14 September 2018

STRONG GROWTH AT THE CO-OP AS SALES, PROFITS AND MEMBER VALUE ALL INCREASE

Stronger Co-op, Stronger Communities strategy delivers growth as The Co-op also announces new venture opportunity within Health sector:

- Sales increase by 10% to £5bn, driven by a strong food sales performance and the acquisition of Nisa. Food Retail like-for-like sales* were up 4.4% and The Co-op has now enjoyed 18 consecutive quarters of like-for-like sales growth.
- Group Profit before tax** increases to £26m (2017: £14m)** and Group Underlying Profit before tax*** increases to £10m (2017: £3m), this after £35m of reward is generated for Co-op members and their communities.
- Value created exclusively for Co-op Members increases:
    - £35m of member value delivered through the "5+1" membership scheme
    - Further member value created in home insurance through the "won't be beaten on price guarantee" on renewals
    - Additional price reduction for members on funerals
- Our Co-op presence is strengthened through the acquisition of Nisa and the Co-op now supplies food to over 7,700 stores. By the end of 2018 we will supply 850 Co-op own-brand product lines to our Nisa partners.
- Co-op continues to lead the way in the Funeral sector via numerous measures to tackle funeral affordability, culminating with this week's announcement which guarantees not to be beaten on price for all funerals.
- Our future growth plans continue to focus on how we can make a positive impact on community wellbeing. Acquisition of Dimec, a healthcare technology platform, marks The Co-op's return into the healthcare sector providing the building blocks for a future digitally enabled healthcare service for our members and customers.
- Our Co-op social impact also increases with over 12,000 local community projects having now benefitted from our member reward scheme and over a dozen business partners having joined our Bright Future programme to tackle modern slavery.

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

"We're moving forward at pace with our Stronger Co-op, Stronger Communities plan, which we set out at the beginning of the year. We know that in order to make a difference, we have to be commercially successful and our performance in the first half shows that we're delivering on that ambition. Our investment in products, price and distribution channels has seen us grow revenue, profit and member value in the first six months.

"We are also back to responding quickly and decisively to the issues which affect our members and customers. Funeral affordability is clearly an issue affecting many and our guarantee not to be beaten on price re-affirms our commitment, as market-leader, to also lead the market. Furthermore, our acquisition of Dimec allows us to accelerate the development of our healthcare proposition, and provides the digital platform required to help customers in the future conveniently access and link their healthcare needs, including interacting with their NHS GP."

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

"Against a backdrop of increasing national uncertainty, I'm pleased that the Co-op has continued to perform successfully during the first half of the year. It is in these times of volatility that our way of doing business, which gives back to our members and the communities we operate in, becomes even more important. These results show that we are growing our business and increasing the positive impact we can have on our members and the causes they care about in their communities.

"We've got exciting plans to continue transforming our Co-op to make it even more competitive, relevant and innovative in both existing and new markets. We'll continue to grow our current businesses and through our Ventures team we'll move into new areas where we can deliver even more value for our members and their communities."

Financial and operational highlights:

Strong trading performance sees profits and sales increase as sustained investment continues to drive business:

- Profit before tax of £26m (2017: £14m), reflecting a good business performance and one-off items. Underlying profit before tax of £10m (2017: £3m)
- Total sales increase 10% to £5bn (2017: £4.5bn) on strong Food sales growth and the acquisition of Nisa
- Food Retail like-for-like sales up 4.4%. Core convenience like-for-like sales up by 5.1%, marking the 18th consecutive quarter of like-for-like sales growth. Total Food sales up 3% to £3.6bn, reflecting strong sales growth driven by a market leading offer for the World Cup with underlying food operating profit**** up 23% at £80m
- Wholesale sales of £269m, following the acquisition of Nisa
- Funeral and Life Planning revenues up 5% to £174m, reflecting a higher death rate in the first quarter and increased probate volumes, both from our existing business and following the acquisition of Simplify Probate. Underlying profit was £28m, slightly down on 2017 (£29m) as increased investment made into both premises and pricing to support "leading the market" business approach
- Insurance sales fell 2% to £160m, reflecting heightened competition in the car insurance market. Underlying loss of £4m (2017: £1m loss), impacted by the adverse weather conditions caused by the "Beast from the East"
- Total net debt at the end of the first half of £707m, down from £775m at year-end

Creating a stronger Co-op by:

Extending presence in existing markets

- Opened 45 new food stores and 10 new funeral homes – creating 600 new jobs. An exclusive partnership with Live Nation saw Co-op reach 200,000 festival goers with its 'pop-up' shops
- Acquisition of Simplify Probate increased capability to support more bereaved families. Now the largest provider of probate services in the UK
- Expansion in wholesaling with Nisa acquisition and five-year deal to supply Costcutter Supermarkets Group sees Co-op supplying over 7,700 stores. Nisa partners are now being supplied with over 800 Co-op product lines

Investing in price and innovating to stay competitive

- £50m invested to improve prices in Food across 100s of everyday products. Industry CO_2 shortages failed to impact beer, wine and spirit sales, which were up 4.8% with a bottle of champagne sold every minute. Co-op Food also enjoys a stellar summer performance boosted by the World Cup “Pizza & Beer” deal, with over 180 pizzas sold for every minute of football played
- Pay in aisle technology trials introduced, along with small trials being held with Deliveroo in Greater Manchester and self-driving robots in Milton Keynes to deliver products to shopper’s homes
- During the first half of 2018 we launched a renewal guarantee for Co-op members to not be beaten on price for their building and contents insurance. New customers buying direct also get £50 in Co-op Food vouchers. This has led to over 28,000 policies being sold in the first half, a 5% increase on last year
- First general insurer to offer upfront medical expenses for any age and any medical condition through our innovative travel product designed by members. Over 7,600 of these policies sold in the first half of the year
- Continuing to tackle funeral affordability through our Simple Funeral offer, the launch of Cremation without Ceremony and commitment to drive down prices. Latest measures include an industry first ‘guarantee to beat’ any like-for-like offer, which sees the Co-op become the first national funeral provider to commit to beating any like-for-like quote on funeral costs across the UK.

Developing new opportunities

- Co-op ventures team is taking a digitally led approach to enter markets where there are unmet needs. The acquisition of Dimec announced today means The Co-op can accelerate the development of its healthcare proposition, giving it access to the technology required to develop services for customers to access and link their healthcare needs and interact with the their NHS GP more conveniently.
- Longer term we are developing digital solutions for an online marketplace.
- Work is progressing on how we can significantly grow our insurance offer from our existing base of approximately 1.3 million policies. We expect to have announced our plans by the first quarter of 2019

Rewarding members and responding to consumer needs

- In addition to investments made in reducing prices, Co-op returned £29m to millions of members with £6m being earned by members to support local causes in their communities
- We introduced a new service ‘Cremation without Ceremony’ for clients who prefer not to have a traditional service, quickly becoming a leading provider for families who want to celebrate the life of their loved one in their own way
- In the summer The Co-op published the findings from the UK’s biggest ever survey into death, dying and bereavement, which over 30,000 people responded to. This will be used to drive social change and shape our services in the future
- We have also continued to lead the market by calling for regulation of pre-paid funeral plans to help protect consumers from misleading sales practices

Creating stronger communities

- The Local Community Fund has now supported over 12,000 local projects through our membership reward scheme since September 2016
- The Co-op is the largest corporate sponsor of academy schools and The Co-op Academies Trust is trebling the number of academies it runs to 40 by 2022. The Co-op has invested £3.6m to support this ambitious growth plan. We are developing a UK first through the acquisition of Connell Sixth Form College in Manchester, which will give students the opportunity to do a day a week at the Co-op as work experience as part of their studies and be paid the going rate for the role

Outlook

- Against the backdrop of an uncertain economic, social and political environment, we never the less remain confident that The Co-op will continue to invest in its business areas and member offer to create commercial success, which will in turn deliver increased value for our members and their communities.
- Debt will remain within guidance levels of £900m

Ends

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About the Co-op:

The Co-op is one of the world's largest consumer co-operatives with interests across food, funerals, insurance, legal services and an online electrical store. It has a clear purpose of championing a better way of doing business for you and your communities. Owned by millions of UK consumers, the Co-op operates 2,600 food stores, over 1,000 funeral homes and it provides products to over 5,100 other stores, including those run by independent co-operative societies and through its wholesale business, Nisa Retail Limited. It has more than 63,000 colleagues and an annual revenue of £9.5bn.

* *__Like-for-like__ sales is a measure of year-on-year sales growth for stores that have been open for more than one year.*

** *__The profit__ reported for our Funeral & Life Planning business has changed from last year following the adoption of a new accounting standard, IFRS 15 Revenue from Contracts with Customers. This has reduced Funeral & Life Planning sales and profits by around £20m each year. We have adjusted the 2017 results so that they are prepared on the same basis as 2018. More information on this change is provided in the Accounting Policies and Basis of Preparation section of the Interim Financial Statements*.

*** *__Underlying Profit before Tax__ excludes one-off items, property and business disposals, change in value of investment properties, finance income and non-cash finance costs, and share of profits and losses from associates and joint ventures. A reconciliation of Profit before Tax to Underlying Profit before Tax is provided in note 1 of the Interim Financial Statements.*

**** *__Underlying operating profit__ excludes one-off items, property and business disposals and change in value of investment properties.*

Co-operative Group Limited

Interim Report 2018

Chair’s introduction

There’s little doubt that we’re living through an interesting and volatile period. At a national level, the political and economic future of the UK remains uncertain until the precise arrangements for Brexit are known. Meanwhile, the markets in which we trade, in particular food retail, are changing, with new initiatives in the sector driving increased competitive pressure. Against this backdrop it’s important that we remain focused and agile, concentrating solely on those activities which will create genuine and long-term value for our Co-op. In the first six months we’re pleased by what’s been achieved and we know there is more to come. We’re excited about our future, despite the uncertainty elsewhere.

Our goal, which we set for ourselves at the start of the year, is to build a Stronger Co-op and Stronger Communities. The two sides of this ambition are clearly linked – neither is possible without the other. It’s a way of thinking that shows we’re a business driven by a social commitment, while being based on the need to create long-term commercial value at the same time.

Our early progress can be seen through the strong sales growth we’ve seen in Food and how we’re giving back millions to our members and to the local communities in which they live. In contrast to others, we don’t see the financial value we return to our members as a ‘cost’ of doing business – it’s the reason we are in business in the first place.

How we do business is also as important as the value it creates for our members. Where our goods come from, how we treat our members and customers, the workplace we create for our colleagues, and our supplier relationships are all core to who we are as a co-op. That’s why we take so seriously the investigation from the Groceries Code Adjudicator into how we’ve been working with some of our food suppliers. We know we made mistakes and we’re putting them right by compensating those businesses affected, changing how we work and retraining our teams.

Good governance

Four years after we radically reformed our governance structure, improving our professionalism while remaining true to being a co-operative, we’re pleased to report how well the new approach is working. Our Board, Members’ Council and Executive all have key roles in making sure our Co-op is well-run while keeping our member and community focus. This is at a time when transparency and integrity in business have become global concerns.

Adding to our skillset, we’re pleased to welcome Rahul Powar who joined the Board as an Independent Non-Executive Director in July. He was part of the team which set up music app Shazam. Digital technology will play a key role in driving our commercial ambition, particularly as we look to new markets to bring our Co-op difference, and Rahul brings with him a wealth of experience in this area.

Allan Leighton
Chair

Chief Executive’s statement

Our business performed well during the first half of the year despite tough and challenging markets. This has set us up well for the full year. Our sales increased to £5bn, up 10% on 2017, driven by a strong performance from our Food business and our acquisition of Nisa in May. Our profit before tax in the first half of the year was £26m, up from £14m in 2017. Our key profit measure, underlying profit before tax, which looks at our core trading performance less our interest on borrowings, increased to £10m, up from £3m in 2017. You can find out more about our financial performance on page 11.

Across our Co-op we’re continuing to innovate, expand and look for new ways to reach more people with our distinctive Co-op offer so that the value we generate for our members can go even further.

Our acquisition of Nisa and the commercial agreement to supply Costcutter will greatly expand our food wholesale operation and take our brand into thousands of new stores and hundreds of thousands of new homes. Funeral & Life Planning and Insurance are also expanding and improving their offers. We’re also looking at new ways to increase the volume of co-operative trading in the UK.

Our priority is to show our members (and potential members) why choosing Co-op is good for them and good for their community. In particular we’ve been looking at our pricing and competitiveness and the way in which our support for communities can be truly different and co-operative. Some of the strongest examples of applying a co-operative approach to pressing social concerns can be seen in our expansion of Co-op Academy schools and the increase in the number of training apprenticeships we’re offering including to degree level.

Stronger Co-op, Stronger Communities

As Allan says, we’ve set ourselves the goal of building a Stronger Co-op and Stronger Communities. This report sets out how we’re doing this through business growth and innovation, and by evolving the support we give to local causes.

To achieve our ambition we need to invest. That means investing in our products, infrastructure and people. Running profitable businesses allows us to do that but we also need to increase our efficiency and reduce our running costs.

We’re doing this in a number of ways:

- Making changes to the way we are run so that the right people are in the right jobs and doing the right things.
- Making better deals on what we need to buy to run the business.
- Creating a new Co-op Service Centre to look after our back office functions including finance, HR and our customer and member helpdesks.

We’ve deliberately structured this report in a way that shows we’re a different kind of business. We want to show the many ways in which we’re creating Co-op value and the difference it’s making to our members and the places where they live.

While other businesses are driven by bottom line profit and shareholder return, our focus is on returning value to the communities where our trading takes place. You'll find detailed financial information at the back of this report but at the front we want to show clearly what makes our Co-op different and special.

Steve Murrells

Chief Executive

Stronger Co-op

Member rewards

Our Co-op has been performing well during the first half of 2018 and that means we've been able to return millions back to our members through our Co-op member rewards.

Every time our members shop with us in our food stores they earn 5% back when they choose Co-op branded goods. Our life planning services also earn our members the 5%. For members arranging a funeral the 5% is given as an immediate discount, while for food and life planning services the money back can be spent on any future purchase at the Co-op.

In the first six months of the year we returned £29m to 4.6 million members at a time when things are feeling tough in the UK.

We also give back a further 1% on Co-op goods and services purchased by our members which goes to support local causes in the communities where they live. Members have earned £6m to support these local causes in the first half of the year.

Expanding our Co-op presence

The more places we trade, the more business we can do. So we're expanding our Co-op presence in existing markets and entering new ones where we think we can make a Co-op difference.

In the first half of 2018 we:

- Opened 45 new food stores and 10 new funeral homes creating around 600 new jobs.
- Bought Simplify Probate to expand our probate business and increase our existing support for bereaved families, making us the largest provider of probate services in the UK.
- Launched our innovative travel insurance developed with our members. It provides cover for existing medical conditions and upfront financial help in a medical emergency.

Through the summer we tested pop-up food stores at music festivals through a new exclusive partnership with Live Nation. We reached 200,000 festival goers at Download, Latitude, Reading and Leeds for the first time. We proved a big hit with a new generation of Co-op shoppers with average festival takings of £437,000.

The most significant way we're expanding the reach of Co-op is through wholesaling with the acquisition of Nisa and our five-year commercial deal to supply Costcutter Supermarkets Group. With our existing arrangements with independent co-operative societies, through our joint buying group, it takes the total number of stores we supply to around 7,700. By the end of the year we'll be supplying Nisa partners with 850 Co-op product lines and we're seeing an increase in Nisa partner recruitment. In May we appointed Ken Towle as the new CEO of Nisa, and Ken also joins our Food executive team.

Recognition of our presence in local communities up and down the country came with ITV's decision to build a new Co-op store on the set of Coronation Street. It's one of the biggest product placement deals of the year and means our brand will be on regular view in the homes of some of the nation's best loved TV characters.

We're also on track to brand all our private name funeral homes as 'Co-op' by the end of 2018.

New opportunities

As well as extending the reach in our existing markets, we're looking at new opportunities. To inform our thinking we've been looking at the big social trends that are changing life in the UK: people living longer with more complex health needs; the financial pressures facing a younger generation; and the changes brought by online platforms and social media.

We can see markets related to these trends that are failing or broken and we believe a co-op intervention would benefit our members.

Our focus so far is on health and wellness, money services, and an online marketplace. We have a team up and running looking at how we'll approach this but we already know it will be different to past ventures. Our approach will be led by digital technology – building, testing and learning quickly without using substantial capital and limiting our risks.

The first new area where we're ready to start testing our proposition is in healthcare, where there is an opportunity to use digital technology and our existing store network to give customers a smoother and more convenient service.

Price and innovation

The more people choose our Co-op products and services the more good we can do. That means constantly reviewing and improving our offer so that we stay relevant to our members and price competitive.

Staying competitive

At the start of the year we invested £50m in reducing prices across 100s of everyday products. Some prices have been reduced by more than 40% and, on average, more than 600 products now cost 14% less than they did before our price cuts. Co-op fruit, vegetables, bread, fresh meat and ready meals, as well as household brand names, have all been included in the reductions helping our customers save on their food bills.

In Insurance remaining competitive is also essential. In May we promised to guarantee that we wouldn't be beaten on renewal prices for building and contents home insurance for our members. Alongside this renewal offer, we've also been running an offer for new customers – if they buy direct from Co-op they'll receive £50 in Co-op Food vouchers.

For the last few years we've made funeral affordability central to our thinking. We've held our prices and at the beginning of the year we launched our Co-op Commitment for those paying their funeral plans in instalments. It means that if you die after the first 12 months of your plan, but before all your instalments have been paid, we'll still deliver all the services provided in your plan, with no more for your family to pay. This is unique in the market, and provides real peace of mind.

British

We've continued our commitment to support British farming. In 2017 we announced our decision to back British farmers and British farming by committing to spend £2.5bn over three years. Our members asked us to do this so we've made it a priority. It means 100% of Co-op fresh meat is British and we're committed to extending this to frozen meat by 2019.

This year we've extended our seasons for British fruit and veg and switched to 100% British strawberries in Co-op stores. And we're selling more British flowers too by extending our British season. We've introduced British stocks to our range this year and we were the first to market on sunflowers.

We're also setting up British fish farming groups including for our premium salmon, and supporting fisheries improvement projects through Project UK. In dairy we've put in place British sourcing credentials across our core dairy products and we're committed to a fair farm gate price for our Co-op Dairy Group supplying our liquid milk.

High animal welfare standards have also been important to us and in the spring we announced that all our Co-op branded fresh pork, bacon, gammon and cooked meat will be from pigs bred outdoors to RSPCA standards.

The quality of our food continues to be recognised with many awards already this year including 16 'Grocer Own Label' wins, Sandwich Convenience Retailer of the Year for the fourth time, and 28 International Wine Challenge awards.

Responsive and in tune with our members needs

We saw record weekly like-for-like food sales in the early part of the summer driven by competitive pricing, improving availability, good weather and England's strong showing in the World Cup. Our logistics operation did well in responding to the challenges from the 'Beast from the East' in February, and applied the lessons learned to maintain excellent availability for our stores over our busy summer period and throughout the nationwide CO2 shortage.

Our most significant new service for funerals this year is 'Cremation without Ceremony' which we're providing in England, Scotland and Wales. The new funeral choice is for those who, for many reasons, prefer not to have a funeral service. It gives families the chance to remember their loved one in their own way and at a location of their choice. This will not compromise on our high standards of care and our research has shown that for many the choice is not driven by price.

In the summer we published the UK's biggest ever survey into the public's attitudes towards dying, death and bereavement. 30,000 people took part, half of them Co-op members. It gave us a rich insight into fast changing social trends which will inform how we develop our services in the coming years.

Investing in our colleagues

We want every colleague to feel proud to work here and be recognised for the part they play in our success. We also want them to know that we genuinely care about their wellbeing.

We're continuing to invest in customer-facing colleague pay. We'll have increased hourly pay rates for Customer Team Members in Food stores by over 5% in 2018 and our minimum wage for all colleagues is now £8.00 an hour.

We know that debt is a problem for many colleagues at all levels of the business and we've chosen to improve the support we give to tackle this. We have a long tradition of supporting Co-op Credit Unions and promoting these to our colleagues, which will continue, but we want to offer more support to colleagues. We've chosen to partner with Neyber who will provide our 64,000 colleagues across the UK with a trusted source of information and tools to help them manage their money. They'll also provide affordable loans with quick decisions (usually within 2 days) and repayments made direct from a colleague's salary, to help our colleagues consolidate and reduce their debts.

We’re prioritising diversity and inclusion too and giving colleagues from all backgrounds the opportunity to succeed. We’ve recruited 81 Diversity and Inclusion Pioneers who are helping us focus on this. We already have Respect (supporting LGBT+ colleagues) and Aspire (led by and for female colleagues) networks and have created two new networks for young colleagues and black, Asian and minority ethnic colleagues. In May we were listed in The Times Top 50 Employers for Women.

Our Co-op has a long tradition of offering education and training opportunities to colleagues and in 2017 we expanded our apprenticeship programme with an ambition to recruit 1,000 apprentices each year. Unlike many other employers we pay our apprentices the full rate for the job and give them permanent contracts.

Our apprenticeship programme is leading the way. Our next aim is to create a talent pipeline from our Co-op Academy schools into the business and that’s already started to happen in Insurance. We’ve just recruited another four Insurance apprentices directly from our academies who started at the end of August. We’re also looking to build links to our new Connell Co-op Academy Sixth Form in Manchester.

We have 31 degree level apprentices working in our Food business and they’ve all successfully completed year one of their debt-free studies. We’re currently advertising for another 32 people to join our degree level apprenticeships to start in October.

Responsible business

Plastic

During the summer we became the first UK retailer to launch a deposit and return scheme trial with ‘reverse vending machines’, as part of our commitment to increase recycling and reduce marine pollution from plastic packaging. We tested the new machines alongside the pop-up Co-op stores we trialled at four music festivals. Festival goers returned their bottles to the vending machine in exchange for a voucher to spend in the on-site stores.

To close the loop in this trial, the bottles collected at each festival then went on to be recycled to create new bottles for our Co-op branded bottled water which we now make from 50% recycled plastic. We’re the first UK retailer to use 50% recycled plastic to manufacture our water bottles and estimate that we’ll save almost 350 tonnes of plastic annually.

Food waste

More than a third of the food produced around the world ends up being wasted. At Co-op we want to be part of the solution to this problem especially when so many families in the UK are reliant on food banks. Most of the big supermarkets have ways of redistributing unsold food to those most in need. But too often the food distributed is not the healthiest and lacks variety.

Our new Co-op Food Share scheme, which is being rolled out during 2018, is giving away fresh food, including meat, prepared meals, dairy products and bagged salad. We’ll stop the last-minute, knock-down sales, so that we get the food to good causes in time for them to cook or freeze it within the ‘use by date’. This means local charities can create millions of healthy meals for people that need a helping hand.

Fairtrade

At our annual general meeting last year we announced a first for UK retailers by making all the cocoa we use as an ingredient in our Co-op products Fairtrade. This year, we extended that ingredients commitment to tea, coffee, and bananas. We've also become the first national retailer to source all of our African roses from Fairtrade partners. That means 35 million Co-op Fairtrade African roses will be sold each year. As well as the Fairtrade Premium from the sale of those roses, we've made a donation of £30,000 to help fund a Graduate Nursing Programme in the community hospital in Naivasha, Kenya, where our roses are grown.

We're deliberately putting our focus on the Fairtrade Foundation's priority areas but we're also maintaining our position as the world's largest seller of Fairtrade wine. We've switched more of our South African wines to Fairtrade terms. This is one of the UK's largest-ever Fairtrade wine deals and will mean another 2.5 million litres of Fairtrade wine will be sold in the next year. This will give hundreds of vineyard workers in South Africa improved rights and farmers will get a guaranteed minimum price for their grapes.

Safest used car for parents

For the last three years our Insurance business has researched the market for the best used cars for different sections of the public. It's part of our commitment to create safer communities as more people choose to buy second hand than new.

We work with Thatcham Research (who review the cars) and Brake (a road safety charity), testing used cars so we can raise awareness of the safest ones. This summer we've revealed the Safest Used Cars for first time parents with the Mazda CX-5 claiming the top spot.

Stronger Communities

Local causes

While other businesses may support local community causes, we're interested in projects that bring people together and help them work collaboratively to maintain and build stronger communities.

Since we launched our Local Community Fund through the 1% Co-op member reward we've given out £24m and helped more than 12,000 local projects – everything from Scout hut roofs to support for the victims of domestic abuse. We've opened up applications to include non-charities, and we're focusing more on projects that bring people and community organisations together to drive co-operation.

For future rounds of the Local Community Fund, we'll embrace projects that promote community wellbeing – for example, by making sure that communities have good physical places so that they can come together, or by supporting learning or sharing of skills within a community.

We have also been doing further research with our members and communities to understand what kind of co-operative endeavours would strengthen communities and connect people locally, and what barriers and challenges they currently face. We're starting to see some strong themes emerging which will shape our future plans.

Education

Ever since the first co-operative created a workers' reading room above the first Co-op store in Rochdale in 1844, co-operatives have understood the importance of education for individuals and whole communities. In recent years we've demonstrated that commitment through the creation of our Co-op Academies Trust which currently runs 12 academies making us the largest corporate sponsor of academies in the UK. We choose to work with schools in the north of England and in communities that face particular social and economic challenges. In the spring we announced plans to more than treble the number of academies we run to about 40 by 2022.

In July we were chosen by the Department of Education to run the Connell Sixth Form College in East Manchester which means we can offer all students in Greater Manchester, including those that attend our four academies in North Manchester and Salford, a mixture of both academic and vocational courses at sixth form.

Campaigning on the issues that matter to members

Tackling loneliness

Loneliness has been one of our major campaigns, and, working with the British Red Cross, we've created Community Connector services in 39 locations across the UK. Our research told us that loneliness can blight the lives of all age groups – old and young.

The Co-op's own charity, the Co-op Foundation, has entered into a £2m partnership with government to tackle youth loneliness. Announced by the Prime Minister, Theresa May MP in June, the funding will build on the Foundation's existing Belong network of community partners working across England, Wales, Scotland and Northern Ireland.

Our latest research also shows that a staggering 82% of mums under 30 feel lonely some of the time. Four in ten told us they felt lonely often or always. In the spring we announced that we'll be working with Home-Start, a leading family support charity, to expand its community-based support groups, which help young parents who are lonely to meet, talk, and create their own support networks.

Modern slavery

There's little doubt that our Co-op has shown leadership in speaking up to make modern slavery a national issue in the UK. But we've never wanted to be the only big business campaigning on this. So we're pleased that 13 other UK businesses and 16 charities have now signed up to our Bright Future programme which is providing work placements and paid employment to some of the most vulnerable people in our society today.

Some big high street names, as well as Co-op food suppliers and a number of independent co-operative societies, will now be providing employment for people rescued from exploitation. Under our programme, survivors are offered a four-week paid work placement leading to a non-competitive interview. If they're successful, the candidate will be offered a job.

This year we've also become the first corporate organisation in the world to sign the Anti-Slavery International Charter and we're pleased to see Marks & Spencer follow us. We've now written to CEOs at all FTSE 100 companies asking them to commit to the actions set out in the Charter, developed by Anti-Slavery International.

Our financial performance

Sales increased to £5bn, an increase of 10% compared to 2017 sales of £4.5bn. This reflects a strong performance from our Food business and the acquisition of Nisa's wholesaling operations.

The profit before tax for the period was £26m, up from £14m in 2017. This includes a number of one-off and non-trading items which are explained in the following sections. Our underlying profit before tax, which is the core trading performance of our businesses less underlying interest, was £10m, up £7m from 2017. Operating profit was £40m, in line with last year. Our profits are shown after deducting the amount our members have earned through the 5% and 1% member rewards which totalled £35m in the first half of the year (2017: £35m).

The profit reported for our Funeral & Life Planning business has changed from last year following the adoption of a new accounting standard, IFRS 15 Revenue from Contracts with Customers. We no longer record any profit when we sell a funeral plan. Instead we only record the profit when the funeral is conducted. This has reduced Funeral & Life Planning sales and profits by around £20m each year as currently the number of plans sold is higher than the number of plans redeemed. We have adjusted the 2017 results so that they are prepared on the same basis as 2018. More information on this change is provided on page 44.

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 48 to explain the accounting terms we have to use.

How have our businesses performed?

Food sales of £3.6bn were up 3% on 2017, with total like-for-like sales up 4.4% and convenience like-for-like sales up 5.1%. Sales have been strong throughout the period and the great weather and World Cup brought lots more customers into our stores towards the end of the period. We worked hard to make sure we could maintain availability given the pressures on our depots as a result of the increased demand.

Underlying profit in our Food business was £80m, up 23% on last year, reflecting the strong sales performance together with good cost control. Operating profit which includes the impact of property and business disposals was £78m, up £9m.

We are reporting our Wholesale business separately from our Food business. This business generated sales of £269m in the period following the acquisition of Nisa and made an operating loss of £5m which mainly relates to costs of buying the business.

Our Funeral & Life Planning business saw sales increase by 5% to £174m, due to the high death rate in the first quarter of the year and increased probate volumes, both from buying Simplify Probate during the period and from our existing probate business.

The number of 'at need' funerals (funerals arranged at the time someone dies) was up 633 on last year to 53,213, but the number of funeral plans sold has fallen to 30,475 (2017: 35,498), mainly due to a fall in the overall size of this market.

Funeral & Life Planning underlying profit was £28m, slightly down on 2017 (£29m). Operating profit, which includes a loss on property disposals of £1m, was £27m (2017: £29m).

Insurance sales fell by 2% to £160m reflecting the very challenging trading conditions in the UK motor insurance market, where prices have fallen 11% since the first half of 2017.

The Insurance business made an underlying loss of £4m compared to a loss of £1m in 2017. The loss was higher than last year as we helped our insured Co-op members and customers recover from the impacts of the extreme weather early in the year, including the 'Beast from the East'. The operating loss was £14m (2017: £11m), which is after adjusting for the one-off costs of the transformation programme.

The underlying costs of our supporting functions have fallen slightly to £51m (2017: £52m).

One-off items, non-trading items and joint ventures

The table below shows the one-off items, non-trading items and joint ventures which have affected our results in the first half of the year (losses are shown in brackets):

	2018 £m	**2017 £m**
One-off items	9	(10)
Property and business disposals	(26)	4
Change in value of investment properties	11	7
Share of profits in associates and joint ventures	-	10
	(6)	11

One-off items in 2017 related to the transformation programme in our Insurance business. A similar level of costs has been incurred in relation to this programme in 2018, but these costs have been more than offset by a one-off profit of £20m from changes to pension benefits.

Property and business disposals includes the following items (losses are shown in brackets):

	2018 £m	**2017 £m**
Profit from the sale of smaller food stores to McColl's Retail Group	-	13
Other disposals and impairment charges	(26)	(9)
Total (loss)/profit on property and business disposals	(26)	4

Other disposals and impairment charges in 2018 are mainly due to additional onerous lease provisions (£21m).

Last year's results also included a £10m profit from our investment in the NOMA joint venture. We sold our stake in NOMA at the end of 2017.

Financing

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

	2018 £m	2017 £m
Underlying interest payable (the interest we pay on our borrowings)	(36)	(36)
Net pension finance income	21	23
Fair value movement on quoted debt	12	(12)
Fair value movement on interest rate swaps	(7)	(6)
Non-underlying finance interest	(4)	(5)
Net financing costs	(14)	(36)

The main difference in our financing costs from 2017 is the fair value movement on our quoted debt. The fair value movement depends on the market value of some of our debt and so can be income or a cost depending on what is happening in the financial markets. In 2018 this was income of £12m whereas in 2017 it was a cost of £12m.

During the first half of 2018, we adopted a new accounting standard, IFRS 9 Financial Instruments. The main impact of this on our accounts relates to how we value our Eurobond debt. Previously this was all measured at its fair value, but some of this debt is now recorded at amortised cost if it is not matched by interest rate swaps. We aren't required to restate last year's accounts for this change and so they aren't directly comparable. You can find out more about this change on page 45.

Our total net debt at the end of the period was £707m, down from the end of 2017 (£775m) and up on last year (£680m), but still well within our £0.9bn target.

Our balance sheet

Total equity increased by £464m in the first half of the year, mainly due to the remeasurement of the pension surplus and an adjustment to the amount of pension surplus which is expected to transfer to The Co-operative Bank as a result of sectionalising the Pace pension scheme.

Our working capital (which includes inventories together with trade and other receivables and payables) has reduced by £149m since the end of the year. This reflects the change we'd expect to see in our business between winter and summer, together with assets and liabilities brought into our accounts following the Nisa acquisition. More information on this acquisition is provided in note 15.

Contract liabilities, which are the liabilities relating to funeral plans, have increased by £123m since the year end, with our funeral plan sales exceeding the number redeemed. We keep assets to back up our funeral plans. These assets are invested and the value of these investments has increased by £94m. An independent actuarial valuation is carried out each year and we're comfortable that we have enough assets to meet the costs of carrying out the funerals in future. More information is provided in note 13.

Looking ahead

In the second half of the year we'll further grow the value we create and share with our members.

We'll continue to expand our presence within communities with the opening planned of 60 new food stores and 15 new funeral homes while our Insurance business will extend its reach by launching more new products in the second half of the year.

We're actively engaging with the Competition and Markets Authority and HM Treasury on competition and regulation in the funerals sector which we welcome and believe will strengthen and improve the market.

We're fully supporting the Groceries Code Adjudicator's investigation into practices relating to de-listing and the introduction of some specific charges, and we're continuing to make improvements to our processes for the benefit of our suppliers.

In the second half of the year we'll be developing our thinking around how best to support local communities and how to show the strength of our commitment to our members and customers so that they choose Co-op more often.

All of the markets we're trading in are changing at a dynamic rate and we'll continue to make sure that our offer remains modern and relevant.

As we mark the half year we believe we're meeting the needs of our members by running a successful family of businesses which are constantly adapting to social trends and anticipating our customers' expectations. Our support for local communities and our campaigning on issues of concern to our members shows, week in and week out, how we're a different and better way of doing business. All of this will help us build a Stronger Co-op and Stronger Communities.

Principal risks and uncertainties

The principal risks and uncertainties faced by our Co-op have been reviewed by the Directors and those risks set out in the 2017 Annual Report and Financial Statements remain relevant for the second half of 2018.

The Directors continuously monitor and re-assess our actions in relation to emerging risks and changing internal and external factors that could impact our business model and the way we operate.

Our businesses operate in extremely competitive markets, leading to pricing pressures, focus on volumes and the need for improved efficiency. Competitive pressure is considered to be a separate principal risk from changing market and economic conditions. Competitor actions and new entrants into the markets where we operate can change the competitive landscape. This means we have to continue to monitor our environment to make sure we can deliver our objectives.

The lack of clarity around the terms on which the UK will leave the European Union is under continued review, given its significance to the structure of the UK economy.

Below are the most critical risks to achieving our objectives.

Risk	**Potential consequences for our Co-op**
Transformation change delivery	We may not manage transformation change well and planned benefits from our activity may not be fully realised due to the volume and complexity involved, causing us to not fully meet our expectations
Changing market and economic conditions	Changes to our consumers' spending power and patterns, availability of labour and disruption to parts of our supply chain may threaten the achievement of our objectives
Competitive pressure	Competitor actions, new entrants and innovation may lead to changes in our competitive landscape, preventing us from completely 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 mean we can't invest in communities
Fuel for Growth	If we don't find ways to save money and become more efficient, our profitability will be lower than planned and make us less competitive and able to invest in our communities
Brand and ethical framework	Failure to create a brand and ethical framework that strengthens our Co-op Way and helps us 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

Risk	Potential consequences for our Co-op
Regulatory compliance	Our Co-op is subject to various laws and regulations across its businesses. Failure to respond to changes in regulations or stay compliant could affect our brand reputation and profitability through fines and sanctions from our regulators
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 financial loss, regulatory fines, and reputational damage
IT security and cyber treats	Our ability to serve our customers is highly dependent on our IT systems. Any prolonged downtime or data breaches could prevent us from providing our products and services to our customers and members.

More information on the principal risks and how we mitigate those risks can be found on pages 33-36 of the 2017 Annual Report.

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
Chair

13 September 2018

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 7 July 2018 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the 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 2017 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 7 July 2018 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

13 September 2018

Condensed consolidated income statement
for the 26 weeks ended 7 July 2018

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

	Notes	**26 weeks ended 7 July 2018 (unaudited) £m**	26 weeks ended 1 July 2017 (unaudited & restated*) £m	53 weeks ended 6 January 2018 (audited & restated*) £m
Revenue	1	**4,989**	4,544	9,274
Operating expenses		**(4,985)**	(4,545)	(9,256)
Other income		**36**	41	88
Operating profit	1	**40**	40	106
Finance income	3	**33**	23	44
Finance costs	4	**(47)**	(59)	(106)
Share of profit of associates and joint ventures	8	**-**	10	8
Profit before tax		**26**	14	52
Taxation	5	**(5)**	(2)	2
Profit for the period (all attributable to members of the Society)		**21**	12	54

Non-GAAP measure: underlying profit before tax and member rewards

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. The second table below shows our underlying profit after taking out our member rewards.

	Notes	**26 weeks ended 7 July 2018 (unaudited)** £m	26 weeks ended 1 July 2017 (unaudited & restated*) £m	53 weeks ended 6 January 2018 (audited & restated*) £m
Operating profit (as above)		**40**	40	106
Add back / (deduct):				
One-off items	1	**(9)**	10	23
Property and business disposals	1	**26**	(4)	4
Change in value of investment properties		**(11)**	(7)	(15)
Less underlying interest payable	4	**(36)**	(36)	(73)
Underlying profit before tax		**10**	3	45
Underlying profit before tax (as above)		**10**	3	45
Add back: member rewards	14	**29**	29	61
Underlying profit before tax and member rewards		**39**	32	106

* See general accounting policies section on page 44 for details of the restatement.

Condensed consolidated statement of comprehensive income
for the 26 weeks ended 7 July 2018

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 7 July 2018 (unaudited) £m**	26 weeks ended 1 July 2017 (unaudited & restated*) £m	53 weeks ended 6 January 2018 (audited & restated*) £m
Profit for the period		**21**	12	54
Other comprehensive income / (losses):				
Items that will never be reclassified to the income statement:				
Remeasurement gains / (losses) on employee pension schemes	6	**455**	(14)	112
Refinement of the derecognition of pension surplus attributable to Co-operative Bank	6	**31**	(374)	(374)
Related tax on items above	5	**(83)**	66	44
		403	(322)	(218)
Items that are or may be reclassified to the income statement:				
Changes in fair value of insurance assets through other comprehensive income		**(6)**	(3)	(7)
Related tax on items above	5	**1**	-	1
		(5)	(3)	(6)
Other comprehensive income / (losses) for the period net of tax		**398**	(325)	(224)
Total comprehensive income / (losses) for the period (all attributable to members of the Society)		**419**	(313)	(170)

* See general accounting policies section on page 44 for details of the restatement.

Condensed consolidated balance sheet
as at 7 July 2018

What does this show? Our balance sheet is a snapshot of our financial position as at 7 July 2018. It shows the assets we have and the amounts we owe.

	Notes	**As at 7 July 2018 (unaudited) £m**	As at 1 July 2017 (unaudited & restated*) £m	As at 6 January 2018 (audited & restated*) £m
Non-current assets				
Property, plant and equipment		**2,056**	2,003	2,014
Goodwill and intangible assets	15	**1,014**	905	897
Investment properties		**45**	53	68
Investments in associates and joint ventures	8	**3**	35	3
Other investments	13	**1,711**	1,509	1,538
Reinsurance contracts		**47**	52	44
Derivatives		**31**	44	38
Pension assets	6	**2,238**	1,630	1,746
Trade and other receivables		**66**	68	42
Contract assets (funeral plans)		**34**	24	31
Deferred tax assets	5	**247**	235	245
Reclaim Fund assets		**221**	278	234
Total non-current assets		**7,713**	6,836	6,900
Current assets				
Inventories		**433**	379	389
Trade and other receivables		**721**	674	635
Contract assets (funeral plans)		**3**	3	2
Cash and cash equivalents		**480**	497	403
Assets held for sale	7	**12**	29	6
Other investments	13	**300**	382	415
Reinsurance contracts		**15**	17	14
Reclaim Fund assets		**470**	358	439
Total current assets		**2,434**	2,339	2,303
Total assets		**10,147**	9,175	9,203
Non-current liabilities				
Interest-bearing loans and borrowings	9	**1,087**	1,154	1,138
Trade and other payables		**77**	77	75
Contract liabilities (funeral plans)		**1,279**	1,090	1,168
Provisions		**222**	213	220
Pension liabilities	6	**136**	244	193
Deferred tax liabilities	5	**514**	370	400
Insurance contracts		**295**	298	289
Reclaim Fund liabilities		**464**	562	446
Total non-current liabilities		**4,074**	4,008	3,929
Current liabilities				
Overdrafts		**4**	5	6
Interest-bearing loans and borrowings	9	**96**	18	34
Trade and other payables		**1,679**	1,615	1,400
Contract liabilities (funeral plans)		**127**	108	115
Provisions		**91**	104	90
Liabilities held for sale	7	**-**	2	-
Insurance contracts		**444**	444	461
Reclaim Fund liabilities		**153**	-	153
Total current liabilities		**2,594**	2,296	2,259
Total liabilities		**6,668**	6,304	6,188
Equity				
Members' share capital		**73**	72	73
Retained earnings		**3,315**	2,695	2,841
Other reserves		**91**	104	101
Total equity		**3,479**	2,871	3,015
Total equity and liabilities		**10,147**	9,175	9,203

* See general accounting policies section on page 44 for details of the restatement.

Condensed consolidated statement of changes in equity

for the 26 weeks ended 7 July 2018

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

	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 6 January 2018 (restated)		**73**	**2,841**	**101**	**3,015**
Impact of adoption of IFRS 9 on liabilities as at 7 January 2018*	9	**-**	**55**	**-**	**55**
Tax on impact of IFRS 9 on liabilities as at 7 January 2018	5	**-**	**(10)**	**-**	**(10)**
Balance at 6 January 2018 (after effects of IFRS 9)		**73**	**2,886**	**101**	**3,060**
Profit for the period		**-**	**21**	**-**	**21**
Other comprehensive income:					
Remeasurement gains on employee pension schemes	6	**-**	**455**	**-**	**455**
Refinement of derecognition of pension surplus attributable to Co-operative Bank	6	**-**	**31**	**-**	**31**
Gains less losses on fair value of insurance assets		**-**	**-**	**(5)**	**(5)**
Fair value gains 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 losses		**-**	**403**	**(5)**	**398**
Revaluation reserve recycled to retained earnings		**-**	**5**	**(5)**	**-**
Balance at 7 July 2018		**73**	**3,315**	**91**	**3,479**

For the 26 weeks ended 1 July 2017 (unaudited & restated*)	Notes				
Balance at 31 December 2016		72	3,005	107	3,184
Profit for the period		-	12	-	12
Other comprehensive income:					
Remeasurement losses on employee pension schemes	6	-	(14)	-	(14)
Derecognition of pension surplus attributable to Co-operative Bank	6	-	(374)	-	(374)
Gains less losses on fair value of insurance assets		-	-	(2)	(2)
Fair value gains on insurance assets transferred to the income statement		-	-	(1)	(1)
Tax on items taken directly to other comprehensive income		-	66	-	66
Total other comprehensive income		-	(322)	(3)	(325)
Balance at 1 July 2017		72	2,695	104	2,871

For the 53 weeks ended 6 January 2018 (audited & restated*)	Notes				
Balance at 31 December 2016		72	3,005	107	3,184
Profit for the period		-	54	-	54
Other comprehensive income:					
Remeasurement gains on employee pension schemes	6	-	112	-	112
Derecognition of pension surplus attributable to Co-operative Bank	6	-	(374)	-	(374)
Gains less losses on fair value of insurance assets		-	-	(4)	(4)
Fair value gains on insurance assets transferred to the income statement		-	-	(3)	(3)
Tax on items taken directly to other comprehensive income		-	44	1	45
Total other comprehensive income		-	(218)	(6)	(224)
Contributions by and distributions to members:					
Shares issued less shares withdrawn		1	-	-	1
Contributions by and distributions to members		1	-	-	1
Balance at 6 January 2018		73	2,841	101	3,015

* See general accounting policies section on page 44 for details of the restatement.

Condensed consolidated statement of cash flows
for the 26 weeks ended 7 July
2018

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	**26 weeks ended 7 July 2018 (unaudited) £m**	26 weeks ended 1 July 2017 (unaudited) £m	53 weeks ended 6 January 2018 (audited) £m
Net cash from operating activities	10	**255**	263	363
Cash flows from investing activities				
Acquisition of property, plant and equipment		**(162)**	(194)	(427)
Proceeds from sale of property, plant and equipment		**41**	139	186
Purchase of intangible assets		**-**	(3)	(4)
Acquisition of businesses, net of cash acquired	15	**(24)**	(7)	(10)
Proceeds from sale of investments		**-**	-	55
Disposal of businesses, net of cash disposed		**-**	(2)	-
Distribution received from investments		**-**	34	33
Net cash used in investing activities		**(145)**	(33)	(167)
Cash flows from financing activities				
Interest paid on borrowings		**(12)**	(12)	(75)
Repayment of corporate investor shares	9	**(3)**	(2)	(8)
Repayment of borrowings	9	**(14)**	-	(1)
Finance leases	9	**(2)**	(1)	8
Net cash used in financing activities		**(31)**	(15)	(76)
Net increase in cash and cash equivalents		**79**	215	120
Cash and cash equivalents at beginning of period		**397**	277	277
Cash and cash equivalents at end of period		**476**	492	397
Analysis of cash and cash equivalents				
Overdrafts per balance sheet		**(4)**	(5)	(6)
Cash and cash equivalents per balance sheet		**480**	497	403
		476	492	397

Group Net Debt	Notes	**26 weeks ended 7 July 2018 (unaudited)**	26 weeks ended 1 July 2017 (unaudited)	53 weeks ended 6 January 2018 (audited)
Interest-bearing loans and borrowings:				
- current		**(96)**	(18)	(34)
- non-current		**(1,087)**	(1,154)	(1,138)
Total Debt		**(1,183)**	(1,172)	(1,172)
- Group cash		**480**	497	403
- Overdrafts		**(4)**	(5)	(6)
Group Net Debt	9	**(707)**	(680)	(775)
Add back fair value / amortised cost adjustment	9	**71**	140	138
Group Net Debt (pre fair value adjustment)	9	**(636)**	(540)	(637)

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 7 July 2018 (unaudited)	**Revenue from external customers**	**Underlying segment operating profit (b)**	**One-off items (b) (i)**	**Property and business disposals (b) (ii)**	**Change in value of investment properties**	**Operating profit**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Food	**3,607**	**80**	**-**	**(2)**	**-**	**78**
Wholesale (a)	**269**	**(5)**	**-**	**-**	**-**	**(5)**
Funeral and Life Planning (a)	**174**	**28**	**-**	**(1)**	**-**	**27**
Insurance	**160**	**(4)**	**(10)**	**-**	**-**	**(14)**
Other businesses (d)	**28**	**(2)**	**-**	**-**	**-**	**(2)**
Federal (f)	**751**	**-**	**-**	**-**	**-**	**-**
Costs from supporting functions (a)	**-**	**(51)**	**19**	**(23)**	**11**	**(44)**
Total	**4,989**	**46**	**9**	**(26)**	**11**	**40**

26 weeks ended 1 July 2017 (unaudited & restated) (e)	Revenue from external customers	Underlying segment operating profit (b)	One-off items (b) (i)	Property and business disposals (b) (ii)	Change in value of investment properties	Operating profit
	£m	£m	£m	£m	£m	£m
Food	3,501	65	-	4	-	69
Wholesale (a)	-	-	-	-	-	-
Funeral and Life Planning (a)	166	29	-	-	-	29
Insurance	164	(1)	(10)	-	-	(11)
Other businesses (d)	27	(2)	-	-	-	(2)
Federal (f)	686	-	-	-	-	-
Costs from supporting functions (a)	-	(52)	-	-	7	(45)
Total	4,544	39	(10)	4	7	40

53 weeks ended 6 January 2018 (audited & restated) (e)	Revenue from external customers	Underlying segment operating profit (b)	One-off items (b) (i)	Property and business disposals (b) (ii)	Change in value of investment properties	Operating profit
	£m	£m	£m	£m	£m	£m
Food	7,103	182	-	(14)	-	168
Wholesale (a)	-	-	-	-	-	-
Funeral and Life Planning (a)	320	42	-	-	-	42
Insurance	331	11	(23)	-	-	(12)
Other businesses (d)	59	(3)	-	(2)	-	(5)
Federal (e)	1,461	-	-	-	-	-
Costs from supporting functions (a)	-	(114)	-	12	15	(87)
Total	9,274	118	(23)	(4)	15	106

a) The tables include a new segment for Wholesale. This includes the results for Nisa (following the acquisition on 8 May) as well as other central wholesale costs including transaction costs of the Nisa acquisition. Transactions with independent society members through the joint buying group are included in the Federal segment. Legal Services is now reported within Funeral and Life Planning as was the case for the full year comparative results. The half-year comparatives have been re-stated. The results from the Property support function (including changes in value of investment properties) are now shown in costs from supporting functions net of some recharges to the business (previously they were included within Food). The comparatives for Food, supporting functions and Funeral and Life Planning have therefore been adjusted accordingly to effect this. All segments are consistent with the information that is presented to the Board.

Notes to the interim financial statements continued

1 Operating segments continued

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, our share of the profits or losses from our associates and joint ventures, and one-off costs. The difference between underlying segment operating profit and operating profit includes:

i) One-off items includes a gain of £20m in relation to past service pension costs (retirement discretion credit) offset by a £10m charge (2017: £10m) in relation to replatforming costs within the Insurance business and £1m (2017: £nil) of costs relating to Bank separation activity.

ii) Losses from property and business disposals of £26m (2017: £4m profit) - see table on page 27 for further details.

c) Transactions between operating segments excluded from the above analysis are £3m (2017: £3m) sales of electrical goods by Co-op Electrical to Food and £1m (2017: £1m) sales of legal cover on insurance policies by Legal Services to Insurance.

d) Other businesses is mainly Co-op Electrical.

e) The half-year and full-year comparative figures have been restated following the adoption of IFRS 15 (Revenue from Contracts with Customers). See general accounting policies section on page 44 for further details of the restatements.

f) 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.

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

	Notes	**26 weeks ended 7 July 2018 (unaudited) £m**	26 weeks ended 1 July 2017 (unaudited & restated*) £m	53 weeks ended 6 January 2018 (audited & restated*) £m
Underlying segment operating profit		**46**	39	118
Underlying interest payable	4	**(36)**	(36)	(73)
Underlying profit before tax		**10**	3	45
One-off items		**9**	(10)	(23)
(Losses) / Profits from property and business disposals (see below)		**(26)**	4	(4)
Change in value of investment properties		**11**	7	15
Finance income	3	**33**	23	44
Non-cash finance costs	4	**(11)**	(23)	(33)
Share of profits of associates and joint ventures	8	**-**	10	8
Profit before tax		**26**	14	52

* See general accounting policies section on page 44 for details of the restatement.

Notes to the interim financial statements continued

1 Operating segments continued

(Losses) / Profits from property and business disposals	26 weeks ended 7 July 2018 (unaudited) £m	£m	26 weeks ended 1 July 2017 (unaudited) £m	£m	53 weeks ended 6 January 2018 (audited) £m	£m
Sale of NOMA (50% stake in joint venture)						
- proceeds	**-**		-		35	
- less net book value written off	**-**		-		(23)	
		-		-		12
Food store sales to McColl's Retail Group						
- proceeds	**-**		112		121	
- less net book value written off	**-**		(99)		(114)	
		-		13		7
Disposals and onerous leases						
- proceeds	**41**		27		85	
- less net book value written off	**(40)**		(33)		(82)	
- provisions recognised	**(21)**		(2)		(19)	
		(20)		(8)		(16)
Impairment of property, plant and equipment and goodwill		**(6)**		(1)		(7)
(Loss) / Profit on disposal		**(26)**		4		(4)

2 Supplier income

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

Supplier Income	**26 weeks ended 7 July 2018 (unaudited) £m**	26 weeks ended 1 July 2017 (unaudited) £m	53 weeks ended 6 January 2018 (audited) £m
Long term agreements	**67**	70	149
Bonus income	**58**	58	142
Promotional income	**156**	167	337
Total supplier income	**281**	295	628

Percentage of Food's Cost of Sales before deducting Supplier Income	**%**	% (restated*)	% (restated*)
Long term agreements	**2.4%**	2.5%	2.7%
Bonus income	**2.0%**	2.1%	2.5%
Promotional income	**5.5%**	6.1%	6.0%
Total %	**9.9%**	10.7%	11.2%

Trade receivables includes £57m of supplier income that is due to Food from suppliers. As at 13 September 2018 £52m of the current period balance had been invoiced and settled.

* The comparative percentage figures have been restated as a result of the change in accounting treatment of rebates paid to FRTS members following the adoption of IFRS 15. See general accounting policies section on page 44. All figures exclude any income or purchases made as part of the Federal joint buying group.

Notes to the interim financial statements continued

3 Finance income

What does this show? Finance income arises from the interest earned on our pension scheme and interest from debtors we may have discounted in the past. 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 7 July 2018 (unaudited)	26 weeks ended 1 July 2017 (unaudited)	53 weeks ended 6 January 2018 (audited)
	£m	£m	£m
Net pension finance income	**21**	23	42
Fair value movement on quoted debt	**12**	-	-
Discount unwind from trade receivables	**-**	-	2
Total finance income	**33**	23	44

The Group has 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 are designated as financial liabilities at fair value through the income statement. The proportion of the Group's Eurobond debt, which is hedged by interest rate swaps, is fair valued each period with the fair value movement going through the income statement. In the current period the movement was a gain and is shown as finance income in the table above. In the comparative periods the fair value movement represented a charge to the income statement and is shown in finance costs (note 4).

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). 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 Costs (see note 3).

	26 weeks ended 7 July 2018 (unaudited)	26 weeks ended 1 July 2017 (unaudited)	53 weeks ended 6 January 2018 (audited)
	£m	£m	£m
Loans repayable within five years	**(12)**	(13)	(27)
Loans repayable wholly or in part after five years	**(24)**	(23)	(46)
Underlying interest payable	**(36)**	(36)	(73)
Fair value movement on quoted debt	**-**	(12)	(11)
Fair value movement on interest rate swaps	**(7)**	(6)	(12)
Non-underlying finance interest	**(4)**	(5)	(10)
Non-cash finance costs	**(11)**	(23)	(33)
Total finance costs	**(47)**	(59)	(106)

The Group has 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 are designated as financial liabilities at fair value through the income statement. The proportion of the Group's Eurobond debt, which is hedged by interest rate swaps, is fair valued each period with the fair value movement going through the income statement. In the current period the fair value movement is a credit to the income statement and is shown in Finance income (note 3). Fair value movements on forward currency transactions were immaterial in the current and prior periods.

Upon adoption of IFRS 9 the unhedged proportion of the Group's Eurobonds are now carried at amortised cost. As permitted under IFRS 9, the comparatives have not been restated.

Non underlying finance interest includes the impact of discount unwind on payables and provisions and the impact of IFRS 9 adjustments in relation to interest and fees on bonds carried at amortised cost.

Notes to the interim financial statements continued

5 Taxation

What does this show? This note shows the tax charge recognised at half year. This is calculated in three parts based on (i) material transactions reflected in the half year results, such as business acquisitions or property disposals (ii) recognition of the full impact of enquiries concluded by HMRC in the first half of the year and (iii) the forecast effective tax rate for the full year applied to our underlying half year trading results (excluding the tax impact of the material transactions).

The tax charge of £5m (2017: £2m) and effective tax rate of 19% (2017: 14%) relates to:

1. A review of the effective tax rate for the full year has been applied to the underlying trading results - this results in an expected tax charge of £nil.
2. A charge of £11m has been posted in respect of the current year movement in the deferred tax liability from our pension assets.
3. HMRC concluded on an historic enquiry in the first half of the year, as such the uncertain tax risk provision for this enquiry has been released in full - this reduces the deferred tax charge by £2m.
4. A reduction in the amount owed to The Co-operative Bank for group relief has reduced the tax charge by £2m.
5. A payment for historic group relief has been received from The Co-operative Bank which reduces the tax charge by £2m.

The Group does not expect to be tax-paying in respect of their full year results due to the availability of brought-forward tax losses and allowances. The net deferred tax liability of the Group at half year is £267m (2017: £135m) and the corporation tax debtor is £1m. A reconciliation of the opening deferred tax balance to the closing balance is set out below:

Movements in deferred tax in period to 7 July 2018	**26 weeks ended 7 July 2018 (unaudited) £m**
At beginning of the year (net liability)	**155**
Charged to opening reserves:	
Impact of adoption of IFRS 9	**10**
Income statement charge	**9**
Deferred tax arising on the acquisition of Nisa	**11**
Charged to equity:	
Employee pension schemes *	**83**
Insurance assets	**(1)**
At end of period (net liability)	**267**

* Movement reflects the deferred tax charge on the remeasurement gains arising on employee pension schemes and refinement of the pension surplus attributable to Co-operative Bank recognised in the Condensed Consolidated Statement of Comprehensive Income.

6 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.

	7 July 2018 (unaudited)	1 July 2017 (unaudited & restated*)	6 January 2018 (audited)
	£m	£m	£m
Pension schemes in surplus	**2,238**	1,630	1,746
Pension schemes in deficit	**(136)**	(244)	(193)
Closing net retirement benefit	**2,102**	1,386	1,553

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 7 July 2018 in accordance with IAS 19. Valuations for the Somerfield and United schemes have also been updated for the 2018 interim financial statements. All other schemes have only been adjusted for interest and cash movements.

Notes to the interim financial statements continued

6 **Pensions** continued

	7 July 2018 (unaudited)	1 July 2017 (unaudited)	6 January 2018 (audited)
The principal assumptions used to determine the liabilities of the Pace pension scheme were:			
Discount rate	**2.91%**	2.68%	2.62%
RPI Inflation rate	**3.33%**	3.39%	3.44%
Pension increases in payment (RPI capped at 5.0% p.a.)	**3.18%**	3.22%	3.25%
Future salary increases	**3.58%**	2.29%	3.69%

	7 July 2018 (unaudited) £m	1 July 2017 (unaudited & restated*) £m	6 January 2018 (audited) £m
Opening net retirement benefit attributable to Group	**1,553**	1,727	1,727
Admin expenses paid from plan assets	**(2)**	(3)	(3)
Past service cost (retirement discretion credit)	**20**	-	-
Net finance income	**21**	23	42
Employer contributions	**24**	27	49
Remeasurement gains / (losses)	**455**	(14)	112
Refinement / (derecognition) of pension surplus attributable to Co-operative Bank	**31**	(374)	(374)
Closing net retirement benefit	**2,102**	1,386	1,553

*See general accounting policies section on page 44 for details of the restatement.

Sectionalisation of Pace

During the period ended 7 July 2018, the Group reflected a £31m benefit to the pension surplus as a consequence of refining the previous 2017 year end estimate of the derecognition of The Co-operative Bank ('the Bank') from the Pace pension scheme.

During 2017, the Group, the Bank and the Pace Scheme Trustees agreed heads of terms to sectionalise the Bank's element of the Pace multi employer defined benefit pension scheme. During 2017, as a consequence of agreeing the heads of terms, sufficient information became available to make a reasonable estimate of the Bank's share of assets and liabilities. The ability to determine an appropriate share of the scheme between the participating entities resulted in a derecognition of £374m of the Pace surplus during 2017 with a corresponding change through other comprehensive income.

In the half year ended 7 July 2018, experience adjustments have affected the share of the Pace defined benefit scheme assets and liabilities attributable to the Bank. The experience adjustments regarding derecognition of the Bank's share has been reflected in other comprehensive income. The Trustee of Pace legally sectionalised the Pace defined benefit scheme on 6 August 2018, in line with the heads of terms agreed in 2017. After this date, the Group accounts only for the Co-op section of Pace and no further experience adjustments relating to the Bank's share of the scheme will arise.

The sectionalisation of Pace also removes the Bank's 'last man standing' obligation to the rest of the Pace scheme. An obligation on the Group to support the pension liabilities of the Bank section could arise in limited circumstances if the Bank were to not meet its own section pension liabilities.

Notes to the interim financial statements continued

6 Pensions continued

Amounts recognised in the balance sheet:	7 July 2018 (unaudited) £m	1 July 2017 (unaudited & restated*) £m	6 January 2018 (audited) £m
Fair value of plan assets:			
- Pace	**8,611**	8,619	8,564
- Somerfield Scheme	**1,099**	1,102	1,114
- Other schemes	**853**	816	860
Total assets	**10,563**	10,537	10,538
Present value of liabilities:			
- Pace	**(6,567)**	(7,148)	(6,961)
- Somerfield Scheme	**(905)**	(943)	(971)
- Other schemes	**(989)**	(1,060)	(1,053)
Total liabilities	**(8,461)**	(9,151)	(8,985)
Net retirement benefit asset per balance sheet:			
Pace	**2,044**	1,471	1,603
Somerfield Scheme	**194**	159	143
Total assets	**2,238**	1,630	1,746
Other schemes	**(136)**	(244)	(193)
Total Liabilities	**(136)**	(244)	(193)
Net Asset	**2,102**	1,386	1,553

*See general accounting policies section on page 44 for details of the restatement.

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 1 July 2017 and 6 January 2018: £6m).

7 Assets and liabilities held for sale

What does this show? This note shows the value of the assets that the Group holds for sale at the period end. These are assets that we plan to sell soon and generally relate to Food stores.

A breakdown of the assets and liabilities classified as held for sale are below:

	7 July 2018 (unaudited) £m	1 July 2017 (unaudited) £m	6 January 2018 (audited) £m
Property, plant and equipment	**12**	9	6
Investment Properties	**-**	17	-
Intangible assets	**-**	3	-
Total assets	**12**	29	6
Deferred tax liabilities	**-**	(2)	-
Total liabilities	**-**	(2)	-

Notes to the interim financial statements continued

8 Investments in associates and joint ventures

What does this show? This note gives details of our investment in our remaining windfarm joint venture and, in the comparative periods, our Manchester property joint venture (NOMA). These items are called 'investments in associates' as the Group has a significant influence over their activities but does not have control. The note shows how the value of these investments in the balance sheet has changed during the period, as well as what share of their profit or loss has been shown in our consolidated income statement.

The Group's share of profit in relation to associates and joint ventures for the period was £nil (26 weeks ended 1 July 2017: £10m). A breakdown of the investment and income is disclosed below:

	26 weeks ended 7 July 2018 (unaudited)		26 weeks ended 1 July 2017 (unaudited)		53 weeks ended 6 January 2018 (audited)	
	Income £m	**Investments £m**	Income £m	Investments £m	Income £m	Investments £m
NOMA	**-**	**-**	10	22	8	-
Other investments (including windfarms)	**-**	**3**	-	13	-	3
Total	**-**	**3**	10	35	8	3

NOMA
On 22 December 2017 the Group completed the sale of its 50% stake in NOMA to Hermes Real Estate.

The movement in investments in associates, joint ventures and other investments during the period are as follows:

	26 weeks ended 7 July 2018 (unaudited) £m	26 weeks ended 1 July 2017 (unaudited) £m	53 weeks ended 6 January 2018 (audited) £m
At beginning of period	**3**	52	52
Additions	**-**	7	10
Share of profits	**-**	10	8
Distributions received	**-**	(34)	(33)
Disposals	**-**	-	(34)
At end of period	**3**	35	3

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 finance leases. All items are split between those that are due to be repaid within one year (current) and those which won't fall due until after more than one year (non-current).

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

	As at 7 July 2018 (unaudited) £m	As at 1 July 2017 (unaudited) £m	As at 6 January 2018 (audited) £m
Non-current liabilities:			
£285m 6 7⁄8% Eurobond Notes due 2020 - (fair value) *	**309**	511	502
£165m 6 7⁄8% Eurobond Notes due 2020 (amortised cost) *	**170**	-	-
£105m 7 1⁄2% Eurobond Notes due 2026 (fair value) *	**126**	429	436
£245m 7 1⁄2% Eurobond Notes due 2026 (amortised cost) *	**266**	-	-
£21m 8 7⁄8% First Mortgage Debenture Stock 2018 *	**-**	21	-
£109m 11% final repayment subordinated notes due 2025	**109**	109	109
£16m Instalment repayment notes (final payment 2025)	**15**	16	15
£9m 2.57% Nisa bank term loan (facility expires 2021)	**9**	-	-
Non-current portion of finance lease liabilities	**15**	-	8
Trading Group interest-bearing loans and borrowings	**1,019**	1,086	1,070
£70m 12% Financial Services Callable Dated Deferrable Tier Two Notes due 2025	**68**	68	68
Total Group interest-bearing loans and borrowings	**1,087**	1,154	1,138

	As at 7 July 2018 (unaudited) £m	As at 1 July 2017 (unaudited) £m	As at 6 January 2018 (audited) £m
Current liabilities:			
Eurobonds 2020 (amortised cost) - interest accrued **	**10**	-	-
Eurobonds 2026 (amortised cost) - interest accrued **	**16**	-	-
£21m 8 7/8% First Mortgage Debenture Stock 2018*	**21**	-	21
Instalment repayment notes (final payment 2025)	**1**	1	1
Funds in use invoice discounting facility (Nisa) ***	**43**	-	-
Corporate investor shares	**5**	14	8
Current portion of finance lease liabilities	**-**	1	2
Other unsecured loans	**-**	2	2
Total Group interest-bearing loans and borrowings	**96**	18	34

* On inception these drawn-down loan commitments were designated as financial liabilities at fair value through the income statement. The Group has 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 are designated as financial liabilities at fair value through the income statement. Upon adoption of IFRS 9, the unhedged proportion of the Eurobonds were restated to amortised cost, resulting in a reduction in the carrying value of £55m and a corresponding credit to reserves (as shown in the Condensed Consolidated Statement of Changes in Equity). See general accounting policies section on page 44 for details of the impact of the new standard. All of the other liabilities, except the finance lease liability, are classified as loans and receivables in accordance with IAS 39.

** Included within current liabilities is £10m of accrued interest in relation to the £165m 6 7⁄8% Eurobond Notes due 2020 held at amortised cost (within non-current liabilities) and £16m of accrued interest in relation to the £245m 7 1⁄2% Eurobond Notes due 2026 held at amortised cost (within non-current liabilities).

*** Balance relates to a funds in use invoice discounting facility taken on following the acquisition of Nisa. This arrangement has been treated as a current borrowing with a balance of £43m as at 7 July 2018. The balance on acquisition of Nisa on 8 May 2018 was £57m (see note 15).

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 7 July 2018 (unaudited)	Start of period £m	Acquisition of Subsidiary £m	Non cash movements £m	Cash flow £m	Movement in corporate investor shares £m	End of period £m
Interest-bearing loans and borrowings:						
- current	**(34)**	**(57)**	**(24)**	**16**	**3**	**(96)**
- non-current	**(1,138)**	**(9)**	**60**	**-**	**-**	**(1,087)**
Total Debt	**(1,172)**	**(66)**	**36**	**16**	**3**	**(1,183)**
Group cash:						
- cash	**403**	**1**	**-**	**76**	**-**	**480**
- overdrafts	**(6)**	**-**	**-**	**2**	**-**	**(4)**
Group Net Debt	**(775)**	**(65)**	**36**	**94**	**3**	**(707)**
Comprised of:						
Trading Group Debt	**(1,104)**	**(66)**	**36**	**16**	**3**	**(1,115)**
Trading Group Cash	**314**	**1**	**-**	**63**	**-**	**378**
Trading Group Net Debt	**(790)**	**(65)**	**36**	**79**	**3**	**(737)**
CISGIL debt and overdrafts	**(74)**	**-**	**-**	**2**	**-**	**(72)**
Co-operative Banking Group cash and overdrafts	**89**	**-**	**-**	**13**	**-**	**102**
Group Net Debt	**(775)**	**(65)**	**36**	**94**	**3**	**(707)**
Less impact of adopting IFRS 9 *	**55**	**-**	**(55)**	**-**	**-**	**-**
Less fair value / amortised cost adjustment	**83**	**-**	**(12)**	**-**	**-**	**71**
Group Net Debt before fair value / amortised cost adjustment	**(637)**	**(65)**	**(31)**	**94**	**3**	**(636)**

* See general accounting policies section on page 44 for details of the impact of the new standard.

For 26 weeks ended 1 July 2017 (unaudited)	Start of period £m	Acquisition of Subsidiary £m	Non cash movements £m	Cash flow £m	Movement in corporate investor shares £m	End of period £m
Interest-bearing loans and borrowings:						
- current	(21)	-	-	1	2	(18)
- non-current	(1,141)	-	(13)	-	-	(1,154)
Total Debt	(1,162)	-	(13)	1	2	(1,172)
Group cash:						
- cash	283	-	-	214	-	497
- overdraft	(6)	-	-	1	-	(5)
Group Net Debt	(885)	-	(13)	216	2	(680)
Comprised of:						
Trading Group Debt	(1,095)	-	(13)	2	2	(1,104)
Trading Group Cash	208	-	-	190	-	398
Trading Group Net Debt	(887)	-	(13)	192	2	(706)
CISGIL debt and overdrafts	(73)	-	-	-	-	(73)
Co-operative Banking Group cash and overdrafts	75	-	-	24	-	99
Group Net Debt	(885)	-	(13)	216	2	(680)
Less fair value adjustment	127	-	13	-	-	140
Group Net Debt before fair value adjustment	(758)	-	-	216	2	(540)

Notes to the interim financial statements continued

9 Interest-bearing loans and borrowings continued

For 53 weeks ended 6 January 2018 (audited)	Start of period £m	Acquisition of Subsidiary £m	Non cash movements £m	Cash flow £m	Movement in corporate investor shares £m	End of period £m
Interest-bearing loans and borrowings:						
- current	(21)	-	(21)	-	8	(34)
- non-current	(1,141)	-	10	(7)	-	(1,138)
Total Debt	(1,162)	-	(11)	(7)	8	(1,172)
Group cash:						
- cash	283	-	-	120	-	403
- overdraft	(6)	-	-	-	-	(6)
Group Net Debt	(885)	-	(11)	113	8	(775)
Comprised of:						
Trading Group Debt	(1,095)	-	(11)	(6)	8	(1,104)
Trading Group Cash	208	-	-	106	-	314
Trading Group Net Debt	(887)	-	(11)	100	8	(790)
CISGIL debt and overdrafts	(73)	-	-	(1)	-	(74)
Co-operative Banking Group cash and overdrafts	75	-	-	14	-	89
Group Net Debt	(885)	-	(11)	113	8	(775)
Less fair value adjustment	127	-	11			138
Group Net debt before fair value adjustment	(758)	-	-	113	8	(637)

Notes to the interim financial statements continued

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.

	26 weeks ended 7 July 2018 (unaudited)	26 weeks ended 1 July 2017 (unaudited & restated*)	53 weeks ended 6 January 2018 (audited & restated*)
	£m	£m	£m
Operating profit	**40**	40	106
Depreciation and amortisation charges (excluding deferred acquisition costs)	**135**	126	264
Non-current asset impairments	**6**	1	9
Profit on disposal of businesses and non-current assets	**20**	(5)	(4)
Change in value of investment properties	**(11)**	(7)	(15)
Retirement benefit obligations **	**(43)**	(22)	(45)
Decrease in inventories	**5**	48	50
Increase in receivables	**(91)**	(88)	(128)
Increase in contract assets (funeral plans)	**(3)**	(2)	(9)
Increase in contract liabilities (funeral plans)	**111**	76	154
Increase / (decrease) in payables and provisions	**76**	89	(46)
Net cash flow from operating activities before asset / liability movements in Financial Services	**245**	256	336
Fair value through profit and loss movement	**38**	45	14
Fair value through other comprehensive income movement	**(8)**	(16)	18
Movement in deferred acquisition costs	**-**	-	1
Reinsurance assets	**(4)**	(15)	(5)
Loan receivables at amortised cost	**-**	1	9
Insurance and other receivables	**2**	(34)	(23)
Insurance and participation contract provisions	**(7)**	19	24
Insurance and other payables	**(11)**	7	(11)
Asset and liability movements in Financial Services	**10**	7	27
Net cash flow from operating activities	**255**	263	363

* See general accounting policies section on page 44 for details of the restatement.

** Balance includes a one-off gain of £20m in relation to past service pension costs (retirement discretion credit)

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 2017 annual report.

a) Capital expenditure not accrued for, but committed by the Group at 7 July 2018 was £11m (1 July 2017: £nil).

b) There are no significant changes to the contingent liabilities of the Group as disclosed in the 2017 annual report.

12 Related party transactions and balances

What does this show? Related parties include people (such as the directors and key management personnel) as well as entities (such as subsidiaries, associates or joint ventures of the Group). This note outlines the nature of the relationship of any related parties and the extent of material transactions and balances with them.

The Group's significant related party transactions have historically been undertaken with The Co-operative Bank plc ('the Bank') and the NOMA joint venture. At the balance sheet date these entities are no longer related parties as they ceased to be associates or joint ventures of the Group following the sale of its remaining 1% share in the Bank in September 2017 and its 50% stake in NOMA in December 2017. There are no other significant related party transactions.

13 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:	**7 July 2017 (unaudited) £m**	1 July 2017 (unaudited) £m	6 January 2018 (audited) £m
Current	**300**	382	415
Non-current	**1,711**	1,509	1,538
Total Other Investments	**2,011**	1,891	1,953

Other investments held by the Group are as follows:	**7 July 2017 (unaudited) £m**	1 July 2017 (unaudited) £m	6 January 2018 (audited) £m
Fair value through income or expense:			
Funeral plan investments	**1,170**	1,009	1,076
Deposits with credit institutions (Insurance)	**174**	181	212
Fair value through other comprehensive income:			
Listed debt securities (Insurance)	**667**	701	665
Total Other Investments	**2,011**	1,891	1,953

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

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

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

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 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	**-**	**109**	**-**	**109**
- Funeral plan liabilities	**-**	**-**	**1,406**	**1,406**
Total financial liabilities at fair value	**-**	**544**	**1,406**	**1,950**

The Group adopted IFRS 9 on 7 January 2018 and subsequently only £285m of the £450m fixed rate sterling Eurobond 2020 notes and £105m of the £350m 2026 notes are designated as financial liabilities at fair value through the income statement. See general accounting policies section on page 44 for details of the impact of the new standard. The remaining Eurobonds are held at amortised cost (£462m as at 7 July 2018) using an effective interest rate (see also note 9 for full details of the Group's loans and borrowings).

The values of Eurobonds carried at amortised cost are disclosed in note 9. The equivalent fair value for the unhedged proportion of bonds that are now carried at amortised cost would be £178m for the 2020 Eurobond and £295m for the 2026 Eurobond.

There were no transfers between Levels 1 and 2 during the period and no transfers into and out of Level 3 fair value measurements. For other financial assets and liabilities of the Group including cash, trade and other receivables / payables then the notional amount is deemed to reflect the fair value.

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 16%

1 July 2017 (unaudited & restated*)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through income or expense				
- Funeral plan investments	-	-	1,009	1,009
- Derivative financial instruments	-	44	-	44
- Insurance investments	-	181	-	181
Financial assets at fair value through other comprehensive income				
- Insurance investments	-	701	-	701
Total financial assets at fair value	-	926	1,009	1,935
Liabilities				
Financial liabilities at fair value through income or expense				
- Fixed-rate sterling Eurobond	-	940	-	940
- First mortgage debenture	-	21	-	21
- Funeral plan liabilities*	-	-	1,198	1,198
Total financial liabilities at fair value	-	961	1,198	2,159

Notes to the interim financial statements continued

13 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 January 2018 (audited & restated*)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through income or expense				
- Funeral plan investments	-	-	1,076	1,076
- Derivative financial instruments	-	38	-	38
- Insurance investments	-	212	-	212
Financial assets at fair value through other comprehensive income				
- Insurance investments	-	665	-	665
Total financial assets at fair value	-	915	1,076	1,991
Liabilities				
Financial liabilities at fair value through income or expense				
- Fixed-rate sterling Eurobond	-	938	-	938
- First mortgage debenture	-	21	-	21
- Funeral plan liabilities *	-	-	1,283	1,283
Total financial liabilities at fair value	-	959	1,283	2,242

* Funeral plan liabilities have been restated for IFRS 15. See general accounting policies section on page 44 for details of the restatement.

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 has 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 are designated as financial liabilities at fair value through the income statement. Fair values are determined in whole by using quoted market prices. See general accounting policies section on page 44 for details of the impact of the new standard. The remaining Eurobonds are held at amortised cost using an effective interest rate.

Basis of valuation of Level 3 financial assets and liabilities:

Funeral plans - at the point of sale, both the initial plan investment and the liability for the funeral delivery are recorded at the plan value. The plan investment is a financial asset, which is recorded at fair value each period through the income statement. Investments are held in insurance policies or cash-based trusts and attract interest and bonus payments throughout the year dependent upon market conditions. The funeral bond contract between the Group and customer conveys certain rights of cancellation or transfer, and as such there is a contractual obligation, in certain circumstances, for the Group to deliver cash in the form of a refund to the customer or preferred provider. This liability is therefore classified as a financial liability and is subsequently measured at the amount contractually repayable on demand. Subsequent valuation is at fair value with changes in fair value being recognised in gains less losses within the income statement in the period in which they arise. 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 over the page.

Notes to the interim financial statements continued

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

Funeral Plan Investments	7 July 2018 (unaudited) £m	1 July 2017 (unaudited) £m	6 January 2018 (audited) £m
At start of period	**1,076**	872	872
New plan purchases	**99**	126	246
Plans redeemed or cancelled	**(69)**	(72)	(145)
Interest and bonus applied	**64**	83	103
At end of period	**1,170**	1,009	1,076

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 2017 and reported headroom on a wholesale basis of £142m (2016: £146m).

Actuarial Valuation (Unaudited)	30 September 2017 £m	30 September 2016 £m
Total Assets	**1,013**	887
Liabilities:		
Present value (wholesale basis)	**871**	741
Total Liabilities	**871**	741
Headroom	**142**	146
Headroom as a % of liabilities	**16%**	20%

14 Membership and community reward

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

Members	7 July 2018 (unaudited) m	1 July 2017 (unaudited) m	6 January 2018 (unaudited) m
Active Members	**4.6**	4.5	4.6

Membership and community rewards (within income statement)	£m	£m	£m
Member reward (5%) earned	**29**	29	61
Community reward (1%) earned	**6**	6	13
Carrier bag levy donated to charities	**5**	4	9
Other donations	**1**	1	3
Total reward	**41**	40	86

Notes to the interim financial statements continued

15 Acquisition of Subsidiary

What does this show? This note gives details of any business acquisitions that have been made during the reporting period. This includes details of what we've bought, how much we paid for it and how this has been reflected in our accounts.

On 8 May 2018, the Group acquired 100% of Nisa Retail Limited (Nisa). This followed approval from Nisa members on 13 November 2017, CMA approval on 23 April 2018 and formal court sanction of the Scheme of Arrangement on 4 May 2018.

Nisa is a brand and buying group of independent retailers and wholesalers in the United Kingdom. It is an organisation that was owned by its members prior to the Co-op acquisition and operated by using the collective buying power of its shareholders to negotiate with suppliers.

Consideration transferred - Nisa

The following table summarises the fair value, at the acquisition date, of each major class of consideration transferred:

	Note	£m
Cash (initial consideration)	(i)	**24**
Cash (deferred consideration)	(ii)	**75**
Cash (rebate consideration)	(iii)	**28**
Total consideration transferred		**127**

(i) Cash (initial consideration) - initial payment of £22m (equivalent to £20,000 per member) and £2m payment in relation to amounts due to Nisa Trust.

(ii) Cash (deferred consideration) - comprising the discounted present value of significant cash payments to former members of Nisa at the end of April 2019, 2020 and 2021. The gross undiscounted value of these payments is £81m.

(iii) Cash (rebate consideration) - quarterly payments for 4 years linked to member purchasing volumes after acquisition. The gross undiscounted value of these payments is £30m.

Acquisition related costs - Nisa

The Co-op also incurred acquisition related costs of £5m. These costs have been included within operating expenses as incurred.

Acquisitions - Other

The fair value of cash consideration transferred on other acquisitions in the reporting period and the value of cash or cash equivalent balances brought on at acquisition are not material for disclosure.

Identifiable assets acquired and liabilities assumed - Nisa

The following table summarises the recognised amounts recorded at fair value of assets acquired and liabilities taken on at the acquisition date.

	£m
Property, plant and equipment	**26**
Intangible assets	**47**
Inventories	**49**
Trade and other receivables	**116**
Trade and other payables	**(110)**
Deferred tax liability	**(11)**
Borrowings (current) - funds in use invoice discounting facility	**(57)**
Loans and borrowings (non-current)	**(8)**
Total identifiable net assets acquired	**52**

Notes to the interim financial statements continued

15 Acquisition of Subsidiary continued

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were:

Property, plant & equipment	The main properties have been independently valued in accordance with the RICS Appraisal and Valuation Manual. Fair value is based on current prices in an active market for similar properties in the same location and condition.
Intangible assets	The fair value of the relationship with former Nisa members has been valued using the income approach.
Inventories	The fair value of inventory has been assessed using a market comparison approach and determined based upon the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Deferred tax of £11m has also been provided in relation to these adjustments.

Fair values measured on a provisional basis

Owing to the proximity of the acquisition date to the half-year date then all assets acquired and liabilities assumed have been measured on a provisional basis. If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts then the accounting for the acquisition will be revised. The related deferred tax calculations will also be revisited.

Goodwill

The acquisition took place on 8 May 2018 and provisional goodwill arising on the acquisition has been recognised as follows:

	£m
Fair value of consideration transferred	**127**
Fair value of identifiable net assets	**52**
Goodwill (provisional)	**75**

The goodwill is mainly attributable to the combined buying benefits that are expected to be achieved following the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

Revenue, profit and cash flow contribution.

The acquisition of Nisa contributed £269m to revenue, losses of £5m to profit before tax and £14m to operating cash flows.

Other acquisitions

Provisional goodwill of £4m associated with other acquisitions has been recognised in the reporting period and may be adjusted in the remainder of the financial year. Details of other acquisitions and related fair value accounting are not considered to be material for disclosure.

Notes to the interim financial statements continued

15 Acquisition of Subsidiary continued

Impact on Goodwill and Intangible assets

The table below gives details of how the Group's Goodwill and Intangible assets have changed during the period. This has been provided as there has been some significant movement in these balances (with particular reference to the acquisition of Nisa) and this analysis will help members to understand the impact this has had on the Group's balance sheet.

For period ended 7 July 2018	Goodwill	Computer software	Acquired Customer Relationships and Other Intangibles	Assets in course of construction	Total
	£m	£m	£m	£m	£m
Cost:					
At 6 January 2018	1,204	105	-	2	1,311
Acquisitions	79	4	43	-	126
Disposals	(1)	-	-	-	(1)
At 7 July 2018	1,282	109	43	2	1,436
Accumulated amortisation and impairment:					
At 6 January 2017	374	71	-	-	445
Charge for the period	-	6	-	-	6
Impairment	1	-	-	-	1
At 7 July 2018	375	77	-	-	452
Net book value:					
At 7 July 2018	907	32	43	2	984
Deferred acquisition costs (Insurance)					30
At 7 July 2018 (per balance sheet)					1,014

On acquisition of Nisa, goodwill of £75m (see previous page) has been recognised in the Group's Consolidated Balance Sheet as well as other intangibles assets of £47m. These include £43m in respect of the customer relationship with Nisa members and £4m of computer software assets. The balance of goodwill relates to other smaller acquisitions undertaken in the period none of which are individually significant.

Comparative figures as at 6 January 2018 are: £1,311m (cost), £445m (accumulated amortisation and impairment) and £31m (deferred acquisition costs) totalling £897m.

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 7 July 2018 ('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 2017 annual report') of the Group for the year ended 6 January 2018 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 7 July 2018 are unaudited and do not constitute statutory accounts. They have been reviewed by the auditors and their report is set out on page 18 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 2017 annual report.

The comparative figures for the financial year ended 6 January 2018 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 13 September 2018.

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 2017 annual report.

Accounting policies

Except as described below, the accounting policies applied in preparing these interim financial statements are consistent with those described in the 2017 annual report.

(A) Changes in significant accounting policies

The Group has initially adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* from 7 January 2018.

The effect of initially applying these standards is mainly attributed to the following:

IFRS 15:

- later recognition of revenue on funeral plan sales so that no revenue is recognised until the plan is redeemed and the funeral performed;
- deferment of fulfilment costs (which are costs directly relating to the plan sale which otherwise wouldn't have been incurred) associated with delivering the funeral until the funeral is delivered;
- treatment of rebates paid to FRTS members in Food as a reduction in revenue and cost of sales; and
- the Group has adopted the standard using the fully retrospective approach which means that the comparative figures have been restated to reflect the cumulative impact of the adoption as shown in the tables below.

Presentational changes have also been made to the balance sheet. A contract liability is presented in the balance sheet where a customer has paid an amount of consideration prior to us undertaking the service for the customer (such as funeral plans paid for in advance). A contract asset is recognised when our right to consideration is conditional on something other than the passage of time, for example, we need to take some action before the customer has to pay us (such as funeral costs incurred before the funeral has taken place).

IFRS 9:

- that element of the Group's Eurobonds that is unmatched by interest rate swaps reverted to being measured at amortised cost (rather than being measured at fair value through the income statement);
- the comparative income statement and balance sheet figures in relation to our Eurobonds have not been restated and the opening balance sheet value of the bonds which are now carried at amortised cost has been restated with a corresponding pre-tax adjustment of £55m being made to opening reserves as at 7 January 2018 (as permitted by IFRS 9);
- financial assets held by the Funeral & Life Planning business continue to be accounted for as financial assets with movements in fair value taken to the income statement where appropriate;
- the Insurance business has reclassified assets previously classified as available for sale assets to financial assets held at fair value through other comprehensive income. Available for sale assets no longer exists as a category of asset under IFRS 9, but movements in the value of these assets were taken to other comprehensive income previously, so adoption of the standard has had minimal impact in this respect; and
- there were no changes to accounting for the Reclaim Fund assets or liabilities upon adoption of IFRS 9.

As indicated in the 2017 annual report, we have changed how we assess impairment of investments and receivables but this has not had a material impact.

The changes in accounting policies noted above will be reflected in the Group's consolidated financial statements (as at and) for the year ending 5 January 2019.

(B) Other restatements:

The comparative figures presented within these financial statements for the financial year ended 6 January 2018 and the interim period ended 1 July 2017 are consistent with the 2017 annual report and 2017 interim report respectively, with the exception of the changes to accounting policies as a consequence of IFRS 15 and other restatements noted below.

Half year (26 weeks ended 1 July 2017) comparatives only:

- Pension assets on the balance sheet have been restated in the comparative period by an increase of £39m to recognise insured pensions assets relating to Additional Voluntary Contributions that had not been included in the 2016 actuarial valuation. Retained earnings have been restated by an increase of £32m (net of £7m deferred tax) to reflect this adjustment. For more details on the nature of the restatement refer to note 23 in the 2017 annual report.
- Insurance contracts in the balance sheet have been restated to reclassify £188m of insurance contract liabilities from non-current to current liabilities.
- The result of the Group's Legal Services business is now reported within Funeral & Life Planning (in the segmental analysis) whereas previously it was reported within Other Businesses. This is to be consistent with a change in the way information is reported to the Group Board.

Summary impact of new accounting standards on key metrics:

Impact of IFRS 15 on underlying profit before tax:

£m	**26 weeks ended 1 July 2017**			**As at 6 January 2018**		
	Originally Reported	Impact of IFRS 15	Restated	Originally Reported	Impact of IFRS 15	Restated
Underlying profit before tax	**14**	**(11)**	**3**	**65**	**(20)**	**45**

Impact of IFRS 9 on Group net debt:

£m	**As at 6 January 2018**		
	As reported	Impact of IFRS 9	After impact of IFRS 9
Group net debt	**(775)**	**55**	**(720)**
Less fair value / amortised cost adjustment	138	(55)	83
Group net debt before fair value / amortised cost adjustment	**(637)**	**-**	**(637)**

Summary impact of restatements:

Half year comparatives:

Consolidated Income Statement for 26 weeks ended 1 July 2017:

£m	Originally reported	IFRS 15		Restated
		Funeral and Life Planning	Food	
Revenue	4,642	(12)	(86)	4,544
Operating expenses	(4,632)	1	86	(4,545)
Operating Profit	51	(11)	-	40
Profit before Tax	**25**	**(11)**	**-**	**14**
Tax	(4)	2	-	(2)
Profit after Tax	**21**	**(9)**	**-**	**12**

Consolidated Balance Sheet as at 1 July 2017:

£m	Originally reported	IFRS 15	Other restatements	Restated
		Funeral and Life Planning		
Non-current assets	6,758	39	39	6,836
Current assets	2,336	3	-	2,339
Total Assets	**9,094**	**42**	**39**	**9,175**
Non-current liabilities	4,189	-	(181)	4,008
Current liabilities	2,000	108	188	2,296
Total Liabilities	**6,189**	**108**	**7**	**6,304**
Equity & Reserves	2,905	(66)	32	2,871

Full year comparatives:

Consolidated Income Statement for 53 weeks ended 6 January 2018:

£m	Originally reported	IFRS 15		Restated
		Funeral and Life Planning	Food	
Revenue	9,470	(23)	(173)	9,274
Operating expenses	(9,432)	3	173	(9,256)
Operating Profit	126	(20)	-	106
Profit before Tax	**72**	**(20)**	**-**	**52**
Tax	(2)	4	-	2
Profit after Tax	**70**	**(16)**	**-**	**54**

Consolidated Balance Sheet as at 6 January 2018:

£m	Originally reported	IFRS 15	Restated
		Funeral and Life Planning	
Non-current assets	6,868	32	6,900
Current assets	2,301	2	2,303
Total Assets	**9,169**	**34**	**9,203**
Non-current liabilities	3,937	(8)	3,929
Current liabilities	2,144	115	2,259
Total Liabilities	**6,081**	**107**	**6,188**
Equity & Reserves	3,088	(73)	3,015

A number of other new standards are effective from 1 January 2018 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 7 January 2018:

- IFRS 2 (amendments) – to clarify the classification and measurement of share-based payment transactions;
- IFRS 4 (amendments) – regarding the interaction of IFRS 4 and IFRS 9;
- IAS 40 (amendments) – to clarify transfers of property to, or from, investment property;
- IFRS 1 and IAS 28 (amendments) – annual improvements to IFRSs 2014-2016 Cycle – various standards; and
- IFRIC 22 – Foreign currency transactions and advance consideration.

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 2017 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 2017 annual report.

- IFRS 16 Leases *
- IFRS 17 Insurance Contracts **

** Effective 1 January 2019. ** 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. The Directors have also assessed the financial risks facing the Group, its liquidity position and available borrowing facilities.

In assessing the appropriateness of the going concern basis of preparation, the Directors have firstly considered the going concern position and outlook of the Trading Group and our Insurance subsidiary, CIS General Insurance Limited (CISGIL), separately, as they are independently funded. The Directors have then, taking these individual assessments into account, considered the overall going concern position of the Group.

The Trading Group meets its working capital requirements through a number of separate funding arrangements, certain of which are provided subject to continued compliance with certain covenants (Debt Covenants). Profitability and cash flow forecasts for the Trading Group, prepared for the period to September 2019 (the forecast period), and adjusted for sensitivities considered by the Board to be reasonably possible in relation to both trading performance and cash flow requirements, indicate that the Trading Group will have sufficient resources available within its current funding arrangements to meet its working capital needs, and to meet its obligations as they fall due.

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

After considering both Trading Group and CISGIL as described above, and 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	Some **assets** the Co-op will have for a while (such as vehicles). When we buy them, the cost goes on our **balance sheet** and then depreciation spreads the cost of the **asset** evenly over the years we expect to use them in the **income statement**.
Derivatives	These are financial products where the value goes up or down based on an underlying **asset** such as currency, a commodity or interest rate.

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.
Funds in use 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. 'Funds in use' is just the term for the amount we owe to the finance company.
Funeral plans	A member may not want his or her family to pay a large single sum for a funeral when he or she dies. Therefore, the member can pay for it gradually or in lump sums over a number of years and **the Group** will invest that money.
Funeral plan investments	When a customer gives us money for their funeral in the future, we invest this money. The balance of these investments is held on the **balance sheet**.
Goodwill	When we buy a business or a group of **assets**, sometimes we pay more for it than what its **assets** less **liabilities** are worth. This additional amount we pay is called goodwill and we put it on our **balance sheet**.

(the) Group	This is Co-operative Group Limited and all companies and societies that it owns.
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.
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 reinsured for another insurer we would show a **liability**.
Related party	This is a company or person that is closely linked to the Co-op. It's usually a member of our Board or Executive or their close family plus companies such as our **associates** and **joint ventures**.
Remeasurement gains / losses on employee pension schemes	There are lots of assumptions that are used when valuing pensions. If those assumptions change this can have a big effect on the size of the pension **asset** or **liability**. So that we don't distort the **income statement**, this effect is shown in **other comprehensive income**.
Repayment notes	This is a type of loan, which we repay either in instalments or in a lump sum at the end of the loan.
Repo agreements	This is a type of short-term investment used by our Insurance business.
Reserves	This is the amount of **equity** we have, but excluding any **share capital**.

Restated	Sometimes we change the numbers that we showed in last year's accounts. This might be because we have changed where or how we record certain things or it could be that we have corrected an error. There are strict rules around what can be changed and when we make changes we explain why in the accounting policies.
Retained earnings	This is all the profits we've made since the beginning of time for the Co-op that have not yet been paid out to members.
Retirement benefit obligations	Another term for our pension **liabilities.**
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.