-Fry was elected as an MND for the first time this year. Sarah's been a committed co-operator for over 25 years and was previously a Labour and Co-operative MP, representing Portsmouth North, and served as a minister in Gordon Brown's government. Sarah is currently a finance director at GKN Aerospace. We welcome Sarah to the Board. Paul Chandler was re-elected. Gareth Thomas was not re-elected and I'd like to thank Gareth for the great service and professionalism he brought to us over the last two years.

Our Members' Council is also a key element in ensuring we are accountable and listening to our members. The Council has continued to support, challenge and influence our thinking during the first half of the year. We are grateful for its passion and commitment.

Allan Leighton
Group Chair

Chief Executive's introduction

Value for a Co-op member comes in many forms. It's about more than individual reward and lowering prices. Our members want to do good in their community and they want their Co-op to make a difference in society. I'm delighted to say that in the first six months of this year we've achieved these things in numerous ways. We've grown the reach of our brand to new markets and new customers. We've innovated in our products and services. And we've developed our community support to encourage co-operative approaches to local challenges. I'm particularly pleased with the launch of our new Co-op Health business, the rapid growth of the Co-op Academy Trust and experiencing over five years of uninterrupted like-for-like sales growth in Food.

Through our Co-op member rewards we've returned £29m to individual members through the 5% reward and £6m to local causes through the 1% reward, that's in line with the same period last year. We've also put in place new structures to help our growing network of Member Pioneers bring people and communities together. Meanwhile, we've launched our campaign to save 2,000 public spaces and stepped up our work to address crime in our towns and cities.

£29m

Returned to members through **5% reward**

£6m

Returned to local communities through **1% reward**

We know that climate change and plastics continue to be a concern for our members. It's also a real priority for us and we've made some great progress so far this year. By 2020 we will have eliminated the most difficult to recycle plastic packaging and all single-use plastic in our own-brand packaging will be gone by 2023.

Changes to financial reporting

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

Our Group turnover was £5.4 billion, an increase of 12% from half-year 2018, reflecting the full contribution of our Nisa business and continued strong Food performance. In an ever more competitive environment, like-for-like Food sales have increased by 1.7%.

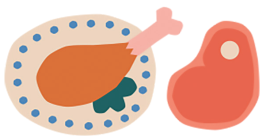
Profit before tax was £25 million but on a like-for-like basis, excluding the impact of IFRS 16, it was £30 million, down £14 million from 2018 mainly reflecting lower operating profit in our funerals business.

Our funerals business has had a challenging year, with a fall in sales and profit. We have also seen unprecedented market change, which has required us to re-think and adapt our business to set it up for future success. Funeral sales were also impacted by an unexpected 10% fall in the death rate. We know there is more to do and are meeting these challenges head-on. We plan to reposition and grow the business by focusing on improved value, more innovation, and greater choice for families, making it easier for them to get the support and care they need and expect from Co-op.

The finance review on page 17 has more detail on our financial performance including our key underlying profit before tax measure, individual business profits and our balance sheet.

However, how we measure our success at Co-op goes well beyond the traditional corporate balance sheet. Just as it was for the Rochdale Pioneers 175 years ago, creating value for our members has a much broader meaning because, for us, commerce and social responsibility are bound together in a single endeavour.

It's what we do



100%

of Co-op fresh meat is British

Since May we've been explaining how choosing Co-op means choosing to do good in your community and around the world. Through our advertising, we're showing how trade with Co-op supports our ambition to grow Co-op Academies; how it helps us to expand our Member Pioneer network; how it allows us to continue our commitments to 100% British meat and our sourcing of Fairtrade; as well as our work to make our roads safer and, most importantly, our communities stronger.

In the year ahead we're determined to deliver on our purpose of championing a better way of doing business to create a stronger Co-op and stronger communities. We'll continue to make the connection between great products and services and 'doing good' for you and your community throughout our marketing plans. In November we'll highlight this message as we pay out millions of pounds to this year's local causes chosen by our members. And our Christmas advertising will build on this theme.

Commercial strategy

To enable that broad creation of value for our members we must continue to operate our business successfully.

Our core **food** store business is performing well in a fiercely competitive market and we continue to innovate and reach new customers as this report shows. Our expanded wholesale operation supports this strategy, offering Co-op own brand products to independent store owners.

After a difficult 2018, our **funerals** business, under its new managing director, Sam Tyrer, is starting to implement the findings of our review to build a strong business for the long term. We're putting particular focus on the care we provide to families, customer choice, competitiveness and channels to market. We're also examining how to expand our offer to better address all aspects of how we say farewell to loved ones, including developing eco-friendly funerals and extending our range of services after the funeral. In the first phase of our plans, we're looking at how we best support our front line colleagues so they can prioritise their care to customers.

We're putting particular focus on the care we provide to families, customer choice, competitiveness and channels to market

The funeral market remains highly competitive and the unexpected fall in the death rate has been a key factor in our performance, as it has for our competitors. Meanwhile, we welcomed the government's announcement in June to crack down on the use of high pressure and misleading tactics to sell funeral plans which has given all funeral plan providers a poor reputation. We're also working with the Competition and Markets Authority (CMA) on their investigation into the funerals at need and cremation markets, and welcome the work they are doing on behalf of consumers.

At the beginning of 2019 we announced the sale of our insurance underwriting business to Markerstudy. Part of the sale is to put in place a new long-term arrangement for distributing Co-op branded motor and home insurance products underwritten by Markerstudy. Our accounts for 2018 and 2019 show our insurance underwriting business as a discontinued operation.

As we wait for the deal to work its way through regulatory approval, our **insurance** business has continued to increase its profile and product development, together with other partners, so we can meet the ever-increasing needs of our members in the future. This year has seen us return to the Life protection market and also launch new products for motorists and young home renters.

Our **Legal Services** business is continuing to do well across all of our practice areas, in particular probate, estate planning and family law.

We've re-joined the **health** market this year in an innovative and modern way based on digital technology. We're starting with a focus on repeat prescriptions because we believe we can offer a safe and distinctive service that can integrate with our food store estate to provide a range of delivery options. Ultimately, our aim is to promote good health in our communities by encouraging people to look after themselves, reducing preventable health problems and the burden on the NHS.

Awards

Over the last few years we've become used to winning numerous awards for the quality of our products and services and that's because we've given focus and investment to our core offering across all of our markets. This year though, we've won significant recognition for the business as a whole: Grocer of the Year at the Grocer Gold Awards; and Consumer Business of the Year by the Evening Standard. Our business leadership was recognised too in Jo Whitfield's Veuve Clicquot Business Woman Award. And finally, Co-operatives UK honoured us for being the 'Leading Co-operative of the Year'. You don't earn this calibre of recognition without being a distinctive business with a first-rate offering. Every one of our Coop colleagues can take great pride in these achievements which show how we've successfully turned the business around in recent years.

Brexit

Like all big businesses, we've continued with our Brexit planning since the end of March and we know we need to be ready for all eventualities. If a negotiated withdrawal from the EU doesn't take place at the end of October, we expect some disruption to our supply chain, at least in the short term, and we'll do our best to protect our members from any inconvenience. We're particularly concerned about what a no-deal Brexit will mean for the British farmers whose produce we've championed over the last few years.

We're also mindful of how Brexit has exposed deep divisions within our communities with strong feelings of disempowerment and neglect expressed by many. These are serious matters that an economic resolution to Brexit will only partially address. We continue to believe that the values of co-operation can create stronger, more resilient communities and we're developing our ideas for 2020 on how we can use co-operation to bring back individual and communal self-confidence.

As we pass the half-way mark, we don't underestimate the challenges we face in the second half, most notably Brexit and the turnaround of our funerals business. Despite this, we are satisfied with our progress, in particular how we're staying modern and relevant as a commercial enterprise driven by our ambition to create a better, fairer and more co-operative world for our members.

Steve Murrells
Chief Executive

Stronger Co-op

For us, success means a great deal more than maximising bottom line profit, but to achieve our broader ambitions we must continue to be a growing, competitive, innovative and responsible business.

GROWING

Online

We're introducing new technology to grow our business in ways that make sense for our predominantly convenience store estate. In March we launched an online delivery service trial for our food stores. It's the first time that we've offered online delivery sales via a dedicated website. In addition, we're delivering the online orders using zero emission electric cargo bikes. The trial was initially launched at the Co-op's Kings Road store in Chelsea, London, but it's been rolled out to a further eight. In August it expanded into a further 13 stores in the capital. We've also extended our partnership with Deliveroo in London and Manchester to reach Edinburgh, Milton Keynes and Brighton.

Stores and products

Our Co-op store estate continues to grow with 20 new shops opened in the first six months of the year and 94 refits developed. We have a strong focus on our offer and relaunched our Irresistible pizza range, highlighting our continued drive to raise quality and create innovative products.

Food to Go

Food to Go is the fastest growing category in convenience and this year we've begun working with Superdrug to offer a range of 40 Co-op lines in seven stores. They're all in highly transient locations in Edinburgh, Bristol and East Midlands' airports, as well as Brighton, Sheffield, London's Victoria and London's Fenchurch Street train stations. These trials are showing great results, helping us to tap into 'food to go hotspots', to grow our presence in new locations and reach new customers.

Wholesale

Nisa
making a difference locally

In spring we marked the first year of our Wholesale expansion through the acquisition of Nisa. We've set up a single buying operation for all of the stores we supply, with Nisa partners able to select from 2,000 Co-op own brand products. We have seen a rapid uptake of this, with over 90% of Nisa partners having now taken lines from across the range. Co-op own brand products are now generating weekly sales in excess of £2.5m from Nisa stores, and we are rapidly approaching our target of 10% of Nisa sales being Co-op own brand products. The integration of Nisa into the Wholesale business has transformed the proposition Nisa partners are able to offer their customers and we will work to ensure they continue to benefit from the wider offering. For more information please see the finance review on page 17.

Festivals

Building on last year's success, in April we announced an unprecedented presence at music festivals for 2019 in partnership with Live Nation. Through the summer we opened 6,000 ft. pop up shops at eight UK music festivals. Most notable was our festival store at Glastonbury which we branded as '31 Toad Lane' in recognition of the 175th anniversary of the Rochdale Pioneers opening their first shop. It allowed us to introduce our Co-op heritage and values to younger and older generations who are not familiar with the ethical values which have always underpinned our business and which align well with the festival's own outlook.

Co-op's festival partnership with Live Nation has also been recognised at a number of industry awards, including the Festival Supplier Awards, European Sponsorship Association Awards and the UK Sponsorship Awards.

3

Co-op franchise stores opened on **University campuses**

Franchising

Franchising has long been a feature of consumer retail co-operatives on the continent and now we're beginning to use this way of reaching new markets in the UK. Unlike other major brands which have developed a franchise proposition, our Co-op franchise provides exactly the same offering as if we owned and ran the store ourselves. We currently have six franchises open via three Costcutter-owned stores and three on university campuses at Leeds, Kent and Newcastle with more confirmed to open this year. Our aim is to have 150 franchises open by 2022. We're carefully screening potential franchisees to ensure our values are aligned and commercial opportunities are strong for both parties.

Opening our franchise store in February at Leeds University, the fifth biggest university in the UK, was a milestone for us. The average sales uplift in the franchised stores has been more than 80%. And our quality, convenience and ethical values are a great fit with the student population. Students are 'accelerated adopters' giving us early insight into likely market trends and they're an important demographic for us as we develop our food retail offer across our entire estate.

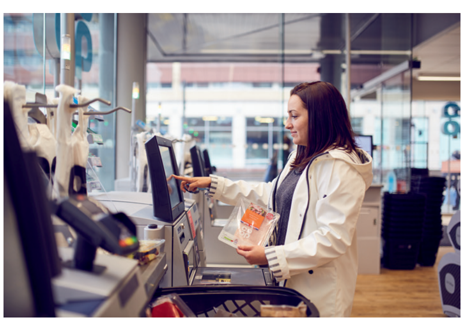
Co-op Health

In May we launched Co-op Health with an initial focus on repeat prescriptions. The health market is changing fast and parts of it are clearly broken and need fixing. Our new app makes ordering repeat prescriptions easier for customers and more efficient for the NHS. Our app links directly into GP's surgeries and gives a convenient, safe and secure connection.

For our launch, the repeat prescriptions business focused on major cities like Manchester, Liverpool and London. By 2020 we'll be across all of England. Since the AGM the app has been downloaded nearly nineteen thousand times and we have more than five thousand active customers. We've also begun our 'click & collect' trial, using lockers in Co-op food stores. We'll soon increase the app's functionality as we continue to learn and understand more about what our customers need.

COMPETITIVE

To remain competitive across all of our markets we need to make sure we run an efficient operation and continuously review our pricing.



We're increasing the reasons for customers to come to our stores through providing Amazon and John Lewis lockers.

There's still intense competition in UK food retail and expanding our wholesaling operation means we have greater purchasing strength with our suppliers. At a more tactical level, our summer saver deals on popular products like beer and pizza proved popular. We also had a successful Easter bank holiday, driven by a competitive offer and helped by the warm weather. In addition, we're increasing the reasons for customers to come to our stores through providing Amazon and John Lewis collection lockers.

The approach we're moving to with Insurance, using an external underwriter, is reflected in our Travel insurance policy. Throughout the first half of the year, sales have been strong. This competitive new insurance product, which doesn't exclude holiday makers with existing health conditions, has kept ahead of target.

Addressing funeral affordability is a priority for us and we've continued to see a significant rise in the number of families choosing our 'Cremation Without Ceremony' product.

In 2018 we set ourselves long-term targets for cost reduction and we've met the targets set for the first-half of 2019. We'll continue to look for more opportunities so that we can invest into the growth of the business.

INNOVATIVE

Pay-in-Aisle

Research shows that consumers are using cash less and less, so we're rolling out more tillless technology in our food stores. During the summer we extended the trial of a new Pay-in-Aisle app to more than 30 stores. While cash is still common in convenience stores, we've seen a 10% decline in the popularity of notes and coins during the last two years, with contactless, cards and other payment methods now making up more than one in two transactions. Using the app, which we first began testing last year, customers scan products on their own device as they walk around the store. When they've finished shopping, the cost of the shop is deducted from their Apple or Google Pay account with a touch of a button.

Graduated Young Driver

Save up to £300 with our new 'Graduated Young Driver' policy

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

Life Insurance with payment 'breaks'

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

RESPONSIBLE

Sustainability

We know sustainability is an area our members feel passionately about and our Members' Council continues to push our thinking in this area. At our AGM our members voted to accelerate our work to reduce our Greenhouse Gas (GHG) emissions and backed global goals to limit warming to the most stringent of targets. Having halved our GHG emissions in the ten years from 2006, we're now going further by reducing our direct GHG emissions by 50% again by 2025. All Co-op stores, offices and funeral homes already use 100% renewable electricity.

Soy

In April we made a commitment to only source 100% sustainable soy

In April we made a commitment to only source 100% sustainable soy as a way to prevent deforestation and the loss of native vegetation caused by ever expanding soy cultivation.

Soy plays a part in the production of many products and the average European eats more than 60kg a year. The increasing demand for soy animal feed and rising global consumption of meat is having a major impact on the environment and wildlife.

Plastic

We'll have eliminated the most difficult to recycle plastic packaging by 2020 and all singleuse plastic in our own-brand packaging by 2023. By 2021, we'll use a minimum of 50% recycled plastic in own-brand plastic trays, pots and bottles. All our own-brand packaging will be easy to recycle by 2023 (80% by 2020).

Our pop-up store at the Glastonbury festival gave us the opportunity to trial our 100% compostable packaging for ten types of our sandwiches. We also sold recyclable aluminium cans of spring water and refillable water bottles and brought back our pioneering deposit return scheme for plastic bottles which can be placed in reverse vending machines.

£290m

Invested in sustainable businesses by Co-op pension fund

Pensions

In June the defined contribution section of the Co-op's pension fund changed its investment strategy to invest more in companies that score highly for sustainability and with an emphasis on mitigating climate change. This means approximately £290m out of Coop employees' £315m defined contribution assets will be invested in a fund with a conscious bias towards companies and bonds that score well on environmental, social and corporate governance performance.

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

We became the first UK retailer to issue a sterling-denominated Sustainability Bond

Sustainability Bond

At the end of May, we became the first UK retailer to issue a sterling-denominated Sustainability Bond. It's raised £300m and we're using the funds exclusively on supporting and promoting Fairtrade, including Fairtrade producers and their communities. Co-op intends to allocate the net proceeds of the Sustainability Bond issuance to the costs of bringing Fairtrade products to customers, marketing and promoting Fairtrade products and wider Fairtrade movement. Our continued commitment to Fairtrade comes as some other major retailers are scaling back their investment despite it being a key source of support for communities around the developing world.

Campaigning

The safety of our colleagues has been a concern of our members for some time and at the end of last year we adopted our new campaign 'Safer Colleagues and Safer Communities' with the support of our Members' Council. We're tackling crime in our stores through investment in technology and security but we also want to address the root causes of the problem in our communities and influence the government and judicial system.

At our AGM we announced our new partnership with the Damilola Taylor Trust and we'll be funding one of its skills training programmes for young people at risk of falling into a life of crime. Following the call for evidence by the Home Office, we encouraged and supported more than 600 of our colleagues to come forward and record their experience of crime in the workplace. We've also submitted our own 70-page report with ten key recommendations for the government to consider.

We commissioned new academic research into violence on shop workers and published the findings in September. In November we'll be hosting a conference to mark the beginning of Usdaw's 'Freedom from Fear' week. Meanwhile, we're continuing to invest in store technology such as our intelligent CCTV equipment which helps us to gather evidence and work with the police to secure convictions.

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

The first six months of the year have seen significant progress for our slavery campaign, including increased government support for slavery survivors and strengthening of the Modern Slavery Act's requirements for business. Our Bright Future partnership, which is providing training and work opportunities, is now the biggest employment programme of its kind for slavery survivors in the world.

Child bereavement

We've taken the lead in calling on the government to waive child burial and cremation fees, to ensure there is consistent support for bereaved parents across the country. Following our continued campaigning, we were pleased that the government has now implemented the Children's Funeral Fund, meaning that more parents across England will have access to some financial support.

Stronger Communities

Through our Co-op member rewards we've returned £6m to local causes

We've used this year to develop our ideas for how we support local communities so that we're addressing today's challenges in a co-operative way. Our community plan, developed with input from the Members' Council, builds on all the work we've been doing since 2016 to create stronger communities. As this work has evolved, we've been putting ever greater emphasis on projects which will bring people together and promote co-operative solutions.

Through our Wellbeing Index, and our broader research and consultation work with members and communities, we've identified three priorities for our community work.

- Community spaces
- Physical and mental wellbeing; and
- Education and skills

We're aligning the work of our Member Pioneers behind this plan and giving priority through our Local Community Fund to local causes working on these issues. We're also working closely with our charity arm, The Co-op Foundation, to focus on these areas.

We've already awarded more than £1.4 million to help 20 community organisations grow their activities and secured £1 million of government funding to help more than 7,500 young people improve local spaces.

Community spaces

We want to create stronger, more connected communities that bring people together. To achieve that, communities need good physical spaces, both indoor and out, and we know these are under threat. One of the best ways to address social exclusion and mental and physical illness is to help and support people to connect with their local communities. We want to encourage that to happen by making it easier for communities to create, secure and use social spaces, and encouraging local initiatives that bring people together and address isolation and health issues. We also want to build powerful virtual community spaces too where local initiatives can be shared, calls for support made, and connections built that will enable great things to happen.

At the start of the summer we launched our Endangered Spaces campaign in partnership with the charity Locality. Our aim is to protect 2,000 community spaces by the end of 2022. By early September we'd had nearly 1,000 applications from community groups looking for financial or specialist support to help 'save' local spaces.

Our Co-op charity, The Co-op Foundation, has already awarded more than £1.4 million to help 20 community organisations grow their activities and secured £1 million of government funding to help more than 7,500 young people improve local spaces. As part of Endangered Spaces, Space to Connect, its new £1.6 million partnership with government, will build on this work.

We've also begun a partnership with the charity Steel Warriors to create outdoor gym equipment in community spaces manufactured from melted knives taken off the streets by the police. And we're recruiting local trainers to teach new skills using the equipment. The first gym is being launched in September in Ruskin Park, Lambeth.

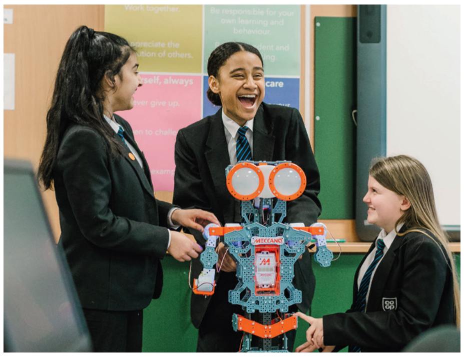
Mental and physical wellbeing

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

Education and skills

We want to support individuals and communities to reach their full potential across all life stages. This is especially important in our fast-changing digitally driven world. Co-op Academy Schools and our apprenticeship programme will have an important part to play in this. So too will our digital hub in Federation in Manchester. As part of our aim to promote co-operation, we want to explore ways to share skills, especially across the generations. We'll look to create a platform for doing this.

Our main focus this year will be on Spaces, however we'll be working in all three areas continuously because we recognise that they all connect and overlap.



5 more

Co-op Academy Schools opened

Co-op Academies Trust

Promoting co-operative education and skills remains a central theme of our responsible approach to business. Since the start of 2019, the trust has added five new schools including two special schools in Bradford. This makes Co-op Academies Trust not only the fastest growing academy trust but also the most diverse in terms of age and ability.

The Trust now educates more than 15,000 students with a full range of abilities, from early years to sixth form. There are now 23 Co-op academies and colleges across northern England in some of the most economically challenged areas in the UK.

Member Pioneers

We already have 300 Member Pioneers around the country and are constantly adding to them. By 2020 we aim to have a Member Pioneer in each of our communities acting as community catalysts. In February this year, following extensive discussions with our National Members Council and consultation with our trade union partners, we announced a new team structure for our Member Pioneers. We've introduced a National Member Pioneer Manager, ten field-based Member Pioneer Managers, and approximately 120 Member Pioneer Coordinators, each working two and a half days each week. This new structure is enabling us to better manage and co-ordinate their work and make sure it's aligned to our priorities.

Looking ahead

For the rest of 2019 and beyond, we're going to continue to grow all of our businesses in a responsible and sustainable way that's good for our members and for their communities.

We'll keep innovating in all areas and maintain our competitiveness and relevance in the markets in which we operate. In Food we'll continue our trials of new online ordering and delivery technology and continue to improve and expand our reach through wholesaling and franchising.

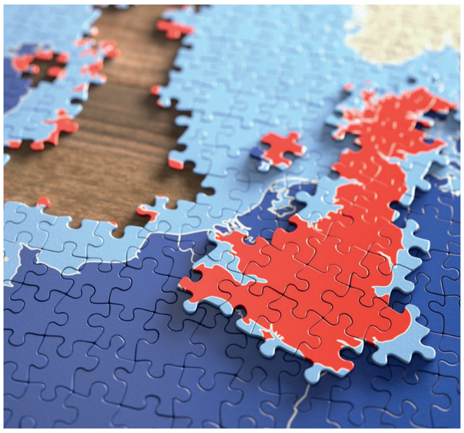
In Funerals we'll implement our turnaround plans so that we become not only the biggest provider but the leader in setting the highest standards of care and the greatest choice. In Insurance we'll continue to develop new products and see through our deal with Markerstudy. And in Legal we'll be extending the reach of the business through partnerships and introducing new technology into our offer.

In all we do, we'll continue to show the link between choosing Co-op and choosing to do good.

Principal risks and uncertainties

The Directors have reviewed the principal risks and uncertainties faced by Co-op and the risks set out in the 2018 Annual Report and Financial Statements are still relevant for the second half of 2019.

The Directors use our Co-op enterprise risk management framework to continuously monitor and re-assess our actions in relation to a changing business environment. Consideration is given to emerging risks and to any change in internal and external influences that could impact our business model and how we operate.



Brexit – with a deal or without a deal

A disorderly Brexit, or the threat of withdrawal from the European Union on unfavourable terms, still poses a significant risk to the structure of the UK economy and could also impact many parts of our business, our partners and the markets we operate in. We're still very much focused on Brexit uncertainty and, as the political and economic situation evolves, we'll develop and reassess our response plans.

Changes to principal risks

We've identified a new principal risk in 2019. The value of our funeral plan investment portfolio is sensitive to a number of factors, such as funeral costs and macroeconomic and market conditions. This can mean that, when plans become due, the available funds are lower than expected, making them less profitable than planned. We closely monitor the management of the portfolio and make adjustments as conditions change. Our latest actuarial valuation of the plans showed that the value of investments is £120m above the wholesale cost of performing the funerals. The risk in this area is to our future profits and not to the funeral planholder, whose funeral is guaranteed under our plans. Given the size of this portfolio, we've called this risk out separately in the principal risks outlined below.

Following the Grocery Code Adjudicator's (GCA) investigation which completed in March 2019 into Co-op's compliance with elements of the Groceries Supply Code of Practice (Code), we've developed a clear implementation plan. Activity has been underway for some time and good progress made to address the underlying findings of the five recommendations made by the GCA. We are putting fixes in place quickly and effectively and taking effective steps to ensure full compliance with the Code. The 2019 GCA survey results, announced in June, reported Co-op as the most improved retailer. It was confirmation that our activity is having a positive impact and that we're taking the findings of the GCA's report seriously. Monitoring of our compliance and risk management activity is included within the Regulatory Compliance risk below, which remains stable.

The risks below have the potential to impact the delivery of our business strategy and our commitment to create value for our members and communities. These are summarised as follows:

Risk	Potential consequences for our Co-op
Change	Transformational change is not performed effectively and, because of the volume and complexity, the planned benefits of our various business change programmes may not be realised. This would prevent us from fully meeting our strategic objectives.
Brexit and other market conditions	A disorderly Brexit and/or other negative market conditions may lead to changes in consumer spending. Challenges to the availability of labour, increased cost of funding and disruptions to parts of our supply chain may threaten our objectives and business model. The mitigation of this risk is likely to be increased investment into working capital.
Competitiveness	Competitor actions, new entrants and disruptive innovation may lead to changes in our competitive landscape and impact our profitability, preventing us from fully realising the benefits in our strategic plans and reducing the value that we provide to our members and customers.
Revenue targets	Not achieving our planned sales growth targets would affect the sustainability of our business model and potentially restrict our investment in communities.
Brand and ethical framework	Failure to create a brand proposition and ethical framework that strengthens our Co-op would make it more difficult to balance profit, member value and ethics.
Managing health and safety, and security	Weaknesses in our health and safety arrangements and physical security practices and procedures could put customers and colleagues at risk.
Regulatory compliance	Our Co-op is subject to various laws and regulations across its businesses. Failure to respond to changes in regulations or maintain compliance could affect profitability through fines and sanctions from our regulators and result in reputational damage.
Misuse and/or loss of data	Personal data is inappropriately accessed, shared and/or not managed in line with expectations; affecting customer and member confidence and leaving our Co-op open to regulatory fines and reputational damage.
IT security and cyber treats	Our ability to serve customers is highly dependent on our IT systems. An external cyber threat or technology incident could restrict the provision of products and services to our customers and members, leaving our Co-op open to financial loss, regulatory fines and reputational damage.
Pension obligations	Adverse movements in a number of macro-economic conditions, including interest rates and inflation expectations, could reduce returns on our investment portfolios and impact our pension and funeral plan liabilities. A potential deficit could require our Co-op to pay additional offsetting contributions or absorb additional costs.
People	If we do not recruit and retain capable colleagues, and invest in their development, it could impact our ability to build a strong Co-op and deliver on our strategic objectives.
Supply chain interruption	Failure to create the network capacity needed for future growth and/or extended supply disruption could significantly impact the availability of products and services in our stores, resulting in a loss of sales and reduced revenue.
Pre-Need Funeral Plan obligations (New)	The measurement of our Pre-Paid Funeral Plan obligations is sensitive to changes in a number of factors. Adverse movements could result in lower than expected funds being available and the business receiving a lower amount per funeral, or may result in individual contracts becoming onerous.

Emerging Risks

The main emerging risks being monitored relate to changing regulations. In the food and drink sector this is expected to place restrictions on the promotion of food with high fat, salt and sugar content.

The outcome of the Competition Market Authority's review into the funeral industry and HM Treasury's proposals for the regulation of funeral plans are expected to lead to changes in the funeral and funeral plan markets.

More information on the principal risks and how Co-op mitigates those risks can be found on pages 41-42 of the 2018 Annual Report.

Our Financial Performance

Our accounts have changed significantly this year because of a major new accounting standard, IFRS 16, which we've adopted from the start of the year. It makes understanding our financial performance compared to last year more difficult, so we've included some additional information below to help explain it more easily.

IFRS 16 requires us to put leases onto our balance sheet that previously were not included, in particular over 3,000 leases on trading properties that we rent. In total, lease liabilities of £1.5 billion (representing future financial commitments) and a 'right of use' asset of £1 billion (reflecting the value of our right to use the asset) were brought onto our balance sheet. In our full year income statement operating profit will benefit by around £60 million as annual rental payments of around £160 million are no longer included and are replaced by additional depreciation (£100 million). However the full year profit before tax impact will be £10-£15 million adverse after charging lease interest of £75 million. Although our 2019 results are prepared under IFRS 16, 2018 numbers are not required and so are not directly comparable. We've included tables below to show 2019 on both a reported basis (prepared under IFRS 16) and like-for-like with 2018 (excluding IFRS 16).

	2019 per income statement £m	2019 excluding IFRS 16 £m	2018 £m
Revenue	**5,389**	5,389	4,829
Underlying operating profit:			
Food	**120**	95	80
Wholesale	**(2)**	(2)	(5)
Funeral and Life Planning	**13**	13	28
Costs of supporting functions	**(61)**	(64)	(51)
Other	**(6)**	(6)	(2)
Total underlying profit (a)	**64**	36	50
Property revaluations, disposals and one off items	**14**	10	4
Operating profit	**78**	46	54
Underlying interest (b)	**(33)**	(33)	(32)
Lease interest (c)	**(37)**	-	-
Non underlying interest	**17**	17	22
Profit before tax	**25**	30	44
Tax	**26**	27	(9)
Discontinued operation	**(6)**	(6)	(14)
Profit for the year	**45**	51	21
Underlying (loss) /profit before tax (a)-(b)-(c)	**(6)**	3	18

Revenue increased to £5.4 billion, up £0.6 billion, or 12%, compared to 2018. Our wholesale business accounts for £0.4 billion of this increase, reflecting that we acquired Nisa in May 2018 so had two months' trade compared to a full six months this year. Our Food business continues to perform strongly with a 3% increase in sales to £3.7 billion.

Profit before tax was £25 million compared to £44 million in 2018. However on a like-for-like for basis, excluding the impact of IFRS 16, it was £30 million, down £14 million from 2018 mainly caused by a £15m fall in operating profit in our funerals business. Trading performance is discussed in more detail below.

Our profits are shown after deducting the amount our members have earned through the 5% and 1% member rewards which totalled £35 million in the first half of the year (2018: £35 million).

We show how we adjust profit before tax to get to our underlying profit before tax in note 1 of our interim financial statements. We also include a jargon buster on page 49 to explain the accounting terms we have to use.

How our businesses have performed

Food sales of £3.7 billion were up 3% on 2018, with like-for-like sales up 1.7%. The growth in like-for-like sales is particularly pleasing given that last year sales were very strong on the back of the World Cup and favourable summer weather.

Underlying profit in our Food business was £120 million in 2019 compared to £80 million in 2018. However on a like-for-like basis excluding IFRS 16, profit was £95 million, up 19% on last year, reflecting the strong sales performance together with good cost control.

Our Wholesale business generated sales of £0.7 billion in the period and made an operating loss of £2.2 million compared to a £5 million loss last year. The £2.2 million loss comprises a trading profit of £0.4 million offset by £2.6 million of amortisation charges (similar to depreciation) on the intangible assets arising on acquisition. The 2018 loss included one-off costs of buying the Nisa business.

Our Funeral & Life Planning business saw sales fall by 6% to £163 million largely reflecting lower funeral numbers this year. The market remains highly competitive and the unexpected fall in the death rate has been a key factor in our performance, as it has for our competitors.

We have responded to customer desire for lower cost funerals and cremation without ceremony for which there is growing demand and this too has reduced selling prices and has an impact on profit. We conducted 48,423 funerals in the first half of 2019 compared to 53,213 in the first half of 2018.

The fall in volumes reduced Funeral & Life Planning underlying profit to £13 million, down £15 million on 2018 (£28 million).

Supporting functions costs increased by £13 million on a like-for-like basis (excluding IFRS 16) reflecting continued investment in members and one-off gains in 2018. Additionally in 2019 we invested in membership initiatives and IT as we move away from datacentres into more flexible Cloud arrangements. This additional investment was partially funded by cost savings generated by our 'Fuel for Growth' programme including organisational design changes.

We announced the sale of our insurance underwriting business, CIS General Insurance Limited ('CISGIL'), to Markerstudy in January this year. In our year end accounts CISGIL became classified as a 'discontinued operation' which means that we no longer treat it as an ongoing business operation of Co-op and so its results are not included within profit before tax. This treatment remains appropriate at half-year on the basis that we expect the sale to complete later this year. The £14 million loss in prior year represented the trading loss of the business in the first half of 2018.

Disposals, property valuation gains and one off items

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

	2019 per income statement	2019 excluding IFRS 16	2018
	£m	£m	£m
Property and business disposals	**(4)**	(8)	(26)
Change in value of investment properties	**11**	11	11
One off items	**7**	7	19
Total	**14**	10	4

Property and business disposals include the profit or loss on disposal of trading units together with costs of vacant or closed properties. The 2018 loss of £26 million included vacant property cost provisions of £21 million.

The £11 million gain on our investment property portfolio in 2019 principally relates to planning permission gains on one particular site.

One-off items in 2018 included a profit of £20 million from changes to pension benefits. The £7 million credit in 2019 relates to a reduction in the amounts we are required to pay for the acquisition of Nisa which is payable over a number of years depending on the trade passing through Nisa from its partners.

Financing

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

	2019 per income statement	2019 excluding IFRS 16	2018
	£m	£m	£m
Underlying interest payable	**(33)**	(33)	(32)
IFRS 16 Lease interest	**(37)**		
Net pension finance income	**27**	27	21
Fair value movement on quoted debt and swaps	**(2)**	(2)	5
Non-underlying finance interest	**(8)**	(8)	(4)
Net financing costs	**(53)**	(16)	(10)

As noted above IFRS 16 brings interest on the lease liability into our income statement. At half-year lease interest was £37 million on a total lease liability of £1.5 billion.

Excluding IFRS 16 lease interest, financing costs were £6 million higher this year. Underlying interest was £1 million higher. The remaining increase comprises £4 million of costs and fees relating to the refinancing of our bond debt (included within non-underlying interest) and a £7 million adverse movement in fair values offset by a £6 million increase in pension interest income. The adverse fair value movement arises because in 2018 we had a gain from revaluing our debt according to its market value at that time.

Our total net debt at the end of the period, including the IFRS 16 lease liability of £1.5 billion was £2.3 billion. Excluding the lease liability, net debt was £0.8 billion, up from the same time last year (£0.7 billion) but in line with 2018 year end. Net capital expenditure this year was £206 million compared to £145 million in the first half of 2018.

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

Tax

The £26m tax credit arising at half-year is largely due to a one-off credit of £31 million caused by a change to our method of calculating the deferred tax arising on fixed assets additions.

Our balance sheet

IFRS 16 has significantly changed our balance sheet. As with the income statement, these changes impact 2019 numbers but not the comparatives for half and full year 2018. The table below shows the amounts brought onto the balance sheet from the start of 2019.

	£m
Assets	
Property, Plant and Equipment	(43)
Property, Plant and Equipment (Right of Use Assets)	1,073
Finance Lease Receivables	55
Trade and Other Receivables	(33)
Deferred Tax Asset	47
	1,099
Liabilities	
Lease Liabilities	(1,450)
Trade and Other Payables	47
Provisions	67
	(1,336)
Adjustment to Opening Reserves	(237)

The £0.9 billion increase in total assets from £9.5 billion at 2018 year end to £10.4 billion at this half-year reflects £1.1 billion of assets introduced under IFRS 16 as shown above, offset by a £0.2 billion reduction in pension assets.

The actuarial surplus of our largest pension scheme, PACE, decreased by £0.2 billion to £1.6 billion largely because the interest rate used to value pension liabilities decreased from 3% to 2.2%. The interest rate we select is based on advice from our actuaries and is based on corporate bond rates as at 6 July. It's important to remember that the accounting valuation of pension schemes is quite different to the valuation basis used by Trustees. The Trustees' valuation uses a more prudent basis which reflects the low risk assets that we are invested in. Nevertheless we are well funded and in surplus on this basis, though the surplus is significantly lower than the £1.6 billion shown in our accounts.

Total liabilities increased by £1.3 billion from year end to £7.7 billion this half-year reflecting £1.4 billion of IFRS 16 adjustments relating to lease liabilities.

The assets and liabilities of CISGIL are classified as held for sale because of the planned sale of the business to Markerstudy. CISGIL became classified as held for sale in the second half of last year.

Total equity, or members' funds, were £2.7 billion at half-year, a fall of £0.4 billion from year end relating to the £0.2 billion reduction in opening reserves from adopting IFRS 16 and the £0.2 billion decrease in pension assets discussed above.

Looking ahead

The short term outlook is challenging. Brexit continues to bring uncertainty particularly with the increasing prospect of leaving the EU without a deal. We continue to plan and prepare as best we can. We are also in the midst of turnaround plans for the funerals business that has seen unprecedented market change. We expect that the sale of CISGIL, our insurance underwriting business, will proceed before year end but we await regulatory approval.

Despite this we are confident that we are well placed to meet those challenges. We have sensitised our forecasts to include pessimistic views on various risks such as the Brexit impact, a general downturn in trading and a delay in the sale of CISGIL and this gives us confidence that our funding and balance sheet position are robust. Our Food business continues to deliver strong like-for-like sales growth at rates above the food retail market. We continue to innovate within our businesses to drive our competitive advantage and we continue to invest in our stores and branches.
But most importantly we will continue to grow in a Co-op way that is responsible and sustainable and benefits our members and their communities.

Responsibility statement of the directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- The condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU

- The interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year

By order of the board of Co-operative Group Limited

Allan Leighton
Group Chair

11 September 2019

Independent Review Report To Co-operative Group Limited

Introduction

We have been engaged by Co-operative Group Limited ("the Society") to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 6 July 2019 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and the related explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Society in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in the general accounting policies section of the 2018 Annual Report, the annual financial statements of the Society are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Society a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 6 July 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

Manchester

11 September 2019

Condensed Consolidated Income Statement

for the 26 weeks ended 6 July 2019

What does this show? Our income statement shows our income for the year less our costs.
The result is the profit or loss that we've made.

Continuing Operations	Notes	**26 weeks ended 6 July 2019 (unaudited) £m**	26 weeks ended 7 July 2018 (unaudited & re-presented*) £m	52 weeks ended 5 January 2019 (audited) £m
Revenue	1	**5,389**	4,829	10,162
Operating expenses		**(5,315)**	(4,780)	(10,072)
Other income		**4**	5	10
Operating profit	1	**78**	54	100
Finance income	3	**29**	33	78
Finance costs	4	**(82)**	(43)	(85)
Profit before tax		**25**	44	93
Taxation	5	**26**	(9)	(19)
Profit from continuing operations		**51**	35	74
Discontinued Operation				
Loss on discontinued operation, net of tax	6	**(6)**	(14)	(230)
Profit / (loss) for the period (all attributable to members of the Society)		**45**	21	(156)

Non-GAAP measure: underlying (loss) / profit before tax

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

Continuing Operations	Notes	**26 weeks ended 6 July 2019 (unaudited) £m**	26 weeks ended 7 July 2018 (unaudited & re-presented*) £m	52 weeks ended 5 January 2019 (audited) £m
Operating profit (as above)		**78**	54	100
Add back / (deduct):				
One-off items	1	**(7)**	(19)	(9)
Property, business disposals and closures	1	**4**	26	54
Change in value of investment properties		**(11)**	(11)	(38)
Underlying segment operating profit		**64**	50	107
Less underlying loan interest payable	4	**(33)**	(32)	(64)
Less underlying interest expense on lease liabilities	3, 4	**(37)**	-	-
Underlying (loss) / profit before tax		**(6)**	18	43

* The results of our Insurance business are shown as discontinued operations in the tables above which is consistent with the financial statements for the 52 weeks ended 5 January 2019. The half-year comparative figures for the 26 weeks ended 7 July 2018 have been represented to reflect a similar classification. For more details on the re-presentation, refer to the general accounting policies section on page 43.

The Group has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 43.

Condensed Consolidated Statement of Comprehensive Income

for the 26 weeks ended 6 July 2019

What does this show? Our statement of comprehensive income includes other income and costs that are not included in the consolidated income statement on the previous page. These are usually revaluations of property, pension schemes and some of our financial investments.

	Notes	**26 weeks ended 6 July 2019 (unaudited)** £m	26 weeks ended 7 July 2018 (unaudited & re-presented*) £m	52 weeks ended 5 January 2019 (audited) £m
Profit / (loss) for the period		**45**	21	(156)
Other comprehensive (losses) / income:				
Items that will never be reclassified to the income statement:				
Remeasurement (losses) / gains on employee pension schemes	7	**(266)**	455	178
Refinement of the derecognition of pension surplus attributable to The Co-operative Bank	7	**-**	31	31
Related tax on items above	5	**45**	(83)	(36)
		(221)	403	173
Items that are or may be reclassified to the income statement:				
Gains less losses on fair value of insurance assets*		**8**	(5)	(8)
Fair value losses on insurance assets transferred to the income statement*		**-**	(1)	(1)
Related tax on items above	5	**(2)**	1	1
		6	(5)	(8)
Other comprehensive (losses) / income for the period net of tax		**(215)**	398	165
Total comprehensive (losses) / income for the period (all attributable to members of the Society)		**(170)**	419	9

* The results of our Insurance business are shown as discontinued operations in the tables above which is consistent with the financial statements for the 52 weeks ended 5 January 2019. The half-year comparative figures for the 26 weeks ended 7 July 2018 have been re-presented to reflect a similar classification. For more details on the re-presentation, refer to the general accounting policies section on page 43.

Condensed Consolidated Balance Sheet

as at 6 July 2019

What does this show? Our balance sheet is a snapshot of our financial position as at 6 July 2019. It shows the assets we have and the amounts we owe.

	Notes	**As at 6 July 2019 (unaudited) £m**	As at 7 July 2018 (unaudited) £m	As at 5 January 2019 (audited) £m
Non-current assets				
Property, plant and equipment		**2,005**	2,056	2,046
Right-of-use assets		**1,047**	-	-
Goodwill and intangible assets		**1,092**	1,014	1,071
Investment properties		**49**	45	42
Investments in associates and joint ventures		**3**	3	3
Other investments	12	**1,244**	1,711	1,223
Reinsurance contracts		**-**	47	-
Derivatives		**-**	31	27
Pension assets	7	**1,747**	2,238	1,984
Trade and other receivables		**142**	66	81
Contract assets (funeral plans)		**51**	34	47
Reclaim Fund assets		**202**	221	209
Total non-current assets		**7,582**	7,466	6,733
Current assets				
Inventories		**446**	433	458
Trade and other receivables		**596**	721	537
Contract assets (funeral plans)		**4**	3	4
Cash and cash equivalents		**207**	480	282
Assets held for sale	8	**1,125**	12	1,113
Other investments	12	**-**	300	-
Reinsurance contracts		**-**	15	-
Reclaim Fund assets		**446**	470	410
Total current assets		**2,824**	2,434	2,804
Total assets		**10,406**	9,900	9,537
Non-current liabilities				
Interest-bearing loans and borrowings	9	**982**	1,072	976
Lease liabilities*	9	**1,270**	15	28
Trade and other payables		**176**	77	214
Contract liabilities (funeral plans)		**1,390**	1,279	1,353
Provisions		**126**	222	215
Derivatives		**1**	-	-
Pension liabilities	7	**103**	136	125
Deferred tax liabilities	5	**104**	267	225
Insurance contracts		**-**	295	-
Reclaim Fund liabilities		**502**	464	473
Total non-current liabilities		**4,654**	3,827	3,609
Current liabilities				
Overdrafts		**-**	4	-
Interest-bearing loans and borrowings	9	**42**	96	66
Lease liabilities*	9	**183**	-	4
Income tax payable		**8**	-	8
Trade and other payables		**1,529**	1,679	1,449
Contract liabilities (funeral plans)		**139**	127	132
Provisions		**70**	91	82
Liabilities held for sale	8	**1,046**	-	1,045
Insurance contracts		**-**	444	-
Reclaim Fund liabilities		**73**	153	73
Total current liabilities		**3,090**	2,594	2,859
Total liabilities		**7,744**	6,421	6,468
Equity				
Members' share capital		**73**	73	73
Retained earnings		**2,497**	3,315	2,910
Other reserves		**92**	91	86
Total equity		**2,662**	3,479	3,069
Total equity and liabilities		**10,406**	9,900	9,537

* The Group has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 43.

Condensed Consolidated Statement of Changes in Equity

for the 26 weeks ended 6 July 2019

What does this show? Our statement of changes in equity shows how our net assets have changed during the year.

For the 26 weeks ended 6 July 2019 (unaudited)	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 7 January 2019 (as originally reported)		**73**	**2,910**	**86**	**3,069**
Impact of adoption of IFRS 16 on opening reserves as at 7 January 2019*		**-**	**(284)**	**-**	**(284)**
Tax on impact of IFRS 16 on reserves as at 7 January 2019	5	**-**	**47**	**-**	**47**
Balance at 7 January 2019 (after impact of IFRS 16)		**73**	**2,673**	**86**	**2,832**
Profit for the period		**-**	**45**	**-**	**45**
Other comprehensive losses:					
Remeasurement losses on employee pension schemes	7	**-**	**(266)**	**-**	**(266)**
Gains less losses on fair value of insurance assets		**-**	**-**	**8**	**8**
Tax on items taken directly to other comprehensive income	5	**-**	**45**	**(2)**	**43**
Total other comprehensive losses		**-**	**(221)**	**6**	**(215)**
Balance at 6 July 2019		**73**	**2,497**	**92**	**2,662**

For the 26 weeks ended 7 July 2018 (unaudited)	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 6 January 2018		73	2,886	101	3,060
Profit for the period		-	21	-	21
Other comprehensive income:					
Remeasurement gains on employee pension schemes	7	-	455	-	455
Refinement of derecognition of pension surplus attributable to The Co-operative Bank	7	-	31	-	31
Gains less losses on fair value of insurance assets		-	-	(5)	(5)
Fair value losses on insurance assets transferred to the income statement		-	-	(1)	(1)
Tax on items taken directly to other comprehensive income	5	-	(83)	1	(82)
Total other comprehensive income		-	403	(5)	398
Revaluation reserve recycled to retained earnings			5	(5)	-
Balance at 7 July 2018		73	3,315	91	3,479

For the 52 weeks ended 5 January 2019 (audited)	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 6 January 2018		73	2,886	101	3,060
Loss for the period		-	(156)	-	(156)
Other comprehensive income:					
Remeasurement gains on employee pension schemes	7	-	178	-	178
Refinement of derecognition of pension surplus attributable to The Co-operative Bank	7	-	31	-	31
Gains less losses on fair value of insurance assets		-	-	(8)	(8)
Fair value losses on insurance assets transferred to the income statement		-	-	(1)	(1)
Tax on items taken directly to other comprehensive income	5	-	(36)	1	(35)
Total other comprehensive income		-	173	(8)	165
Revaluation reserve recycled to retained earnings		-	7	(7)	-
Contributions by and distributions to members:					
Shares issued less shares withdrawn		-	-	-	-
Contributions by and distributions to members:		-	-	-	-
Balance at 7 January 2019		73	2,910	86	3,069

* The Group has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 43.

Condensed Consolidated Statement of Cash Flows

for the 26 weeks ended 6 July 2019

What does this show? Our statement of cash flows shows the cash coming in and out during the year. It splits the cash by type of activity - showing how we've generated cash and then how we've spent it.

	Notes	**As at 6 July 2019 (unaudited) £m**	As at 7 July 2018 (unaudited) £m	As at 5 January 2019 (audited) £m
Net cash from operating activities	10	**251**	255	313
Cash flows from investing activities				
Purchase of property, plant and equipment		**(154)**	(162)	(335)
Purchase of intangible assets		**(35)**	-	(50)
Proceeds from sale of property, plant and equipment		**13**	41	81
Acquisition of businesses, net of cash acquired		**(30)**	(24)	(29)
Net cash used in investing activities		**(206)**	(145)	(333)
Cash flows from financing activities				
Interest paid on borrowings		**(36)**	(12)	(63)
Interest paid on lease liabilities (2018: Interest paid on finance lease liabilities)		**(39)**	-	-
Interest received on subleases		**2**	-	-
Interest received on deposits		**-**	-	1
Issue / (repayment) of corporate investor shares	9	**5**	(3)	(2)
Repayment of borrowings	9	**(328)**	(14)	(34)
Proceeds from new borrowings	9	**300**	-	-
Settlement of interest rate swaps		**27**	-	-
Payment of lease liabilities (2018: Payment of finance lease liabilities)		**(53)**	(2)	(5)
Net cash used in financing activities		**(122)**	(31)	(103)
Net (decrease) / increase in cash and cash equivalents		**(77)**	79	(123)
Net cash and overdraft balances transferred to held for sale		**2**	-	8
Cash and cash equivalents at beginning of period		**282**	397	397
Cash and cash equivalents at end of period		**207**	476	282
Analysis of cash and cash equivalents				
Overdrafts per balance sheet		**-**	(4)	-
Cash and cash equivalents per balance sheet		**207**	480	282
		207	476	282

Included in the above are cashflows from discontinued operations. An analysis of these can be found in note 6.

Group Net Debt	Notes	**As at 6 July 2019 (unaudited)**	As at 7 July 2018 (unaudited)	As at 5 January 2019 (audited)
Interest-bearing loans and borrowings:				
- current		**(42)**	(96)	(66)
- non-current		**(982)**	(1,072)	(976)
Total Interest-bearing loans and borrowings		**(1,024)**	(1,168)	(1,042)
Lease liabilities:*				
- current		**(183)**	-	(4)
- non-current		**(1,270)**	(15)	(28)
Total lease liabilities		**(1,453)**	(15)	(32)
Total Debt		**(2,477)**	(1,183)	(1,074)
- Group cash		**207**	480	282
- Overdrafts		**-**	(4)	-
Group Net Debt		**(2,270)**	(707)	(792)
Add back fair value / amortised cost adjustment	9	**33**	71	46
Group Net Debt (pre fair value / amortised cost adjustment)	9	**(2,237)**	(636)	(746)
Group Net Debt (interest bearing loans and borrowings only)		**(817)**	(692)	(760)
Add back fair value / amortised cost adjustment	9	**33**	71	46
Group Net Debt (interest bearing loans and borrowings only and pre fair value / amortised cost adjustment)	9	**(784)**	(621)	(714)

*The Group has initially applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 43.

Notes to the interim financial statements

1 Operating segments

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

26 weeks ended 6 July 2019 (unaudited)	**Revenue from external customers £m**	***Underlying segment operating profit (b) £m**	**One-off items (b) (i) £m**	**Property and business disposals (b) (ii) £m**	**Change in value of investment properties £m**	**Operating profit £m**
Food	**3,726**	**120**	**-**	**(6)**	**-**	**114**
Wholesale	**703**	**(2)**	**-**	**-**	**-**	**(2)**
Funeral and Life Planning	**163**	**13**	**-**	**(1)**	**-**	**12**
Other businesses (d)	**11**	**(6)**	**-**	**(1)**	**-**	**(7)**
Federal (e)	**786**	**-**	**-**	**-**	**-**	**-**
Costs from supporting functions	**-**	**(61)**	**7**	**4**	**11**	**(39)**
Total	**5,389**	**64**	**7**	**(4)**	**11**	**78**

26 weeks ended 7 July 2018 (unaudited and re-presented) (a)	Revenue from external customers £m	*Underlying segment operating profit (b) £m	One-off items (b) (i) £m	Property and business disposals (b) (ii) £m	Change in value of investment properties £m	Operating profit £m
Food	3,607	80	-	(2)	-	78
Wholesale	269	(5)	-	-	-	(5)
Funeral and Life Planning	174	28	-	(1)	-	27
Other businesses (d)	28	(2)	-	-	-	(2)
Federal (e)	751	-	-	-	-	-
Costs from supporting functions	-	(51)	19	(23)	11	(44)
Total	4,829	50	19	(26)	11	54

52 weeks ended 5 January 2019 (audited)	Revenue from external customers £m	*Underlying segment operating profit (b) £m	One-off items (b) (i) £m	Property and business disposals (b) (ii) £m	Change in value of investment properties £m	Operating profit £m
Food	7,274	204	-	(18)	-	186
Wholesale	983	(11)	-	-	-	(11)
Funeral and Life Planning	317	25	-	(6)	-	19
Other businesses (d)	56	(4)	-	(8)	-	(12)
Federal (e)	1,532	-	-	-	-	-
Costs from supporting functions	-	(107)	9	(22)	38	(82)
Total	10,162	107	9	(54)	38	100

* The Group has initially applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of the IFRS 16 (Leases), refer to the general accounting policies section on page 43. To further help the reader then we've also included additional tables in 'Our financial performance' section (page 17) showing 2019 results on both a reported basis (prepared under IFRS 16) and a like-for-like with 2018 (excluding IFRS 16).

a) In-line with our 2018 year-end accounts the results of our Insurance business have been classified as discontinued operations as the proposed sale of CISGIL was highly probable at the year-end and half-year date. As such the results of our Insurance business are no longer shown in the tables above and instead are shown in the Discontinued Operations line at the bottom of the Consolidated income statement. The assets and liabilities have also been remeasured at fair value less costs to sell and are shown separately in the balance sheet in Held for sale. See note 6 (Loss on discontinued operations, net of tax) for further details.

b) Underlying segment operating profit is a non-GAAP measure of segment operating profit before the impact of property and business disposals (including individual store impairments), the change in the value of investment properties and one-off costs. The difference between underlying segment operating profit and operating profit includes:

i) One-off items representing a £7m gain relates to a reduction in the deferred consideration originally recognised following the Nisa acquisition in 2018. Prior period figures included a gain of £20m in relation to past service pension costs (retirement discretion credit) and £1m (2017: £nil) of costs relating to Bank separation activity.

ii) Losses from property and business disposals of £4m (2018: £26m loss) - see table on page 29 for further details.

1 Operating segments continued

c) Transactions between operating segments excluded from the above analysis are £nil (2018: £3m) sales of electrical goods by Co-op Electrical to Food and £1m (2018: £1m) sales of legal cover on insurance policies by Legal Services to Insurance.

d) The 'Other Businesses' segment includes activities which are not reportable per IFRS 8. This mainly comprises the results of Co-op Electrical. As announced at the 2018 year end Co-op Electrical ceased trading in the second quarter of 2019.

e) Federal relates to the activities of a joint buying group that is operated by the Group for other independent co-operative societies. This is run on a cost recovery basis and therefore no profit is derived from its activities.

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

	Notes	**26 weeks ended 6 July 2019 (unaudited) £m**	26 weeks ended 7 July 2018 (unaudited & re-presented*) £m	52 weeks ended 5 January 2019 (audited) £m
Underlying segment operating profit **		**64**	50	107
Underlying interest payable	4	**(33)**	(32)	(64)
Net interest expense on leases	3, 4	**(37)**	-	-
Underlying (loss) / profit before tax		**(6)**	18	43
One-off items		**7**	19	9
Loss on property, business disposals and closures (see below)		**(4)**	(26)	(54)
Change in value of investment properties		**11**	11	38
Finance income (excluding any lease interest shown net above)	3	**27**	33	78
Non-cash finance costs	4	**(10)**	(11)	(21)
Profit before tax		**25**	44	93

* In-line with our 2018 year-end accounts then the results of our Insurance business have been classified as discontinued operations following the announcement of the proposed sale of CISGIL. As such the results of our Insurance business are no longer shown in the table above and instead are shown in the Discontinued Operations line at the bottom of the Consolidated income statement. For more details on the re-presentation, refer to the general accounting policies section on page 43.

** The Group has initially applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 43. To further help the reader then we've also included additional tables in 'Our financial performance' section (page 17) showing 2019 results on both a reported basis (prepared under IFRS 16) and a like-for-like with 2018 (excluding IFRS 16).

Losses from property, business disposals and closures	**26 weeks ended 6 July 2019 (unaudited)**		26 weeks ended 7 July 2018 (unaudited)		52 weeks ended 5 January 2019 (audited)	
	£m	**£m**	£m	£m	£m	£m
Disposals, closures and onerous contracts						
- proceeds	**12**		41		77	
- less net book value written off	**(15)**		(40)		(77)	
- provisions recognised	**(1)**		(21)		(42)	
		(4)		(20)		(42)
Impairment of property, plant and equipment, right-of-use assets and goodwill		**-**		(6)		(12)
Loss on disposal		**(4)**		(26)		(54)

Notes to the interim financial statements continued

2 Supplier income

What does this show? Sometimes our suppliers give us money back based on the amount of their products we buy and sell. This note shows the different types of income we've received from our suppliers based on the contracts we have in place with them. This income is taken off operating expenses in the income statement.

	26 weeks ended 6 July 2019 (unaudited) £m	26 weeks ended 7 July 2018 (unaudited) £m	52 weeks ended 5 January 2019 (audited) £m
Food - Long-term agreements	**64**	67	142
Food - Bonus income	**55**	58	142
Food - Promotional income	**155**	156	325
Total Food supplier income	**274**	281	609
Wholesale - supplier income*	**31**	-	45
Total Supplier income	**305**	281	654

*Supplier income in Wholesale relates to Nisa following acquisition on 8 May 2018. As such comparative figures for the 26 weeks ended 7 July 2018 have not been disclosed.

Percentage of Cost of Sales before deducting Supplier Income	**%**	%	%
Food - Long-term agreements	**2.2%**	2.4%	2.5%
Food - Bonus income	**1.9%**	2.0%	2.5%
Food - Promotional income	**5.5%**	5.5%	5.7%
Total Food supplier income %	**9.6%**	9.9%	10.7%
Total Wholesale supplier income %	**4.6%**	-	4.9%

All figures exclude any income or purchases made as part of the Federal joint buying group.

3 Finance income

What does this show? Finance income arises from the interest earned on our pension scheme and interest from finance lease receivables which have been discounted. We also include the movement in the fair value of some elements of our debt and our interest rate swap positions (which are used to manage risks from interest rate movements) if these are gains. If they are losses, they are included in Finance costs (see note 4).

	26 weeks ended 6 July 2019 (unaudited) £m	26 weeks ended 7 July 2018 (unaudited) £m	52 weeks ended 6 January 2019 (audited) £m
Net pension finance income	**27**	21	41
Underlying interest income from finance lease receivables	**2**	-	-
Fair value movement on quoted debt	**-**	12	37
Total finance income	**29**	33	78

4 Finance costs

What does this show? Our main finance cost is the interest that we've paid during the year on the bank borrowings that help fund the business. Other finance costs include the non-cash charge we incur each year on long-term provisions as the payout moves one year closer (the discount unwind) and the impact of unwinding the discounted lease liability. We also include the movement in the fair value of some elements of our debt and our interest rate swap positions (which are used to manage risks from interest rate movements) if these are losses. If they are gains, they are included in Finance income (see note 3).

	26 weeks ended 6 July 2019 (unaudited)	26 weeks ended 7 July 2018 (unaudited & re-presented*)	52 weeks ended 5 January 2019 (audited)
	£m	£m	£m
Loans repayable within five years	**(15)**	(12)	(28)
Loans repayable wholly or in part after five years	**(18)**	(20)	(36)
Underlying loan interest payable	**(33)**	(32)	(64)
Fair value movement on quoted debt	**(1)**	-	-
Fair value movement on interest rate swaps	**(1)**	(7)	(11)
Underlying interest expense on lease liabilities	**(39)**	-	-
Non-underlying finance interest	**(8)**	(4)	(10)
Other finance costs	**(49)**	(11)	(21)
Total finance costs	**(82)**	(43)	(85)

* See general accounting policies section on page 43 for details of the representation.

5 Taxation

What does this show? This note shows the tax charge recognised at half year. This is calculated in four parts based on (i) the forecast effective tax rate for the full year applied to our underlying half year trading results (excluding the tax impact of any material transactions) (ii) material transactions reflected in the half year results (iii) recognition of the full impact of enquiries concluded by HMRC in the first half of the year and (iv) an adjustment in respect of revised estimates used to calculate the timing of when deferred tax charges arise.

The tax credit in respect of continuing operations of £26m (2018: charge of £9m) and effective tax rate of 107% (2018: 20%) relates to:

1. A review of the effective tax rate for the full year has been applied to the underlying trading results (excluding recurring net pension credits taken to the income statement) - this results in a tax credit of £2m.
2. A review of material transactions reflected in the year gave rise to a further tax charge of £7m. These mainly relate to gains on property disposals and pension credits taken through the income statement.
3. HMRC have not raised any further enquiries in the first half of the year, as such the uncertain tax risk provision for existing enquiries has remained unchanged from the 2018 year end.
4. The Society has reviewed its method of determining the temporary differences arising in respect of accelerated tax depreciation on its fixed assets and as a result has revised the estimation techniques previously used therein. As a result of this we have reinstated deferred tax assets on the balance sheet previously charged to the income statement. The cumulative impact of this is a credit to the income statement of £31m. This balance will then be released to the income statement in future years in line with the revised method and as such solely represents a timing impact. This is the main driver for the effective tax rate.

A credit of £45m has been posted to other comprehensive income in respect of the actuarial movement arising on the pension fund. A credit of £47m has been posted to opening reserves arising from the adoption of IFRS 16 and more information about this is provided in the general accounting policies section on page 43.
The net deferred tax liability of the Group at half year is £111m (2018: £230m) and the corporation tax creditor for continuing operations is £8m.
The Group does not expect to be tax-paying in respect of their full year results due to the availability of losses arising in the current year for discontinued operations and brought forward tax losses and allowances. Deferred taxes in respect of brought forward tax losses and allowances are fully recognised and offset against deferred tax liabilities. A reconciliation of the opening deferred tax balance to the closing balance is set out below:

Movements in deferred tax in period to 6 July 2019	**26 weeks ended 6 July 2019 (unaudited)**
	£m
At beginning of the year (net liability)*	**230**
Charged to opening reserves:	
Impact of adoption of IFRS 16	**(47)**
Income statement credit	**(29)**
Charged to equity:	
Employee pension schemes	**(45)**
Insurance assets	**2**
At end of period (net liability)*	**111**

*Of the total net liability £7m (2018: £5m) is classed as Held for sale (see note 8 and note 6).

Notes to the financial statements continued

6 Loss on discontinued operation, net of tax

What does this show? We classify any of our business segments as discontinued operations if they have been disposed of during the year or if they are held for sale at the balance sheet date (which means they are most likely to be sold within a year). This note shows the operating result for these segments as well as the profit or loss on disposal.

Discontinued operation - Insurance

Co-op Insurance has been classified as a discontinued operation in 2018 and 2019 as the sale of the business was highly probable at the year end and half-year date. The assets and liabilities have been remeasured at fair value less costs to sell and are shown separately in the balance sheet. The result for Co-op Insurance is shown in a separate line at the bottom of the consolidated income statement under Discontinued Operations and includes the charge resulting from remeasuring the assets and liabilities of the business to fair value less costs to sell.

On 18 January 2019 the Co-op announced it had exchanged contracts for the sale of its insurance underwriting business (CIS General Insurance Limited) to Markerstudy. The deal includes a 13 year agreement with Markerstudy to distribute motor and home insurance products.

The deal is subject to regulatory approval and is expected to complete during the second half of 2019. After the sale the Co-op will focus on marketing and distributing insurance products instead of underwriting them and the performance will be reported as a separate operating segment. Markerstudy have committed to paying £150m of cash at the point of disposal and £35m of deferred consideration over 3 years and 6 months. Of the £185m of income expected from Markerstudy at the point of disposal, £101m will be allocated against assets and liabilities of the disposal group and included in arriving at the remeasurement charge of £207m as noted in the prior year on initial recognition. The remaining £84m will be included as deferred income (as required by IFRS 3 paragraph 52) because the Co-op Group will be being remunerated for future services. Post sale the Co-op Group will provide marketing and distribution services for Markerstudy.

The calculation of assets held for sale includes incremental costs to sell. After selling the group (providing regulatory approval is received) further costs may be incurred in a transitional period of migration and co-operation with Markerstudy.

Results of discontinued operation - Insurance	**26 weeks ended 6 July 2019 (unaudited) £m**	26 weeks ended 7 July 2018 (unaudited) £m	52 weeks ended 5 January 2019 (audited) £m
Revenue	**162**	160	323
Operating expenses	**(187)**	(205)	(410)
Other income	**14**	31	67
Remeasurement adjustments recognised in arriving at fair value less costs to sell	**6**	-	(207)
Operating loss from discontinued operation	**(5)**	(14)	(227)
Finance costs	**(4)**	(4)	(9)
Loss before tax from results of discontinued operation	**(9)**	(18)	(236)
Tax - relating to the pre-tax loss on discontinued operation	**3**	4	6
Loss for the period from discontinued operation	**(6)**	(14)	(230)

Segmental analysis - Insurance	**26 weeks ended 6 July 2019 (unaudited) £m**	26 weeks ended 7 July 2018 (unaudited) £m	52 weeks ended 5 January 2019 (audited) £m
Revenue from external customers	**162**	160	323
Underlying segment operating loss	**(3)**	(5)	(1)
Operating loss	**(5)**	(14)	(227)

Notes to the interim financial statements continued

6 Loss on discontinued operations, net of tax continued

Co-op Insurance has been classified as a disposal group that is held for sale at the balance sheet date. The assets and liabilities of Insurance are recorded at fair value less costs to sell. Any remeasurements that have been identified have been attributed to relevant assets and liabilities in accordance with IFRS 5.

Disposal group at fair value less costs to sell	As at 6th July 2019 (unaudited)	As at 5th January 2019 (audited)
	£m	£m
Non-current assets		
Other investments (Insurance assets)	**478**	449
Reinsurance assets	**39**	34
Current assets		
Trade and other receivables	**220**	206
Other investments (Insurance assets)	**327**	382
Reinsurance assets	**28**	20
Current tax assets	**8**	8
Total Insurance assets classified as held for sale	**1,100**	1,099
Non-current liabilities		
Interest-bearing loans and borrowings	**68**	68
Insurance contract liabilities	**307**	362
Deferred tax liabilities	**5**	3
Current liabilities		
Insurance contract liabilities	**424**	373
Other payables and provisions	**230**	229
Overdrafts	**10**	8
Total Insurance liabilities classified as held for sale	**1,044**	1,043
Net assets of disposal group classified as held for sale	**56**	56

IFRS 5 exempts certain assets and liabilities from the requirement for re-measurement and this includes the Insurance assets noted in the table above in Other investments. A re-measurement adjustment of £169m (£175m as at 5 January 2019) is required to write down the disposal group to its overall fair value less costs to sell and has been reflected as a provision in the other payables and provisions line. The decrease in the remeasurement adjustment in the period of £6m is shown within discontinued operations in the income statement. The closing carrying value of the net assets of the disposal group is therefore recorded at fair value less costs to sell of £56m (£56m as at 5th January 2019) in the above table. This £56m fair value is comprised of £101m (£101m as at 5th January 2019) of expected sales proceeds from the sale of Co-op insurance less costs to sell of £43m (£43m as at 5th January 2019) and the impact on discounting deferred consideration of £2m (£2m as at 5th January 2019). The costs to sell of £43m (£43m as at 5th January 2019) include legal and professional costs and necessary IT migration costs.

The table below shows a summary of the cash flows of discontinued operations:

	26 weeks ended 6 July 2019 (unaudited)	26 weeks ended 7 July 2018 (unaudited)	52 weeks ended 5 January 2019 (audited)
	£m	£m	£m
Cash flows used in discontinued operations:			
Net cash used in operating activities	**(8)**	(4)	(6)
Net cash used in financing activities	**(4)**	-	(8)
Net cash used in discontinued operations	**(12)**	(4)	(14)

Notes to the interim financial statements continued

7 Pensions

What does this show? This note shows the net position (either a surplus or a deficit) for all of the Group's defined benefit (DB) pension schemes and the key assumptions that our actuaries have used to value the Pace scheme as well as showing how the total net position has changed during the period.

	6 July 2019 (unaudited) £m	7 July 2018 (unaudited) £m	5 January 2019 (audited) £m
Pension schemes in surplus	**1,747**	2,238	1,984
Pension schemes in deficit	**(103)**	(136)	(125)
Closing net retirement benefit	**1,644**	2,102	1,859

The Group operates a number of defined benefit (DB) pension schemes, the assets of which are held in separate trustee-administered funds for the benefit of its employees and former employees. The Group also provides pension benefits through defined contribution (DC) arrangements.

The main DB pension scheme for the Group is the Pace scheme which closed to future service accrual on 28 October 2015. The actuarial valuations for the Pace scheme have been updated to 6 July 2019 in accordance with IAS 19. Valuations for the Somerfield, United, Plymouth and Yorkshire schemes have also been updated for the 2019 interim financial statements.

	6 July 2019 (unaudited)	7 July 2018 (unaudited)	5 January 2019 (audited)
The principal assumptions used to determine the liabilities of the Pace pension scheme were:			
Discount rate	**2.22%**	2.91%	3.02%
RPI Inflation rate	**3.38%**	3.33%	3.46%
Pension increases in payment (RPI capped at 5.0% p.a.)	**3.29%**	3.18%	3.55%
Future salary increases	**3.63%**	3.58%	3.71%

	6 July 2019 (unaudited) £m	7 July 2018 (unaudited) £m	5 January 2019 (audited) £m
Opening net retirement benefit attributable to Group	**1,859**	1,553	1,553
Admin expenses paid from plan assets	**(2)**	(2)	(5)
Past service items	**-**	20	11
Net finance income	**27**	21	41
Employer contributions	**26**	24	50
Remeasurement (losses) / gains	**(266)**	455	178
Refinement of pension surplus attributable to Co-operative Bank	**-**	31	31
Closing net retirement benefit	**1,644**	2,102	1,859

Notes to the interim financial statements continued

7 Pensions continued

Amounts recognised in the balance sheet:	6 July 2019 (unaudited) £m	7 July 2018 (unaudited) £m	5 January 2019 (audited) £m
Fair value of plan assets:			
- Pace	**9,092**	8,611	8,353
- Somerfield Scheme	**1,006**	1,099	1,069
- Other schemes	**865**	853	849
Total assets	**10,963**	10,563	10,271
Present value of liabilities:			
- Pace	**(7,456)**	(6,567)	(6,532)
- Somerfield Scheme	**(895)**	(905)	(906)
- Other schemes	**(968)**	(989)	(974)
Total liabilities	**(9,319)**	(8,461)	(8,412)
Net retirement benefit asset per balance sheet:			
Pace	**1,636**	2,044	1,821
Somerfield Scheme	**111**	194	163
Total assets	**1,747**	2,238	1,984
Other schemes	**(103)**	(136)	(125)
Total Liabilities	**(103)**	(136)	(125)
Net Asset	**1,644**	2,102	1,859

Other schemes comprise the United Fund, the Plymouth Fund and the Yorkshire Fund.

The present value of unfunded liabilities recognised in the balance sheet is £6m (as at 7 July 2018 and 5 January 2019: £6m).
In January 2019, the Trustee of the Somerfield Pension Scheme entered into a pension insurance buy-in contract with Pensions Insurance Corporation (PIC).
As a result of the transaction, the scheme will receive regular payments from PIC to fund pension payments into the future.
The methodology to value this insurance asset has resulted in a £55m decrease in the surplus of the Somerfield scheme in the period.

8 Assets and liabilities held for sale

What does this show? This shows the value of any assets or liabilities that we hold for sale at the year end (these generally relate to properties or businesses that we plan to sell soon). When this is the case, our balance sheet shows those assets and liabilities separately as held for sale.

Assets held for sale	6 July 2019 (unaudited) £m	7 July 2018 (unaudited) £m	5 January 2019 (audited) £m
(a) Discontinued operation - Insurance (see note 6)	**1,100**	-	1,099
(b) Other assets held for sale (see below)	**25**	12	14
Total	**1,125**	12	1,113
Liabilities held for sale			
(a) Discontinued operation - Insurance (see note 6)	**1,044**	-	1,043
(b) Other liabilities held for sale (see below)	**2**	-	2
Total	**1,046**	-	1,045

(a) Discontinued operation - Insurance

Co-op Insurance has been classified as a discontinued operation as at 6th July 2019 and as at 5 January 2019 as the sale of the business was highly probable at the half-year and year-end date respectively. The assets and liabilities have been remeasured at fair value less costs to sell and are shown separately in the balance sheet. Further detail is given in note 6 (Loss on discontinued operations, net of tax) including a line-by-line balance sheet detailing the impact of the remeasurement adjustments to fair value less costs to sell and the carrying value of all insurance assets and liabilities held for sale.

(b) Other assets and liabilities classified as held for sale are below:

	6 July 2019 (unaudited) £m	7 July 2018 (unaudited) £m	5 January 2019 (audited) £m
Property, plant and equipment	**10**	12	9
Investment Properties	**12**	-	5
Goodwill	**3**	-	-
Total assets	**25**	12	14
Deferred tax liabilities	**2**	-	2
Total liabilities	**2**	-	2

Notes to the interim financial statements continued

9 Interest-bearing loans and borrowings

What does this show? This note gives information about the terms of our interest-bearing loans. This includes information about their value, interest rate and repayment terms and timings. Details are also given about other borrowings and funding arrangements such as corporate investor shares and our leases. All items are split between those that are due to be repaid within one year (current) and those which won't fall due until after more than one year (non-current).

For a breakdown of IFRS 13 level hierarchies (which reflect different valuation techniques) in relation to these borrowings, see note 12.

	As at 6 July 2019 (unaudited) £m	As at 7 July 2018 (unaudited) £m	As at 5 January 2019 (audited) £m
Non-current liabilities:			
£11m 6.875% Eurobond Notes due 2020 (fair value)***	**12**	309	296
£165m 6.875% Eurobond Notes due 2020 (amortised cost)	**168**	170	169
£105m 7.5% Eurobond Notes due 2026 (fair value)	**117**	126	115
£245m 7.5% Eurobond Notes due 2026 (amortised cost)	**263**	266	264
£300m 5.125% Sustainability Bond due 2024 (amortised cost)***	**299**	-	-
£109m 11% final repayment subordinated notes due 2025	**109**	109	109
£16m Instalment repayment notes (final payment 2025)	**14**	15	14
£10m 2.57% Nisa bank term loan (facility expires 2021)	**-**	9	9
£70m 12% Financial Services Callable Dated Deferrable Tier Two Notes due 2025**	**-**	68	-
Total (excluding lease liabilities)	**982**	1,072	976
Lease liabilities (2018: Finance lease liabilities)*	**1,270**	15	28
Total Group interest-bearing loans and borrowings	**2,252**	1,087	1,004

* The Group has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 43.

** Debt relating to CISGIL has been transferred to held for sale (see note 6) as at 6 July 2019 and 5 January 2019.

*** The Group issued a £300m Sustainability bond in May 2019. The bond is repayable in May 2024 and has an interest rate of 5.125%. The Co-operative Group Limited also completed a tender offer in May 2019 on the 2020 6.875% bond. This saw the Group buy back £274m (of the principal balance of £285m) from bond holders for cash consideration of £290m.

	As at 6 July 2019 (unaudited) £m	As at 7 July 2018 (unaudited) £m	As at 5 January 2019 (audited) £m
Current liabilities:			
£165m 6.875% Eurobond Notes due 2020 (amortised cost) - interest accrued	**11**	10	5
£245m 7.5% Eurobond Notes due 2026 (amortised cost) - interest accrued	**17**	16	8
£300m 5.125% Sustainability Bond due 2024 (amortised cost) - interest accrued	**2**	-	-
£21m 8.875% First Mortgage Debenture Stock 2018	**-**	21	-
£16m Instalment repayment notes (final payment 2025)	**1**	1	1
£110m Nisa asset backed invoice discounting facility	**-**	43	31
£355m Syndicate revolving credit facility drawdown	**-**	-	15
Corporate investor shares	**11**	5	6
Total (excluding lease liabilities)	**42**	96	66
Lease liabilities (2018: Finance lease liabilities)*	**183**	-	4
Total Group interest-bearing loans and borrowings	**225**	96	70

* The Group has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the general accounting policies section on page 43.

Notes to the interim financial statements continued

9 Interest-bearing loans and borrowings continued

Reconciliation of movement in net debt

Net debt is a measure that shows the amount we owe to banks and other external financial institutions less our cash and short-term deposits.

For 26 weeks ended 6 July 2019 (unaudited)	Start of period	Impact on adoption of IFRS 16	Acquisition of Subsidiary	Non cash movements	Cash flow	End of period
	£m	£m	£m	£m	£m	£m
Interest-bearing loans and borrowings:						
- current	(66)	-	-	(19)	43	(42)
- non-current	(976)	-	-	9	(15)	(982)
Lease liabilities						
- current	(4)	(177)	-	(55)	53	(183)
- non-current	(28)	(1,273)	-	31	-	(1,270)
Total Debt	(1,074)	(1,450)	-	(34)	81	(2,477)
Group cash:						
- cash & overdrafts	282	-	-	2	(77)	207
Group Net Debt	(792)	(1,450)	-	(32)	4	(2,270)
Comprised of:						
Trading Group Debt	(1,074)	(1,450)	-	(34)	81	(2,477)
Trading Group Cash	214	-	-	2	(27)	189
Trading Group Net Debt	(860)	(1,450)	-	(32)	54	(2,288)
Co-operative Banking Group cash and overdrafts	68	-	-	-	(50)	18
Group Net Debt	(792)	(1,450)	-	(32)	4	(2,270)
Less fair value / amortised cost adjustment	46	-	-	(13)	-	33
Group Net Debt before fair value / amortised cost adjustment	(746)	(1,450)	-	(45)	4	(2,237)

For 26 weeks ended 7 July 2018 (unaudited)	Start of period	Impact on adoption of IFRS 16	Acquisition of Subsidiary	Non cash movements	Cash flow	End of period
	£m	£m	£m	£m	£m	£m
Interest-bearing loans and borrowings:						
- current	(32)	-	(57)	(26)	19	(96)
- non-current	(1,130)	-	(9)	67	-	(1,072)
Lease liabilities						
- current	(2)	-	-	-	2	-
- non-current	(8)	-	-	-	(7)	(15)
Total Debt	(1,172)	-	(66)	41	14	(1,183)
Group cash:						
- cash	403	-	1	-	76	480
- overdraft	(6)	-	-	-	2	(4)
Group Net Debt	(775)	-	(65)	41	92	(707)
Comprised of:						
Trading Group Debt	(1,104)	-	(66)	41	14	(1,115)
Trading Group Cash	314	-	1	-	63	378
Trading Group Net Debt	(790)	-	(65)	41	77	(737)
CISGIL debt and overdrafts	(74)	-	-	-	2	(72)
Co-operative Banking Group cash and overdrafts	89	-	-	-	13	102
Group Net Debt	(775)	-	(65)	41	92	(707)
Less fair value / amortised cost adjustment	138	-	-	(67)	-	71
Group Net Debt before fair value / amortised cost adjustment	(637)	-	(65)	(26)	92	(636)

Notes to the interim financial statements continued

9 Interest-bearing loans and borrowings continued

For 52 weeks ended 5 January 2019 (audited)	Start of period £m	Impact on adoption of IFRS 16 £m	Acquisition of Subsidiary £m	Non cash movements £m	Cash flow £m	End of period £m
Interest-bearing loans and borrowings:						
- current	(32)	-	(57)	(14)	37	(66)
- non-current	(1,130)	-	(9)	142	21	(976)
Lease liabilities						
- current	(2)	-	-	-	(2)	(4)
- non-current	(8)	-	-	-	(20)	(28)
Total Debt	(1,172)	-	(66)	128	36	(1,074)
Group cash:						
- cash	403	-	1	-	(122)	282
- overdraft	(6)	-	-	8	(2)	-
Group Net Debt	(775)	-	(65)	136	(110)	(792)
Comprised of:						
Trading Group Debt	(1,104)	-	(66)	60	36	(1,074)
Trading Group Cash	314	-	1	-	(101)	214
Trading Group Net Debt	(790)	-	(65)	60	(65)	(860)
CISGIL debt and overdrafts	(74)	-	-	76	(2)	-
Co-operative Banking Group cash and overdrafts	89	-	-	-	(21)	68
Group Net Debt	(775)	-	(65)	136	(88)	(792)
Less fair value adjustment	138	-	-	(92)	-	46
Group Net debt before fair value / amortised cost adjustment	(637)	-	(65)	44	(88)	(746)

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

What does this show? This note shows how our operating profit figure, as reported in the income statement, is reconciled to the net cash from operating activities as shown as the starting position in the cash flow statement. Non-cash items are added back to or deducted from the operating profit figure to show how much cash is generated from our operating activities.

Continuing Operations:	**26 weeks ended 6 July (unaudited) £m**	26 weeks ended 7 July 2018 (unaudited & restated*) £m	52 weeks ended 5 January 2019 (audited) £m
Operating profit from continuing operations	**78**	54	100
Depreciation and amortisation charges (excluding deferred acquisition costs)**	**189**	135	271
Non-current asset impairments	**-**	6	12
Loss on disposal of businesses and non-current assets	**4**	20	40
Change in fair value of investment properties	**(11)**	(11)	(38)
Non-cash gain in relation to past service pension costs	**-**	-	(11)
Retirement benefit obligations	**(23)**	(43)	(46)
Decrease / (increase) in inventories	**11**	5	(20)
Increase in receivables	**(29)**	(91)	(194)
Increase in contract assets (funeral plans)	**(5)**	(3)	(7)
Increase in contract liabilities (funeral plans)	**44**	111	206
Increase in payables and provisions	**1**	76	6
Net cash flow from operating activities (continuing operations)	**259**	259	319
Discontinued Operations:			
Operating loss (discontinued operations)	**(5)**	(14)	(230)
Remeasurement to fair value at cost to sell	**(6)**	-	207
Fair value through income statement	**26**	38	51
Fair value through other comprehensive income movement	**8**	(8)	(12)
Movement in deferred acquisition costs	**(1)**	-	1
Reinsurance assets	**(13)**	(4)	5
(Increase) / decrease in insurance and other receivables	**(13)**	2	-
Increase / (decrease) in insurance and participation contract provisions	**2**	(7)	(17)
Decrease in insurance and other payables	**(6)**	(11)	(11)
Net cash flow from operating activities (discontinued operations)	**(8)**	(4)	(6)
Net cash flow from operating activities	**251**	255	313

* See general accounting policies section on page 43 for details of the restatement.
** The charge for the 26 weeks ended 6th July 2019 includes £51m of depreciation in relation to right-of-use assets following the adoption of IFRS 16.

Notes to the interim financial statements continued

11 Commitments and contingent liabilities

What does this show? This note shows how the value of capital expenditure that we're committed to spending at the balance sheet date and provides an update on the contingent liabilities included in our 2018 annual report.

a) Capital expenditure not accrued for, but committed by the Group at 6 July 2019 was £13m (7 July 2018: £11m).

b) There are no significant changes to the contingent liabilities of the Group as disclosed in the 2018 annual report.

12 Financial instruments and fair values of financial assets and financial liabilities

What does this show? This note shows the value of investments that are held by our businesses, mainly in Funerals and Insurance, and also shows how our financial assets and liabilities are recorded.

Other investments as per the balance sheet:	**6 July 2019 (unaudited) £m**	7 July 2018 (unaudited) £m	5 January 2019 (audited) £m
Current	**-**	300	-
Non-current	**1,244**	1,711	1,223
Total Other Investments	**1,244**	2,011	1,223

Other investments held by the Group are as follows:	**6 July 2019 (unaudited) £m**	7 July 2018 (unaudited) £m	5 January 2019 (audited) £m
Fair value through income or expense:			
Funeral plan investments	**1,244**	1,170	1,223
Deposits with credit institutions (Insurance)*	**-**	174	-
Fair value through other comprehensive income:			
Listed debt securities (Insurance)*	**-**	667	-
Total Other Investments	**1,244**	2,011	1,223

*All insurance investments have been transferred to held for sale as at 6 July 2019 and 5 January 2019. See note 6 (Loss on discontinued operations, net of tax) for details.

Fair values of the Trading Group recognised in the balance sheet

The following table provides an analysis of the financial assets and liabilities of the Trading Group that are recognised at fair value. These are grouped into three levels based on the following valuation techniques:

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

Notes to the interim financial statements continued

12 Financial instruments and fair values of financial assets and financial liabilities continued

Fair values of the Trading Group recognised in the balance sheet continued

6 July 2019 (unaudited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through income or expense				
- Funeral plan investments	-	-	1,244	1,244
Total financial assets held at fair value	-	-	1,244	1,244
Liabilities				
Financial liabilities at fair value through income or expense				
- Fixed-rate sterling Eurobond	-	129	-	129
- Funeral plan liabilities	-	-	1,529	1,529
- Derivative financial instruments	-	1	-	1
Total financial liabilities held at fair value	-	130	1,529	1,659

There were no transfers between Levels 1 and 2 during the period and no transfers into and out of Level 3 fair value measurements. For other financial assets and liabilities of the Group including cash, trade and other receivables / payables then the notional amount is deemed to reflect the fair value.
The table above (and the comparative tables below) only show those funeral plan assets and liabilities that are "financial assets and liabilities". They don't include funeral plan assets in respect of instalment plans that are shown within debtors. The coverage of our funeral plan assets over plan liabilities as at the last actuarial valuation is shown in the table as at the end of this note and indicates we have headroom of over 12%.

7 July 2018 (unaudited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through income or expense				
- Funeral plan investments	-	-	1,170	1,170
- Derivative financial instruments	-	31	-	31
- Insurance investments*	-	174	-	174
Financial assets at fair value through other comprehensive income				
- Insurance investments*	-	667	-	667
Total financial assets held at fair value	-	872	1,170	2,042
Liabilities				
Financial liabilities at fair value through income or expense				
- Fixed-rate sterling Eurobond	-	435	-	435
- First mortgage debenture	-	21	-	21
- Funeral plan liabilities	-	-	1,406	1,406
Total financial liabilities held at fair value	-	456	1,406	1,862

5 January 2019 (audited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through income or expense				
- Funeral plan investments	-	-	1,223	1,223
- Derivative financial instruments	-	27	-	27
Total financial assets held at fair value	-	27	1,223	1,250
Liabilities				
Financial liabilities at fair value through income or expense				
- Fixed-rate sterling Eurobond	-	411	-	411
- Funeral plan liabilities	-	-	1,485	1,485
Total financial liabilities held at fair value	-	411	1,485	1,896

* All insurance investments have been transferred to held for sale as at 5 January 2019 and 6 July 2019. See note 6 (Loss on discontinued operations, net of tax) for details.

Notes to the interim financial statements continued

12 Financial instruments and fair values of financial assets and financial liabilities continued

Basis of valuation of Level 2 financial assets and liabilities:

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

Insurance investments (fair value through income or expense) - short term cash deposits and repo agreements are initially measured at fair value, being purchase price on the date our Insurance business (CISGIL) commits to the purchase. Directly attributable transactions costs are expensed immediately on recognition.
Insurance investments (fair value through other comprehensive income) - holdings in debt securities are initially measured at fair value, being purchase price on the date which CISGIL commits to purchase plus directly attributable transaction costs. Subsequent valuation is at fair value (based on clean bid prices at the balance sheet date without any deduction for transaction costs) with movements recognised in other comprehensive income as they arise. An effective interest rate for each holding is calculated on initial recognition and subsequently recognised in the income statement over the lifetime of the debt security. Where there is evidence of impairment, the extent of any impairment loss is recognised in the income statement. On disposal, gains or losses previously recognised in other comprehensive income are transferred to the income statement.

Eurobonds and debenture - on inception these drawn-down loan commitments were designated as financial liabilities at fair value through the income statement. The Group adopted IFRS 9 from 7 January 2018 and subsequently only £285m of the original par value of £450m 2020 notes and £105m of the original par value of £350m 2026 notes were designated as financial liabilities at fair value through the income statement. Fair values are determined in whole by using quoted market prices. The remaining Eurobonds are held at amortised cost using an effective interest rate. In May 2019, the Co-operative Group Limited completed a tender offer on the 2020 6.875% bond, purchasing £274m of the £285m principal balance from bond holders.

Basis of valuation of Level 3 financial assets and liabilities:

Funeral plans - when a customer takes out a funeral plan the initial plan value is recognised as an investment asset in the balance sheet and at the same time an equal liability is also recorded in the balance sheet representing the deferred income to be realised on performance of the funeral service covered by each of the funeral plans. The investments are held in insurance policies or cash-based trusts and attract interest and bonus payments throughout the year dependent upon market conditions. The plan investment is a financial asset, which is recorded at fair value each period through the income statement using valuations provided by the insurance policy provider or reflecting the trust cash balances. Under IFRS 15 any income or bonus payments attributable to the plan assets are not treated as finance income (in the income statement) as they do not reflect the completion of the performance obligation to perform the funeral for the customer. Instead these balances are held on the balance sheet as additional deferred income within Contract liabilities until the delivery of the funeral when they are recognised as revenue along with the original plan value. Where there is no active market or the investments are unlisted, the fair values are based on commonly-used valuation techniques. An analysis of the movement and reconciliation between the opening and closing balance is shown in the table below.

Funeral Plan Investments	**6 July 2019 (unaudited)**	7 July 2018 (unaudited)	5 January 2019 (audited)
	£m	£m	£m
At start of period	**1,223**	1,076	1,076
New plan purchases	**66**	99	126
Plans redeemed or cancelled	**(45)**	(69)	(71)
Interest and bonus applied	**-**	64	92
At end of period	**1,244**	1,170	1,223

The Group holds investments on the balance sheet in respect of funeral plan policies which are invested in either individual whole of life policies, trusts or life assurance products. The investments are subject to an annual actuarial valuation. The most recent valuation was performed as at 30 September 2018 and reported headroom on a wholesale basis of £120m (2017: £142m).

Actuarial Valuation (Unaudited)	**30 September 2018**	30 September 2017
	£m	£m
Total Assets	**1,156**	1,013
Liabilities:		
Present value (wholesale basis)	**1,036**	871
Total Liabilities	**1,036**	871
Headroom	**120**	142
Headroom as a % of liabilities	**12%**	16%

Notes to the interim financial statements continued

13 Membership and community reward

What does this show? This note shows the number of active members that we have at the end of the period as well as the benefits earned by those members for themselves and their communities during the period. Active members are defined as those members that have traded with one or more of our businesses within the last 12 months.

	6 July 2019 (unaudited)	7 July 2018 (unaudited)	5 January 2019 (unaudited)
Members	**m**	m	m
Active Members	**4.6**	4.6	4.6
Membership and community rewards (within income statement)	**£m**	£m	£m
Member reward (5%) earned	**29**	29	60
Community reward (1%) earned	**6**	6	12
Total reward	**35**	35	72

Accounting policies and basis of preparation

What does this show? This section outlines the overall approach to preparing the financial statements. This section also sets out new accounting standards, amendments and interpretations endorsed by the EU and their impact on the Group's financial statements.

These condensed consolidated interim financial statements of Co-operative Group Limited ('the Society') for the period ended 6 July 2019 ('the interim financial statements') include the Society and its subsidiaries (together referred to as 'the Group') and the Group's investments and joint ventures.

The audited consolidated financial statements ('the 2018 annual report') of the Group for the year ended 5 January 2019 are available upon request from the Society's registered office at 1 Angel Square, Manchester, M60 0AG.

The interim financial statements as at and for the 26 weeks ended 6 July 2019 are unaudited and do not constitute statutory accounts. They have been reviewed by the auditors and their report is set out on page 22 of this statement.

Statement of compliance

These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed and adopted for use in the European Union, and the Disclosure and Transparency Rules (DTR) of the Financial Services Authority. They do not include all the statements required for full annual financial statements and should be read in conjunction with the 2018 annual report.

The comparative figures for the financial year ended 5 January 2019 presented within these financial statements are not the Society's statutory financial statements for that financial year. Those financial statements have been reported on by the Society's auditors. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters in which the auditors drew attention by way of emphasis without qualifying their report, and (iii) contained no statement that the Society did not keep appropriate accounting records.

These interim financial statements were approved by the Board of Directors on 11 September 2019.

Accounting estimates and judgements

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In preparing these interim financial statements, the significant judgements and estimates made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied in the 2018 annual report with the exception of the adoption of IFRS 16 (detail of judgements within note (A) below).

New standards and accounting policies adopted by the Group

Except as described below, the accounting policies applied in preparing these interim financial statements are consistent with those described in the 2018 annual report.

(A) New standards:

The Group has adopted IFRS 16 (Leases) from 6 January 2019. A number of other new standards are effective from 6 January 2019 but they do not have a material effect on the Group's financial statements as detailed further in note (B). This note explains the impact of the adoption of IFRS 16 on the Group's financial statements.

(i) The effect of the adoption of IFRS 16

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 6 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

Impact on the consolidated balance sheet (increase / (decrease)) as at 6 January 2019:

	£m
Assets	
Right-of-use assets	1,073
Property, plant and equipment	(43)
Trade and other receivables	22
Deferred tax asset	47
Total assets	**1,099**
Equity	
Retained earnings	(237)
Total equity	**(237)**
Liabilities	
Lease liabilities	1,450
Trade and other payables	(47)
Provisions	(67)
Total liabilities	**1,336**

Impact on the consolidated income statement for the period ended 6 July 2019 with increases in costs shown as a negative figure and a reduction in costs shown as a positive figure:

	£m
Depreciation expense (included in operating expenses)	(51)
Rent expense (previously included in operating expenses)	79
Underlying operating profit	**28**
Profit/loss on disposals	4
Operating profit	**32**
Finance costs	(37)
Profit before tax	**(5)**
Taxation	(1)
Profit for the period (all attributable to members of the society)	**(6)**

IFRS 16 has no impact on the Group's cash and overall cash flows however there is a change in the classification of cash flows in the cash flow statement with lease payments previously categorised as net cash used in operations, whereas these cash flows are now split between a principal element and an interest element which are categorised as financing activities.

Impact on the statement of cash flows (increase / (decrease)) for the period ended 6 July 2019:

	£m
Net cash flows from operating activities	89
Net cash flows from financing activities	(89)

(ii) Nature of the effect of adoption of IFRS 16

The Group's leasing activities and how these are accounted for

In previous reporting periods (including the 2018 financial statements for the year end 5th January 2019), leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 6 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments less any lease incentives receivable
- Variable lease payment that are based on an index or a rate
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 impairment of assets. This replaces the previous requirement to recognise a provision for onerous lease contracts. However an onerous provision is still held on balance sheet for onerous non-rental costs such as service charges on leasehold properties, as these costs are outside of the scope of IFRS 16. The impact of this is a reduction in the onerous lease provision of £58m as at 6 January 2019.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Adjustments recognised on adoption – Lease liabilities

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 6 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 6 January 2019 was 5.55%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

	£m
Operating lease commitments disclosed as at 6 January 2019	2,160
Discounted using the lessee's incremental borrowing rate of at the date of initial application	1,418
Add: finance lease liabilities recognised as at 6 January 2019	32
(Less): short-term leases recognised on a straight-line basis as expense	(4)
(Less): low-value leases recognised on a straight-line basis as expense	(3)
Add/(less): adjustments as a result of a different treatment of extension and termination options	39
Lease liability recognised as at 6 January 2019	**1,482**
Of which are:	
Current lease liabilities	181
Non-current lease liabilities	1,301

The lease liability recognised as at 6 January 2019 of £1,482m is comprised of the additional lease liabilities brought onto the balance sheet on the adoption of IFRS 16 of £1,450m and lease liabilities that existed on the balance sheet prior to the adoption of IFRS 16 of £32m.

Adjustments recognised on adoption – Right-of-use assets
The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 5 January 2019.

The recognised right-of-use assets relate to the following types of assets:

	6 July 2019 £m	**6 January 2019 £m**
Property	1,004	1,025
Plant & equipment	43	48
Total right-of-use assets	**1,047**	**1,073**

Adjustments recognised on adoption - practical expedients applied
In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 6 January 2019 as short-term leases

- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

Impact on lessor accounting

The Group subleases a number of properties. Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case prior to the adoption of IFRS 16). Therefore, where the Group has subleased a property for the remaining term of the head lease and on similar terms to the head lease, the right-of-use asset is derecognised and a finance lease receivable is recognised in its place.

The impact of IFRS 16 on the Groups subleases was the recognition of a finance lease receivable of £69m on 6 January 2019. An allowance for lifetime expected credit losses has then been recognised, as required by IFRS 9 which impairs the receivable to £55m.

(iii) Summary of new accounting policies

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e. below £5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of 5 to 10 years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

The Group included the renewal period as part of the lease term for leases of property due to the significance of these assets to its operations.

The changes in accounting policies noted above will be reflected in the Group's consolidated financial statements (as at and) for the year ending 4 January 2020.

(iv) Amounts recognised in the statement of financial position and profit or loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Plant and equipment £m	Property £m	Total £m	Lease liabilities £m
Finance leases previously recognised	33	-	33	(32)
On adoption of IFRS 16	15	1,025	1,040	(1,450)
As at 6 January 2019	48	1,025	1,073	(1,482)
Additions	2	32	34	(35)
Disposals	-	(7)	(7)	11
Depreciation expense	(5)	(48)	(53)	-
Interest expense	-	-	-	(39)
Payments	-	-	-	92
As at 6 July 2019	45	1,002	1,047	(1,453)

The Group recognised rent expense from short-term leases of £3m for the period ended 6 July 2019.

(B) Other changes:

The comparative figures presented within these financial statements for the financial year ended 5 January 2019 and the interim period ended 7 July 2018 are consistent with the 2018 annual report and 2018 interim report respectively, with the exception of the re-presentation noted below.

The results of our Insurance business were classified as a discontinued operation in the 2018 Annual report with half-year comparative figures re-presented for comparative purposes as shown in the table below. The consolidated balance sheet has not been re-presented as at 7 July 2018 as our Insurance business was not classified as held for sale as a discontinued operation at that point in time.

<u>**Half year comparatives:**</u>

Consolidated Income Statement for 26 weeks ended 7 July 2018:

£m	Originally reported	Transfer to discontinued operation	Re-presented
Continuing Operations			
Revenue	4,989	(160)	4,829
Operating expenses	(4,985)	205	(4,780)
Other Income	36	(31)	5
Operating Profit	**40**	**14**	**54**
Finance income	**33**	**-**	**33**
Finance costs	**(47)**	**4**	**(43)**
Profit before Tax	**26**	**18**	**44**
Tax	(5)	(4)	(9)
Profit after Tax from continuing operations	**21**	**14**	**35**
Discontinued Operations			
Loss on discontinued operations, net of tax	**-**	**(14)**	**(14)**
Profit for the period	**21**	**-**	**21**

A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements (see below).

New and amended standards adopted by the Group
The Group has applied the following standards and amendments for the first time for reporting periods commencing after 6 January 2019:

- IFRS 16 Leases;
- IFRIC 23 Uncertainty over income tax treatments;
- IFRS 9 (amendments) – Prepayment features with negative compensation;
- IAS 28 (amendments) – Long-term interests in joint ventures;
- IAS 19 (amendments) – Plan Amendments, curtailment or settlement;
- Annual improvements to IFRSs 2015-2017 Cycle; amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23.

Standards, amendments and interpretations issued but not yet effective
Details of those standards that may impact the Group's accounts in future periods are given in the 2018 annual report. The adoption of the following standards will or may have a material impact when adopted. Management has undertaken an initial assessment of the expected impact of applying the new standards on the Group's financial statements and details are shown in the 2018 annual report.

- Amendments to references to conceptual framework in IFRS Standards; *
- Definition of a Business (Amendments to IAS 1 and IAS 8);
- IFRS 17 Insurance Contracts.**

* Effective 1 January 2020. ** Effective 1 January 2021.

Going concern

The Directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position (as set out in the Stronger Co-op section on page 13 of the 2018 Annual Report). The Directors have also assessed the financial risks facing the Group, its liquidity position and available borrowing facilities. These are principally described in note 20 in the 2018 Annual Report. In addition, notes 20 and 29 also include details of the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its financial instruments and hedging activities.

In making their assessment the Directors have noted that the consolidated group accounts show a net current liability position. The Group meets its working capital requirements through a number of separate funding arrangements, as set out in detail in note 29 of the 2018 Annual Report, certain of which are provided subject to continued compliance with certain covenants (Debt Covenants). Profitability and cash flow forecasts for the Group, prepared for the period to September 2020 (the forecast period), and adjusted for sensitivities considered by the Board to be reasonably possible in relation to both trading performance and cash flow requirements, indicate that the Group will have sufficient resources available within its current funding arrangements to meet its working capital needs, and to meet its obligations as they fall due.

After making all appropriate enquiries, the Directors have a reasonable expectation that the Society and the Group have access to adequate resources to enable them to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group's financial statements.

Jargon buster (unaudited)

There are lots of technical words in our accounts which we have to use for legal and accounting reasons. We've set out some definitions below to help you understand some of the difficult phrases accountants like to use. There is also a "What does this show?" introduction to every note to the accounts describing in simple terms what the note is trying to show. When a word is in bold in the table below that means you can also find the definition of that word in this table.

Amortisation	Similar to **depreciation**, but for **intangible assets.**
Amortised cost	We value some of our **debt** based on its amortised cost. This is the **present value** of the expected future cash flows in relation to the debt.
Asset	This is an amount on our **balance sheet** where we expect to get some sort of benefit in the future. It could be a building we use or are planning to sell, some cash or the amount of money a customer owes us.
Assets held for sale	Sometimes we have to sell things. When we've decided to make a large disposal before the end of the period but the **asset** hasn't been sold yet, we have to show it in this line on the **balance sheet** and reduce its value **(impairment)** if necessary.
Associate	When we have significant influence over a company (usually by owning 20-50% of a company's shares and/or having a seat on its Board), we call that company an associate.
Balance sheet	This shows our financial position – what **assets** we have and the amounts we owe **(liabilities).**
Capital expenditure	When we spend money on items that will become **assets** (such as property or IT systems) this is shown as capital expenditure. The costs are not shown in the **income statement** of the year it's spent – instead the costs are spread over the life of the **asset** by **depreciation** or **amortisation**.
Cash flow statement	This shows how much cash has come in during the period and how we've spent it.
CISGIL	This is the society that deals with our insurance business – CIS General Insurance Limited.
Commitments	Where we've committed to spend money on something (such as building projects) but we're not technically liable to pay for it, we don't put the amount on the **balance sheet** but we disclose the amount in the commitments note.
Comprehensive income	This is our profit for the period plus **other comprehensive income.**
Consolidated	As this report is based on the financial performance and position of many societies and companies around **the Group,** we have to add up all those entities and the total is the consolidated position.
Contingent asset	This is an amount that we might get in the future. Unless it's almost certain that we'll get the amount, we're not allowed to put it on the **balance sheet** but we show the amount in the contingent **assets** and **liabilities** note.
Contingent liability	This is an amount that we might have to pay in the future. If it's only possible, rather than probable, that we'll have to pay the amount, then we won't show the amount on the **balance sheet** but we show the amount in the contingent **assets** and **liabilities** note.
Contract assets	These are costs we've incurred in advance of being entitled to receive payment from a customer under a contract, such as costs incurred in setting up a **funeral plan.** We hold these on the balance sheet until we've delivered all the services to our customer and are entitled to receive payment.
Contract liabilities	This is where a customer has paid us in advance of them receiving goods or services under a contract (for example, a **funeral plan**). We have to hold this on the **balance sheet** until the customer receives the service they've paid for.
Corporate investor shares	This is money that other societies invest with us and we pay them interest on it. The societies can get their money back at any time.
Credit	This is an increase in income/reduction in costs on the **income statement** or an increase in a **liability**/reduction in an asset on the **balance sheet.**

Current	An **asset** or **liability** that is expected to last for less than a year.
Debenture	This is a type of loan that we've issued and are paying interest on.
Debit	This is a decrease in income/increase in costs on the **income statement** or a decrease in a **liability**/increase in an **asset** on the **balance sheet.**
Debt	Loans that we've issued and are paying interest on.
Debt security	This is a type of investment held by our Insurance business and is a form of loaning money to another organisation.
Deferred acquisition costs	These are amounts which our insurance business pays to secure business. It then holds these costs on the **balance sheet** and **amortises** over the length of the insurance period.
Deferred consideration	This is an amount we'll be paying to a seller for businesses we've bought or an amount we'll be getting from a buyer for businesses that we've sold.
Deferred tax	Sometimes our **assets** and **liabilities** are worth more or less on our balance sheet than they are for tax purposes. The tax on the difference in value is called deferred tax and can be an **asset** or **liability** depending on whether the value is greater in the **balance sheet** or for tax purposes.
Defined benefit schemes	This is a pension scheme where an amount is paid out to an employee based on the number of years worked and salary earned.
Defined contribution schemes	This is a pension scheme where an amount is paid into the scheme and at retirement the employee draws on the amount that has been invested over the years.
Deposits with credit institutions	When customers pay us premiums, we put the money in high-quality corporate bonds so that if an insurance policy needs to pay out, we have the money there. Deposits with credit institutions are the amounts we've invested in these corporate bonds.
Depreciation	There are some **assets** that the Co-op will have for a while (such as vehicles). When we buy them, the cost goes on our **balance sheet** and then depreciation spreads the cost of the asset evenly over the years we expect to use them in the **income statement.**
Derivatives	These are financial products where the value goes up or down based on an underlying **asset** such as currency, a commodity or interest rate.
Discount rate	This is the amount that we are **discounting** by. It's a percentage and varies based on what we expect interest rates or inflation to be in the future.
Discount unwind	Every year the amount that we're **discounting** is going to be worth more as we get nearer to paying or receiving it. We have to put that increase in value (the discount unwind) through our **income statement.**
Discounting	When we have to pay or receive cash in the future, accountants like to take off part of the amount if it's a big amount (like on our **onerous leases**). This is because cash we pay or receive in the future is going to be worth less than it is now – mainly because of inflation.
Disposals	When we have sold an **asset.**
Effective tax rate	This is the average tax rate we pay on our profits. This might be different to the standard corporation tax rate, for example, if we aren't allowed to deduct some of our costs for tax purposes. In our interim financial statements, we use an estimate of this average tax rate for the full year based on our business forecasts.
Equity	This is the difference between the **assets** we own and the **liabilities** we owe – theoretically, this is how much money would be left for our members once every **asset** is sold and every **liability** is paid.
Eurobond Notes	This is our largest, fixed interest debt that we pay interest on to fund our businesses' operations.
Fair value movement	There are some things on our balance sheet which we have to revalue every year. This includes some of our **debt**, **investment properties** and our pension schemes. The change in value is called fair value movement.
Finance costs	These are usually the interest we pay on our **debt**, but can also be other things such as the **fair value movement** on our **debt** or the **discount unwind of liabilities.**
Financial instruments	A collective term for **debt** or **derivatives** that we have.
Financial Services	This is a group of companies within **the Group** that provide financial products such as insurance.
First Mortgage Debenture Stock	This is a small **debt** we owe that is secured against some properties – a bit like a mortgage.

Funeral plans	A member may not want his or her family to pay a large single sum for a funeral when he or she dies. Therefore, the member can pay for it gradually or in lump sums over a number of years and the **Group** will invest that money.
Funeral plan investments	When a customer gives us money for their funeral in the future, we invest this money. The balance of these investments is held on the **balance sheet.**
Goodwill	When we buy a business or a group of **assets**, sometimes we pay more for it than what its **assets** less **liabilities** are worth. This additional amount we pay is called goodwill and we put it on our **balance sheet.**
(the) Group	This is Co-operative Group Limited and all companies and societies that it owns.
IAS	International Accounting Standards. **The Group** use these as the accounting rules. There are many different IASs that cover various accounting topics (e.g. IAS 38 is for **intangible assets)**
IFRIC	International Financial Reporting Interpretations Committee. These are interpretations of IASs or IFRSs that **the Group** also has to abide by.
IFRS	International Financial Reporting Standards. Similar to IAS, but cover different subjects.
Impairment	Sometimes our **assets** fall in value. If a store, branch, business or investment is not doing as well, we have to revalue it and put the downward change in value as a cost in our **income statement.**
Income statement	This not only shows our income as the name suggests, but also what our costs are and how much profit we've made in the period.
Intangible asset	We have **assets** at the Co-op that we can't see or touch which are shown separately to other **assets**. These include things like computer software and **goodwill**.
Interest rate swaps	We like to know what interest we're going to be paying in the future so we can manage our businesses effectively. We enter into arrangements with banks so that we can do this – for example, if we have debt where the interest rate can vary, we can buy an interest rate swap which means that instead we'll pay a fixed rate of interest. The value of these swaps can go up or down depending on how the market expects interest rates to change in the future.
Inventories	This represents what goods we're trying to sell. The cost of this is shown on our **balance sheet.**
Investment properties	Properties that we don't trade out of, and which we might rent out or hold onto because the value might increase, are called investment properties.
Invoice discounting facility	Invoice discounting is an arrangement with a finance company so that we can be paid for amounts we are owed on invoices earlier than the date our customers are due to pay us.
Joint ventures	A joint venture is a company where we own exactly 50%.
Liability	This is an amount on our **balance sheet** which we'll have to pay out in the future.
Like-for-like sales	Comparison of sales between two periods of time (for example, this year to last year), removing the impact of any store openings or closures.
Listed debt securities	People can trade some of our **debt** such as the **Eurobonds**. When this is the case, it's a listed debt security.
Member rewards	These are the benefits that members have earned for themselves during the period as part of the 5% membership offer.
Net assets	Same as **equity.**
Net debt	This is the **debt** we have less any cash that we might have.
Non-current	An **asset** or **liability** that is expected to last for more than one year.
Non-GAAP measure	GAAP stands for Generally Accepted Accounting Principles. This is the common set of accounting principles, standards and procedures that companies must follow. Sometimes, companies want to provide different measures to help readers understand their accounts (such as underlying profit) where there isn't a standard definition – these measures are called non-GAAP measures.
One-off items	Items that are not regular in size or nature and would otherwise cloud the underlying profitability of **the Group** are stripped out. This could include a large IT project or a large restructuring exercise.

Onerous leases	When we close a store which we pay rent on, sometimes we still have to pay rent until the lease runs out. When this happens, we make a **provision** for the amount of the rental payments we will have to pay in future and hold this on the **balance sheet** until we finish the rent payments.
Operating profit	This is our profit before we have to pay any interest to our lenders or tax to the tax authorities.
Operating segments	This is an accounting term for the different businesses we have. When the financial performance of one of our businesses is reviewed separately from the other businesses by our Board, we call that business an operating segment and its sales and profit are disclosed in note 1.
Other comprehensive income	Sometimes we have big **fair value movements** on long term **assets** and **liabilities**. The **income statement** is meant to show the performance during the period, so to avoid this being distorted by these big changes, they are shown separately as other comprehensive income.
Payables	Another name for **liabilities.**
Present value	This is the value of a future cost or income in today's money and is arrived at by **discounting.**
Provisions	This is a **liability,** but one where we're unsure what the final amount we have to pay will be. We use our best estimate of the costs and hold that on the **balance sheet.**
Receivables	When someone owes us some money, we hold that amount as a receivable on our **balance sheet.**
Reclaim Fund	This is an entity we own that helps money in dormant bank accounts be used for charitable purposes.
Reinsurance contracts	When we sell an insurance policy, we might want to resell that policy to another insurance company so that we can manage the level of risk we face in case a major claim comes in. When we're owed money from the other insurer then this is shown as an **asset** and if we have re-insured for another insurer we would show a **liability.**
Related party	This is a company or person that is closely linked to the Co-op. It's usually a member of our Board or Executive or their close family plus companies such as our **associates** and **joint ventures.**
Remeasurement gains / losses on employee pension schemes	There are lots of assumptions that are used when valuing pensions. If those assumptions change this can have a big effect on the size of the pension **asset** or **liability**. So that we don't distort the **income statement,** this effect is shown in **other comprehensive income.**
Repayment notes	This is a type of loan, which we repay either in instalments or in a lump sum at the end of the loan.
Repo agreements	This is a type of short-term investment used by our Insurance business.
Reserves	This is the amount of **equity** we have, but excluding any **share capital.**
Restated	Sometimes we change the numbers that we showed in last year's accounts. This might be because we have changed where or how we record certain things or it could be that we have corrected an error. There are strict rules around what can be changed and when we make changes we explain why in the accounting policies.
Retained earnings	This is all the profits we've made since the beginning of time for the Co-op that have not yet been paid out to members.
Retirement benefit obligations	Another term for our pension **liabilities.**
Revaluation reserve	When we revalue a property upwards, we're not allowed to put this **unrealised gain** through our **income statement** or within **retained earnings** as law dictates that this can't be distributed to members until the property is sold. It's then ringfenced as a specific **reserve.**
Share capital	This is the amount of money that our members have paid us to become members less any amounts that we've repaid to them when they cancel their membership.
Subsidiary	This is a company or society that is owned by another company.
Supplier income	Sometimes our agreements with suppliers mean they will give us money back based on the amount of their products we buy and sell. We call this supplier income.
Trading Group	This is **the Group** less any **Financial Services** companies.
Underlying profit	This is an alternative measure of the trading performance of **the Group** which excludes **one-off items** or large gains or losses we might have made on selling **assets.**
Unrealised gains	An **asset** may have gone up in value, but we've not sold it. If this is the case, the profit from the gain is unrealised as we've not sold the **asset** yet.

Co-operative Group Limited
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