

Co-operative Group Limited

News release

29th September 2022

Interim Results Announcement: 26 weeks to 2 July 2022.

Co-op acts to strengthen balance sheet and support members during cost of living crisis

- Decisive management action taken to reduce operational costs, improve operational performance and prioritise capital expenditure.
- Reduced net debt position from year end through improved cashflow; sale of non-core petrol forecourt business (due in H2) set to reduce debt significantly further.
- Continued vision commitments sees Co-op support its colleagues, members and communities in light of the cost-of-living crisis.

Financial & Business Development Highlights

- In very challenging markets delivered a robust sales performance, with revenues broadly flat versus H1 2021. Co-op Food has revived its market share to 6.5% (Kantar) and was the fastest growing retailer during the hot weather (NielsenIQ).
- A clear focus on cost reduction has helped offset some of the material external cost headwinds impacting the Group. Energy and wage inflation increased costs by around £50m versus H1 2021 before mitigating cost savings, and rates holidays in H1 2021 create a further £20m adverse variance.
- In year cost saving targets of circa £100m are helping to partially mitigate these headwinds, rising to £150m in 2023 as these savings annualise.
- Strong cash flow management has generated a significant improvement in cash generation, with £189m reduction in net debt versus £162m increase in net debt over same period last year.
- The sale of our non-core petrol forecourt estate (completion due H2) will further reduce debt and allow headroom to reinvest in our core convenience business.
- Financial Conduct Authority (FCA) approval met to achieve regulated status for funeral plan sales - the strength and heritage of our brand puts us in a strong position for future growth.

Financial Highlights

H1 2022 in brief

- **Revenue: £5.6bn**
Flat compared with H1 2021 (£5.6bn)
- **Underlying operating profit: £18m**
Down £33m on H1 2021 (£51m)
- **Group profit before tax: £7m**
Down £37m on H1 2021 (£44m)
- **Underlying EBITDA: £218m**
Down £30m (H1 2021: £248m)

- **Net cash from operating activities: £315m**
Improves by £153m (H1 2021: £162m)
- **Reduction in net debt: £189m**
Compares to an increase in net debt of £162m H1 2021. A £351m favourable swing versus last year. Net debt down to £731m versus £920m last year end.

Cost of Living & Vision Commitments

- **Colleagues**
 - Improvements to the pay of 41,000 front line colleagues of up to 5.3%, for all ages, including apprentices. This is in addition to :-
 - Paid breaks and up to 10% pension contributions as well as up to 31 days holiday.
 - A 20% food discount provided to colleagues.
- **Members and Customers**
 - £37m price investment starting this month to lower price of 120 key products with costs to be held into the New Year.
 - Co-op members earned and redeemed £8.7m in personal rewards by shopping with Co-op.
 - £50 shopping bonus to members who purchase new or renew motor insurance policies.
 - Affordable digital Lasting Power of Attorney service launched by Co-op Legal Services.
- **Community**
 - Over £14m pledged by 42 businesses towards Co-op Levy Share targets, supporting more than 1,000 apprenticeships.
 - Vital support for farmers with £19m in extra funding for UK pig farmers.
 - More than 4,500 local causes supported by Local Community Fund in H1, sharing £1.5m.
- **Sustainability and the environment**
 - Co-op awarded prestigious Queen's Award for Enterprise for Sustainable Development.
 - Caboodle launched – a major not-for-profit platform to tackle food waste, connecting all Co-op's store, other supermarkets, cafes and restaurants with community groups and volunteers.
 - Industry-first move to replace on-pack 'use by' guidance with 'best before' dates on own-brand yoghurts and 'freeze me' message to own brand milk.
 - Continued rollout of electric hearses, as the fleet moves away from fossil fuels.

Shirine Khoury-Haq, Chief Executive of the Co-op, said:

"Against a highly challenging economic backdrop, we have made significant progress in strengthening our balance sheet, whilst continuing to support the needs of our colleagues, members, customers and the communities in which we operate. Our clear focus on developing our businesses, whilst controlling costs, improving our cash-position and reducing debt is paying dividends.

"Looking ahead, while we are mindful of the continued economic challenges, we have great confidence in the underlying strength of the Co-op and all our businesses. Having faced into some tough decisions in the first half, focused on cutting costs and improving efficiency, we ended the period stronger both operationally and financially.

"Since then, we have progressed further with the planned sale of our non-core petrol forecourts business. This will strengthen us more and provide the means to invest in our core businesses, whilst enabling us to support our members, customers, colleagues and communities through the cost-of-living crisis."

“I’d like to thank every single one of our colleagues for their leadership in delivering our results and vision this year.”

Allan Leighton, Chair of the Co-op, said:

“The first six months of the year have been a time of challenge for us – as they have been for all businesses. I was delighted that we were able to confirm Shirine Khoury-Haq as our permanent CEO during this period. Her energy to move decisively on improving our financial position, focusing on core business development, whilst still delivering on our vision commitments, is helping us move forwards with pace and purpose.

“We know that the current testing conditions will not ease in the second half, and we will continue to face into the challenges, by remaining focused and by building upon our incredible co-operative heritage. I would like to thank all our colleagues for their hard work and dedication in these extraordinary times.”

Business Unit Performance & Highlights

Food

- Continued to outperform our competitors in the UK convenience sector and to invest in our business, including with the opening of a new regional distribution centre.
- Co-op's grocery sales grew period-on-period throughout H1 2022 driven by an increase in the shopping frequency – 16 million shoppers use Co-op stores each week.
- Overall revenue increased 1% year-on-year to £3.91bn while underlying operating profits of £41m were down versus H1 2021 (£68m) due to inflationary pressures which have increased the cost to deliver our proposition to customers and hit its highest level of 8.3% in June 2022 since 2009.
- Improvements in food availability seen throughout Q2, returning to pre-pandemic levels.
- Our Wholesale business generated a solid sales performance of £0.7 billion against challenging economic headwinds impacting all retailers. Underlying profit was up to £4 million recognising the shared benefits that can be passed through to Nisa customers with consistent availability and a strong product range and offer.

Funeralcare

- Growth in market share in H1 2022, but revenue fell by £3m (H1 2022: £139m, H1 2021 £142m), driven by falling mortality rates post-pandemic.
- Rising energy costs and industry regulatory changes saw underlying operating profit decline by £6m (H1 2022: £11m, H1 2021: £17m)
- Achieved regulated status as a funeral plan provider from the FCA.

Insurance

- Performed in line with forecast, with reduced revenue planned to bed in new Markerstudy distribution business model and ways of working (Insurance income H1 2022: £11m; H1 2021: £18m.)
- Strong pet insurance sales following new product launch, including cover for rescue dogs and cats.
- New van insurance product to deliver further choice and value to its members and customers.
- New ‘equity release’ later life mortgage options to homeowners over the age of 55 launched in partnership with Legal & General.

Legal

- Revenue up more than 10% at £22m, driven by continued growth of our market-leading probate business and an expansion of our digital capabilities.
- Growing digital presence with half of all clients using online tools to seek support.
- Over 100 new colleagues, including apprentices, recruited to handle increased case volumes.

Outlook

- Looking ahead, Co-op expects to face continued challenges during the year, given the persistent inflationary pressures, which is likely to prolong economic uncertainty amongst consumers and businesses alike.
- We are, however, due to the management actions taken in H1 better equipped to weather the effects of these immediate pressures, whilst equally confident in our underlying business strength and longer-term prospects.
- Post half year, Co-op has agreed the sales of its non-core petrol forecourt business for an enterprise value of £600m. Proceeds will be used to reinvest into core businesses, price for consumers and reduce net debt. Post completion of the deal, expected in Q4 2022, it is anticipated that debt will fall to approximately 1 x EBITDA.
- The Board remains confident in the strategy, with a focus on driving growth through our established routes to market, maintaining financial discipline and continuing to deliver against our vision of co-operating for a fairer world.

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About the Co-op:

Co-op is one of the world's largest consumer co-operatives with interests across food, funerals, insurance and legal services. Owned by millions of UK consumers, the Co-op operates over 2,500 food stores, over 800 funeral homes and provides products to over 5,000 other stores, including those run by independent co-operative societies and through its wholesale business, Nisa Retail Limited.

Employing almost 60,000 people, the Co-op has an annual turnover of over £11 billion and is a recognised leader for its social goals and community-led programmes. The Co-op exists to meet members' needs and stand up for the things they believe in.

Co-operating for a Fairer World

H1 2022 in brief

- **£5.6bn**
Revenue flat compared with H1 2021 (£5.6bn)

- **£18m**
Underlying operating profit, down £33m on H1 2021 (£51m)*
- **£7m**
*Group profit before tax down £37m on H1 2021 (£44m**)*
- **£218m**
Underlying EBITDA down £30m (H1 2021: £248m)
- **£315m**
Net cash from operating activities improves by £153m (H1 2021: £162m)
- **Group net debt down to £731m from £920m at 2021 year end**
Represents a £189m improvement/reduction (H1 2021: debt increased by £162m). Net debt set to reduce further in H2 2022, following the sale of petrol forecourt sites

* H1 2021 included the benefit of £20m of Government assistance through rates relief in relation to the pandemic.

** H1 2021 included the benefit of a one-off gain of £99m following the early settlement of a long term liability.

- More than 4,500 local causes supported by Local Community Fund in H1, with £16m earned by members for themselves and their communities.
- By the end of H1, more than 42 businesses had pledged over £14m towards Co-op Levy Share targets, which will support more than 1,000 apprentices
- Just under £5.4 million accessed by colleagues through Wagestream, at times where they really needed it
- Caboodle launched – a major not-for-profit platform to tackle food waste, connecting supermarkets, cafes and restaurants with community groups and volunteers
- Queen's Award for Enterprise and Sustainable Development achieved, in recognition of Co-op's impact across carbon emissions, recycling and sustainable pension investment

CHAIR'S INTRODUCTION

Our Co-op has been in existence for almost 180 years and throughout that time we have had to face into many large-scale challenges, impacting the lives of our colleagues, our members and our other key stakeholders. Our ability to address these challenges and to come out the other side, stronger and more resilient is why we are well trusted and well recognised in the UK, as our market research confirms. It is also the reason why our Co-op's business model is so important globally, at times of need and heightened pressure.

We are not immune, of course, to the stark realities surrounding all consumer-facing businesses; in particular the spectre of double-digit inflation, which is being directly fuelled by the devastating and tragic war in Ukraine.

We must be capable of reacting to this so that our Co-op remains financially strong and relevant for our colleagues, members and customers. This will ensure that the value we generate can also extend wider into supporting local communities and delivering our Vision.

It is also vital during periods of change that we retain strong leadership within our Co-op. In March, we announced that Shirine Khoury-Haq was to be our Interim Group CEO and, in August, I was delighted to announce her as our permanent CEO, but also our first female Chief Exec. Shirine has made an immediate impact with both the Board and the wider business in her new role, and we value the insight she offers from her diverse background. Her energy to move decisively on things, whilst staying true to her own values and those of our Co-op, is infectious and is already seeing us move forwards in a highly positive and

progressive way. It was a real testament to her integrity and passion to see her recognised in EMPower's list of Top 100 Executives this year, as a leading advocate for diversity and inclusion for people of colour within global business.

Shirine articulated three immediate priorities for the business, which she will talk about in more detail within her own section of this report. One of these was to significantly reduce our operational cost base and to refocus our capital expenditure more acutely into areas that will generate clear top and bottom line benefit. Over the past few years, whilst we've made clear strides forward in so many areas, we haven't faced into our cost base as forcibly as we've needed to.

Shirine and her management team have taken the steps necessary to reduce our central overheads, refocus our capital expenditure and embed a more sustainable cost-conscious environment.

This has meant taking tough but necessary decisions to help secure the long term financial security of our Co-op. Whilst some role reductions in our support areas have occurred, the wellbeing of and support for our colleagues have continued to be of primary importance.

This interim report will illustrate that we are now taking the measures necessary to ensure we have a co-operative capable of winning in our chosen markets, which is operating efficiently and effectively within the parameters set by the Board, and still delivers upon our Vision.

Our democracy remains fundamental in ensuring we remain true to our founding Values and Principles. In May, we were delighted to be able to welcome members to our AGM in person for the first time since 2019, while we also streamed proceedings online, making the most of both worlds to engage as many members as possible. Motions were passed on member participation, climate change and inequality, reflecting our unique, better way of doing business and supporting our Vision of '*Co-operating for a Fairer World*'.

It has also been wonderful to return to in-person meetings of our Members' Council and Board. I was particularly pleased to be able to meet the Council members who have joined since Covid face-to-face for the first time. It has been inspiring to see our new members engaging with such energy and enthusiasm alongside our more long standing Council members, performing their critical role in our governance and democracy.

We have also continued to consider our role in the wider co-operative movement, working with Co-operatives UK and other co-operative bodies and societies. Together, we have driven a progressive and forward-looking co-operative movement that can play a vital role for members and communities as we face into economic uncertainty and the cost of living crisis alongside each other.

And, of course, we couldn't fulfil this role for our own members without the dedication, hard work and commitment of our 59,000 leaders and colleagues. Each day, despite the challenges the current climate brings them personally, they continue to show up as their best selves and ensure that our Co-op is delivering great products and services, as well as its Vision. My heartfelt thanks and gratitude goes out to each and every one of them.

Finally, looking forward, we are clear on our short-term priorities as we face into the eye of an external storm. We have great confidence in the fundamental underlying strengths of our business – our members, our colleagues, our core businesses in Food and Life Services, our differentiated business model and our Vision of '*Co-operating for a Fairer World*'. Together we will come through this challenging period and our Co-op will continue to deliver for our members, their communities and the planet.

Allan Leighton

Chair, The Co-op Group

CHIEF EXECUTIVE'S REPORT

This is my first interim report as CEO, and I must start by saying how delighted I am to be given the opportunity to lead our Co-op.

It's a privilege for me to introduce this report, which represents the amazing efforts of all 59,000 of my colleagues. I want to thank them for everything we've achieved so far this year.

We have faced, and we will continue to face challenges. I am confident about the long term future of our organisation. This confidence is fuelled by the underlying strength of our portfolio of businesses, the power of our Vision, the talent we possess across our Co-op and our willingness to prioritise, make tough but necessary decisions and create resilience in volatile times.

And all these strengths, together with our Vision, '*Co-operating for a Fairer World*', are allowing us to continue to make a real and tangible difference for our members, colleagues, communities and the planet.

Our Co-op wouldn't exist without our members, including our Members' Council and Member Pioneers, all of whom co-operate daily alongside us, contributing to the success of our businesses and our ability to deliver our Vision. My thanks and gratitude go to them all.

We have so much to be proud of together in the first half of 2022. However, as you'll see from this report, the challenges that are affecting the global economy, our members, colleagues and communities also impacted our businesses.

While 2021 provided us with some unexpected headwinds, the first six months of this year have proven to be even more challenging. We began 2022 continuing to recover from the effects of the pandemic while facing further economic uncertainty, as well as global availability challenges. This was exacerbated by the war in Ukraine and an inflationary cost of living crisis facing members, customers, clients, colleagues and those communities and causes that rely on us for support.

The rising cost of commodities, such as food, fuel and energy, has created a more difficult business environment now than at the beginning of 2021.

There's no doubt that a unique set of circumstances contributed to our performance in the first six months of this year. Our revenue remained stable at £5.6bn compared to the same period in 2021. However, economic headwinds and the increased cost to serve members and customers have affected our performance, and our EBITDA, operating profit, and profit before tax are all down in comparison to the same period last year.

This has meant that we have had to make difficult decisions in managing our Co-op, including reducing our cost base and some planned investment. It has also meant that we have focused clearly on cash generation and reducing our net debt, which we did, and by over 20%, down to £731m from £920m at the end of H2 2021.

Our new Interim Chief Financial Officer Mike Hazell will go into this in more detail as part of his Financial Overview.

To continue to achieve the commercial sustainability that allows us to deliver our Vision, we must have a common understanding of the issues and our operating environment, we must have clear goals, we must act and make decisions well, but also at pace, we must do fewer things, and do them better, and as one Co-op. This has resulted in very different ways of working in our Co-op and is a significant step toward a change in our culture. I am very grateful to every one of my colleagues across all of our businesses for embracing and leading these efforts so enthusiastically – and for giving me their honest feedback along the way.

This unified approach is delivering results, as we saw some wonderful innovation and commercial headway made in H1 across all our businesses.

Our strategic priorities have remained tightly focused on three main areas.

1. Ensuring our businesses continue to deliver to our customers' and members' expectations in the current climate, and outperform within their respective markets

This has included addressing availability challenges and stabilising the performance of SAP in Food while delivering the ethical, quality products our customers and members expect from us. In January we opened our brand new Biggleswade depot - our largest regional distribution centre, servicing our Food business.

And in Life Services we've been continuing to strengthen our propositions by preparing our funeral plans business to achieve FCA regulated status and developing our services, digital propositions, partnerships and new products in Legal Services and Insurance.

2. Improving operational efficiency

We have continued to take steps to create a more cost-effective, efficient and financially sustainable Co-op. At times, this has meant taking the difficult decisions necessary to improve our cash management and reduce our operating and capital expenditure, which combined has helped see the marked improvement in our net debt position from year end, which I referred to earlier.

Part of this work has also included proposals to restructure our support centre team and field-based teams in H2, which has been such an incredibly difficult step to take. We've worked hard to support those affected by these decisions - support for the wellbeing of all our colleagues will remain our top priority this year.

3. Delivering our Vision – ‘Co-operating for a Fairer World’

Everything we do supports the continued delivery of our Vision for the benefit of our colleagues, members, communities and the planet. As this report will show, we continued to deliver ‘value with Values’ and stepped up to the role our Co-op has to play.

- At our May AGM, we shared that our Food business was trialling ‘Caboodle’ - a platform founded by Co-op and Microsoft, with support from BJSS and Team ITG. It allows supermarkets, cafés and restaurants to connect with community groups and volunteers, to redistribute surplus food. By the end of June, we had successfully completed a trial in 100 Food stores, which supported over 50 community groups, in preparation for sharing Caboodle with all Co-op Food stores, allowing us to schedule thousands of surplus food collections each month into early H2.
- Our Legal Services business introduced new apprenticeships, saving our first intake of candidates thousands in university tuition fees, as part of their journey to becoming a solicitor.
- Our Funeralcare business has trialled a series of new, sustainable initiatives, which includes planting a tree for certain funerals arranged.
- Together, we were honoured to receive the Queen’s Award for Enterprise for Sustainable Development in April, in acknowledgement of everything our Co-op does to be fairer for our planet.
- We’re also delighted that through the power of our colleagues, members, customers and communities working together, our fundraising efforts for our charity partners Mind, Inspire and SAMH made incredible progress towards achieving our £8m target in H2.
- Our apprentices, of all ages, go from strength-to-strength and it’s fantastic to see them rating their experiences with our Co-op during H1. We had more than 560 in situ within our Co-op by the end of H2 2022. Their words and our efforts combined saw us acknowledged within the National Apprentice Service Top 100 Employers in June.
- We continue to make our Co-op a more diverse and inclusive place to work. Using colleague data, we’ve been able to produce our first ethnicity pay gap report, highlighting not only the differences in average pay, but what we need to do in order to address disparity. We’ve also updated how we collect diversity data using colleague feedback and best practice.

More detail on all our businesses is available further on in this report. We’ll outline our progress against all strategic and commercial priorities and, of course, delivery of our Vision more completely in our full 2022 Annual Report and Accounts.

Looking ahead

As we look ahead to the rest of the year, we will continue to apply the same discipline which has seen us respond positively to the key priorities I set out on becoming the Interim CEO, while reviewing our strategic response to the changing trading and broader economic environment and creating more agility in our central and frontline operations. We will continue to maintain this momentum while, as a true purpose-led organisation and a proud co-operative, we remain true to our Co-op Purpose, despite the external challenges we are navigating.

The sale of our petrol forecourts, which was announced in August, is part of our strategy to focus on our core convenience offer and our four routes to market, in order to best meet the needs of our customers and members.

We will also continue to be there for our colleagues, members and customers through what will remain a highly challenging period. Our Co-op will support their financial and mental wellbeing through the high quality products and services we offer and also through the extended community programmes we directly support.

I want to extend my heartfelt thanks to our members, customers, our Members' Council, our Board, our Member Pioneers and our partners for their continued support as we deliver this year.

I want to thank my amazing colleagues, whose dedication to our Co-op is exemplary. I am so grateful for their unwavering focus on delivering to our members' and customers' needs and for going beyond the day job every day to also deliver to our communities while caring for each other. I have loved getting to know so many of them as I've taken on my new role and am in awe daily of what they do and how they do it.

Finally, I want to thank my incredible leadership team who have dealt with a great deal of change over the last couple of years, and in the last few months. They have absolutely grabbed the challenge and led it together in a way that leaves me very honoured to be working with them.

Shirine Khoury-Haq

CEO, Co-op Group

FINANCIAL OVERVIEW – FROM MIKE HAZELL, INTERIM CHIEF FINANCIAL OFFICER

Following a difficult year in 2021, the lasting effects of the pandemic and its economic consequences continue to be felt in 2022. This combined with the wide-ranging effects of the war in Ukraine has led to an inflationary crisis driving up costs for consumers and businesses alike.

Despite this challenging backdrop, we worked hard to maintain our sales performance, and year-on-year total revenue across the group was £5.6bn; consistent with our first half performance last year.

These revenues translated to underlying earnings before interest, taxes, depreciation and amortization (EBITDA) of £218 million for the half year, compared to £248 million in H1 last year. The fall in underlying EBITDA has been driven by the significant inflationary pressures that most businesses are having to face this year.

The Group's energy costs increased from £41m in H1 2021 to £59m in the first six months of this year, driven by the ongoing unprecedented rise in energy commodity prices. H1 2021 also included the end of the government rates holiday (business rates relief H1 2022: £0m, H1 2021: £20m), impacting this year's costs relative to last year.

After non-cash depreciation and amortisation of £200m, our underlying operating profit was £18m in H1 2022, down from £51m at the end of H1 2021.

Profit before tax was £7m for the half year (H1 2021: £44m). H1 2021 included a one-off gain of £99m in relation to the discount on the early settlement of the Group Relief creditor owed to the Co-operative Bank PLC, driving the year-on-year adverse movement. However, it was partially offset by the favourable mark to market movements this year.

Our profit before tax takes into consideration several other non-underlying impacts that are unique to 2022. At the half year, we have reduced or 'impaired' the value of the assets that we hold at around 50 of our Food stores by £21m, where our forecasts for profitability do not support the asset values we were carrying. This is more significant than in previous periods, as we have adjusted our expectations to reflect the tough trading conditions and associated squeeze on profitability that we are facing into.

Furthermore, we have impaired the value of the leased asset that we hold against our main support centre office space at One Angel Square by £25m. This reflects the significant change in working patterns for our support centre colleagues following the pandemic, including more flexible and hybrid working solutions. This change reduced how we utilise the Angel Square site which, under accounting rules, requires us to reduce the value of the leased asset that we hold.

Offsetting these losses, we have benefitted from net gains of £51m within finance income, driven by favourable market movements on the diesel positions we hold and the market valuation of our Eurobond debt.

Tight control of cashflows, effective working capital management and a more disciplined approach to capital expenditure all combined to help significantly reduce our net debt during the first six months of the year, taking us from £920m at 2021 year end, to £731m at H1 2022. This £189m improvement (reduction) in net debt compares to an increase of £162m over the same period last year.

Likewise, as you will see from the following commercial updates our individual businesses have all been working hard to tackle the challenging market conditions. Our Food and Wholesale business saw revenues increase by 1% year-on-year (H1 2022 £4.59bn, H1 2021 £4.55bn) resulting in underlying operating profits of £45m versus £70m in H1 last year after the impact of the inflationary pressures outlined above.

As mortality rates normalise post-pandemic, our Funeralcare business saw a small reduction in sales year-on-year (H1 2022: £139m, H1 2021: £142m). This combined with energy costs and regulatory changes in the industry saw underlying operating profit decline from £17m in H1 last year to £11m in the first half of this year. Our Legal Services business continued to perform strongly, after growing revenues 10% year-on-year (H1 2022: £22m, H1 2021: £20m), which resulted in an underlying operating profit of £4m for the half year (H1 2021: £2m).

COMMERCIAL UPDATE

Food

Our Food business continued to operate through an extremely tough economic climate in H1 2022, facing global availability challenges exacerbated by heart-breaking developments in Ukraine and a cost of living crisis affecting our members, customers and our business.

While we believe our trading environment will continue to adjust over time, it affected our sales and profitability in H1 and, in turn, put pressure on profit for the wider group, even though we continued to outperform the convenience market in terms of growth in the last 12 weeks of the half year (source: IRI convenience market YoY value data to 2 Jul 2022).

In the first half of this year, we saw a 1% year-on-year increase in revenue (H1 2022: £3.91bn, H1 2021: £3.86bn). However, it's worth noting:

- Fuel sales increased by just over £100 million (up 45%) and this was primarily driven by rising cost prices across the market, including those paid by our Co-op.
- Rapid inflation increased other costs across the market, which impacted our Group as we worked to serve our members and customers.
- When we consider our year-on-year comparisons, H1 2021 included a third national lockdown, which positively impacted our financial performance, with more members and customers relying on our stores instead of eating out at pubs and restaurants.

Therefore, our profitability fell in H1 this year, with an underlying profit of £41 million (H1 2021: £68 million).

The cost of living crisis is also a contributing factor in the fall in profitability in H1 2022, as customers adjusted how they work, live and shop. Customers sought to economise by choosing products in our stores at lower price points, including our Honest Value brand.

Understandably, we also saw an overall reduction in basket sizes and we absorbed significant energy inflation across our organisation in H1, to shield our members and customers from increased costs where we could. We also held or reduced prices on around 4,000 food products in the first half of 2022.

Profitability was partly affected by the rollout of our new SAP supply chain systems, as we continued to feel the effects of a global pandemic and supply chain crisis in H1 2022. As with any new software solution, we needed time and resource to embed the systems and realise their potential over the first six months of the year, after introducing them during challenging circumstances. The good news is that we started to see encouraging improvements throughout Q2, with availability returning to pre-Covid levels.

Also, at an industry level, the convenience channel share of the overall UK grocery market reached 12.2% in June. It was the first time since 2020 that this has been over 12%, and the first time it had been ahead of the online channel in two years. Co-op's grocery sales grew period-on-period throughout H1 2022, and we're one of the only retailers for whom this was the case (using Kantar's periodic data, where a period equals 4 weeks).

This growth was driven partly by an increase in the shopping frequency of Co-op shoppers and partly by price inflation, which affected the entire grocery market in H1. Grocery inflation climbed steadily for 16 consecutive periods, reaching +8.3% in June 2022, its highest level since 2009 (Data source: Kantar Worldpanel take-home grocery sales 4 weeks to 12 June 2022).

Our Wholesale business, covering the former Nisa wholesale business and our emerging franchise operations, generated sales of £0.7 billion in H1 2022, broadly in line with the same period in 2021. This reflects a solid performance in light of the bigger economic headwinds impacting all retailers. The underlying profit of £4 million continues the upward trend of improving profitability for Wholesale, demonstrating the underlying strength of the collaboration between Co-op and Nisa and the associated benefits that can be passed through to Nisa customers.

- **Our progress so far this year**

Over the last few years, we've continued to invest in our estate, infrastructure and people. Our focus on convenience has in turn powered up our proposition, extending our reach through our four routes to market - Retail, Online, Wholesale and Franchise - to get closer to where people are.

In January this year, we began repositioning our fresh, chilled and frozen meals, bringing them together consistently across all our stores so customers could quickly shop our meal offers and easily identify our new offers.

These changes set up the foundations to help us comply with the Government's new High in Fat, Sugar and Salt (HFSS) regulation, which comes into force for England-based stores of over 2,000 sqft from October 2022, restricting the way HFSS food and drink products are promoted and displayed in stores and ecommerce channels. During H1, we began to alter the layout of over 1,500 stores and our online equivalent to comply with the new rules. In H2 we'll provide HFSS training to all our store colleagues in readiness for October.

In January, we opened our new Biggleswade depot, our largest regional distribution centre (660,000 sqft). The depot became fully operational in H1, as the most sustainable and environmentally friendly depot in our network, handling over two million cases of frozen, ambient and fresh products a week. This depot brought thousands of products closer to communities across the South and South East.

In April, we also began to extend and enhance our Newhouse distribution centre as we continued to strengthen our existing logistics network in H1, ensuring we have the right distribution facilities to deliver improved services and access to food conveniently for our communities into the future.

We also began an 18-month programme to revamp every category in our shops to ensure real customer value through our four levers of price, promotions, range and quality. In May, we relaunched our Food-To-Go range in time for summer, with sushi taking centre stage. To make the range as sustainable as possible, we've removed a significant amount of packaging from our sandwiches and salads and replaced all single use cutlery in favour of wooden.

- **Improving our customers' shopping experience**

In the first half of the year, we remained focused on improving our customers' shopping experience to make it simple, efficient and consistent every time, whilst personalising our offers and our resonance with local communities.

We rapidly scaled our online offer through our online shop – www.coop.co.uk/shop – and with partners including Deliveroo, Amazon Prime and autonomous robot deliveries with Starship Technologies. By the end of H1 2022, our online delivery services were available in 1,794 stores across 852 locations, and Deliveroo was available in 1,215 stores across 447 locations - that's almost a 50% increase on H1 2021. Of those customers purchasing food products from coop.co.uk, more than 46% were our members.

Making shopping quick, easy and convenient for our members and customers is at the very heart of our approach. We aim to be the most convenient home delivery service as we continue to innovate to meet our customers' needs.

- **Helping food go further and reducing waste**

According to data from food waste charity WRAP, only 80,000 tonnes of edible surplus food in the UK is shared with charities and community groups out of more than 9.5m tonnes (Food surplus and waste in the UK study, October 2021) and we want to see that improve.

In April, we were the first convenience retailer in the UK to replace on-pack use by guidance with best before dates on our entire range of own brand yoghurts, to reduce food waste and help combat the 42,000 tonnes of edible yoghurt thrown away in British homes each year because it is out of date, according to WRAP.

We firmly believe that co-operation is crucial in helping tackle food poverty and, in June this year, we launched a new digital platform called Caboodle in partnership with Microsoft, and with support from ITG and BJSS. Caboodle enables supermarkets, cafes and restaurants to share surplus food online, using live notifications to alert community groups, volunteers and charities when slots are available. We started the roll out of Caboodle to all 2,500 Co-op stores in H1.

Funeralcare

As economic and cost of living challenges continue to affect all parts of our Co-op, members and customers have continued to lean towards simpler and more economical options in Funeralcare too, with more clients opting for our direct cremation and essential funeral services than in previous years.

We have worked hard to shield our clients from wider inflationary impacts and proactively reduced the price of our direct cremation funeral option in September 2021 by over 28%, by removing fees that were no longer necessary and making further discounts. We also commenced a strong new marketing campaign profiling our range of services and the personalisation offered by Co-op Funeralcare. This led to a growth in our funeral market share in the first half of 2022 – meaning that more clients are choosing Co-op Funeralcare to support them when they need us the most.

We have also seen greater volatility in the number of deaths across 2022, which added further challenges to our Funeralcare business across the first half of the year. In the first quarter, deaths were 2.8% below historic averages, increasing in the following months so that deaths across the half year were 1.5% higher than pre-Covid five year averages (albeit 6.3% lower than 2021 due to the impact of Covid in that year).

Within that context, year-on-year revenues were lower in H1 2022 (H1 2022: £139m, H1 2021: £142m) and we also saw a reduction in underlying profit in the same period (H1 2022: £11m, H1 2021: £17m). We've also incurred costs in the application and preparation for Financial Conduct Authority (FCA) regulation of our funeral plans business.

As the leading provider of funeral plans in the UK, we're proud to have worked closely with the FCA as part of our journey to become regulated in H2 this year. We recognise the much needed confidence it will give our consumers, offering valuable protection at a time when they might feel most vulnerable.

Market demand for funeral plans has understandably been subdued over the first half of 2022 due to significant changes in the market and the failure of several other providers ahead of regulation. However, we anticipate consumer confidence returning across the second half of 2022 and then into future years. We believe the strength and heritage of our Co-op brand, alongside our award-winning funeral plans, places us in a strong position for future growth.

Our commitment to help our clients say their best goodbye remains at the heart of everything we do, and we know that this goes far beyond the day of the funeral. At the start of the year, we launched a new partnership with Cruse Bereavement Care, helping communities to care for the grieving and encouraging people to talk about death and grief more openly.

And, as part of our '*Co-operating for a Fairer World*' Vision, we are working hard to do our bit for the planet. Earlier this year we trialled several eco funeral options, such as planting a tree for certain funerals arranged, and we continue to invest in electric vehicles and sustainable product options, setting ourselves up for a greener future. We're proud to be one of the first UK funeral directors to trial the fully electronic Tesla hearse and add the electronic Nissan hearse to the trial later in July. We also began a trial of the Maxus electric ambulance in February this year.

We've continued to develop our website and telephony channels to improve client accessibility and ease across all our services. As more of our clients are choosing to start their funeral arrangement and initial research outside of a funeral home, we have been using a programme of continuous improvement to ensure a seamless and consistent experience across telephony, online and our branch network. During H1, we developed a new website for launch in H2 to support clients buying one of our regulated funeral plans, as well as new digital bereavement content to complement the 1-to-1 support clients receive in our funeral homes.

While we take all these steps, at the heart of our funeral services business is our people. We are incredibly fortunate to have the most professional and caring team of colleagues who deliver beautiful and unique funerals for our clients and assist with their funeral planning requirements every single day. As a team, we pride ourselves on providing the highest levels of service and care to the bereaved and the deceased, at a time when it is needed the most. The H1 client satisfaction metrics for our funeral services therefore represent continued excellence in this vital space with a 97.4% satisfaction score.

Insurance

So far this year, our insurance business has performed in line with our forecast, despite the challenging conditions experienced by the Group overall. We predicted a reduced revenue this year whilst our relationship with Markerstudy continues to be embedded and we settle into our new distribution business model and ways of working (Insurance income H1 2022: £11m; H1 2021: £18m.)

- **H1 performance**

It's been a mixed year so far across our product range. The changes to car and home insurance, brought about by the General Insurance Pricing and Practices regulations introduced at the start of the year, which ensures loyal customers are treated the same as new customers, have impacted the whole market. We've seen a real change in consumer behaviour as a result. Many customers are now seeing no change or even a price decrease in their insurance at renewal, which has resulted in fewer customers shopping around, using price comparison websites or switching suppliers at renewal. The car insurance market has also contracted at the same time, as new car sales across the UK have hit a 25-year low, impacting the number of customers in the market for new cover. We are also starting to see shortages in the supply chain for spare parts, which is beginning to impact vehicle repair times for our customers, and the added knock on effect of inflation on claims costs.

In contrast, our Pet insurance sales were very strong through the first half of 2022. In January, we launched our new and refreshed Pet insurance product. The new features of this proposition, like giving a discount for adopted pets and offering cover to older animals, provides the sort of product you would expect from our Co-op and has supported its success.

The travel market opening again has also seen many customers come to us for Travel insurance products to protect them whilst they make their first trips in several years. After the unprecedented effect of Covid on the travel industry, many consumers are recognising the importance of a product with a high level of protection from a brand they can trust - our product is ideally placed to offer this. We continue to offer cover for any age and any condition with 24/7 on-call support from a doctor, for those times when members and customers need urgent help.

Our Commercial insurance product has also seen an improved performance this year. Thanks to our working partnership with Nisa, we're offering our services and products to our Nisa partners, demonstrating a great opportunity for us to add value through the whole Co-op Group and hopefully help partners offset some of their increasing cost challenges.

Our Life insurance products have performed in line with our predictions so far this year.

Over the past couple of years, we've worked incredibly hard to improve all our products, making sure they're relevant for members and customers and offer a real Co-op difference. We've also focused on our customer experience and the accessibility of our products and services. We continued to build on this during the first half of 2022, to have some of our best customer satisfaction results since we introduced our touchpoint survey two years ago.

During the first half of this year, we have launched the most accessible experience for members and customers when it comes to engaging with our refreshed Pet insurance product online. We worked closely with Fable to assess the accessibility of our experience, and also sought the opinion of disabled users. We will be using key learnings from this project to further improve our website's accessibility, ensuring everyone can use our online services.

We have continued to focus on simplifying insurance experiences by making digital journeys and communications easier to understand. These improvements have meant more users completing their online journey with us.

We also launched an improved online claims experience for our Car insurance customers to make managing their claims even easier.

As part of our wider Co-op ambitions to provide support and help to members and customers in their later life, we started a new trial with our partners Legal & General to offer lifetime mortgage products. This marks a milestone for us, as it's the first time we've offered a non-mainstream insurance product in Co-op Insurance Services (CISL). There are so many lifetime mortgage products out there, but our trusted Co-op brand along with a market leading partner in Legal & General will help our members and customers find the right product for them. Legal & General is an expert provider in this area that doesn't pay commission directly to its advisors and is committed to getting the right outcome for customers.

Legal Services

Our Legal Services business had an excellent start to the year. Despite a challenging economic climate for the wider group and other Life Services businesses, Co-op Legal Services (CLS) increased revenue by 11% in H1 2022, year-on-year.

All our practice areas contributed to this strong business performance, particularly our market-leading Probate business, in which we opened 23% more cases in H1 2022 compared to H1 2021.

The advances we've made in the digital space over the last few years and the number of partners we are now working closely with have contributed to this success. Nearly 50% of our clients came to us through digital channels in the first half of 2022. Our growing library of digital tools, support and contact channels is helping us support more clients in whichever way works for them. We're also seeing more and more clients come to us from partner referrals. In H1 2022 the number of organisations we partner with grew and, by the end of the half year, we had over 50 partnerships in place.

To support our increased case volumes we've been growing our team - over 100 new colleagues started in the first six months of this year.

In 2021, we streamlined our assessment processes to offer new routes into the legal profession. By doing this, we opened up legal careers to a wider range of colleagues from non-traditional backgrounds, as sector specific experience was no longer a requirement to join our team. We continued to hone and develop our essential criteria for recruitment in 2022, which helped us recruit this high number of new colleagues.

We also introduced new apprenticeships in the first half of this year - we'll be offering apprentice solicitor roles with full training and a qualification at the end. Candidates will achieve a legal career without the university fees, creating new routes in to the profession for some students who might have previously found it challenging.

When it comes to attracting and hiring more great people from a range of sectors and backgrounds, we have already started to see positive impacts on the representation of colleagues identifying as disabled (increased to 17% in Q1 2022, compared to 5.4% Jan- Oct 2021) or LGBTQ+ (increased to 17% in Q1 2022, compared to 10% Jan-Oct 2021). We believe these new routes to recruiting have contributed to this.

Once our new colleagues begin working with us, training and development programmes are key in making Legal Services a great place to grow a legal career. We give our new colleagues a great start in our business, as well as a love of all things legal; existing colleagues also get the chance to grow. We created new roles in our structure and training programmes to give our colleagues the skills and experience they need to thrive with us. 30% of roles in CLS were filled by internal candidates in H1.

Although many aspects of our business are changing and evolving, something that will always remain the same is our desire to give clients a great experience, regardless of whether they're interacting with us online, in their own homes or through our digital tools. We're delighted that our customer service scores continued to increase. Our customer satisfaction score for H1 was at 87.2%, an increase of 1.7% compared the same period last year. We're also really proud of our Trustpilot scores, which continued to improve. Client reviews increased our score to 4.8 during the first half of this year - which meant a rank of five fully green stars on the site, giving clients confidence and trust in our services based on real customer reviews.

VISION UPDATE

When we articulated our Vision of '*Co-operating for a Fairer World*' a few years ago, little did we know that its importance would increase so much because of a chain of events that simply could not have been predicted. Our activity to help make things fairer for our members and communities, fairer for our colleagues and fairer for our planet is as relevant now as it ever was.

The worsening economic and political picture impacted everyone our Co-op serves and, during the first six months of the year, we factored that carefully into how we delivered our Vision.

Our members, colleagues and customers, as ever, had been at the heart of this activity. Their incredible support was in evidence when they raised over £1.2 million via till, text, online member reward channels and Co-op Foundation, in support of the DEC appeal for Ukraine in H1. This money will go to meet the ongoing needs of people affected by the conflict over the next three years. Also, our Local Community Fund, generated by our members' spending, shared around £1.5 million with more than 4,500 local causes in April.

Our Wellbeing team has developed a wide range of colleague benefits that can all positively impact our colleagues' lives. Insight, however, told us that not enough of them knew about the offer and what support they can expect, simply by being a Co-op colleague. This is why the Co-op 'Wellbeing and Benefits' campaign was created and rolled out at mid year.

The campaign saw us launch our first ever financial wellbeing survey to all colleagues, creating a bespoke newsletter focused on benefits and wellbeing, and a small concertina card outlining all these colleague benefits, which was sent to over 20,000 frontline colleagues.

We also ran face-to-face benefits roadshows, meeting thousands of colleagues to discuss benefits available to them from channels and advisors such as Salary Finance (previously Neyber) and our credit unions. In the first half of the year, we also helped more than 2,200 colleagues check their state benefit entitlement, to ensure they were receiving everything they were entitled to.

Via the Wagestream app, which allows colleagues to access earned pay between pay days and open a savings account paying 5% interest – colleagues accessed nearly £5.4 million during H1, at times where they really needed it.

Progressing our Diversity and Inclusion agenda remained another key focus area during the first six months, with new initiatives underpinning us, making things fairer for colleagues, members and communities.

As part of our focus on driving racial equality and inclusion, we published our Ethnicity Pay Gap Report for the first time in H1. This showed the 2021 mean pay gap for colleagues from ethnic minorities was -3.1% compared to their white colleagues, telling us that they earn less on average.

Insights like these are powerful and also motivate us to think what more we can, and should, be doing to make our Co-op a truly inclusive place to work.

The report also identified important learnings, which we are keen to share with the Government and other businesses to help increase transparency and attain a uniform approach to making the necessary changes. We have also written to Government officials, calling for ethnicity pay gap reporting to be made mandatory.

In April, following colleague feedback, we enhanced our existing menopause policy with a series of initiatives designed to help more colleagues access the support they need in the workplace. Central to this was the creation of a guide produced in partnership with our unions Usdaw and Unite, designed to help managers provide dedicated support for their team members. The guide has attracted a lot of interest from the media and other employers, to whom we have made it available free of charge.

In April 2021, we aligned our minimum hourly rates to the Real Living Wage, as set by the Living Wage Foundation (www.livingwage.org.uk), and we subsequently aligned them to the new rate from April 2022. For Customer Team Members (CTMs) in our Food stores, this resulted in a 4.2% pay rise. We also increased the pay rate differential between CTM and Team Leader roles. Our hourly pay rates apply to all colleagues, including younger colleagues and apprentices.

During the course of the year we have also continued to progress one of our key community missions in support of education, skills and opportunities. By the end of H1 2022, more than 42 businesses had pledged over £14m towards Co-op Levy Share targets, which will support more than 1,000 apprentices. This pioneering initiative supported apprenticeships across 30 different occupations by the beginning of July, providing life chances for many individuals who quite simply would not have had that opportunity or access previously. www.cooplevyshare.co.uk is just one example of the innovative thinking required if we are to truly 'level up' the opportunities available for so many across the UK.

And we remained open to what more we could do to support communities. We worked closely with the Purpose Coalition throughout H1 on an evaluation of our Co-op and its missions. This independent group, led by the Right Honourable Justine Greening, prepared a 'This is Purpose' report, focused on our Co-op, in the first half of the year, ready for publication and presentation to the House of Commons in H2. The report considers our Co-op, its missions and what more we can do for communities, and the partnerships we can create that will make a difference.

In May, we published a detailed report entitled 'Unfair Tales', which highlighted some stark home truths occupying the minds of our younger generation. Children as young as ten were already thinking they'd need to move away from their local area in the future to achieve a better quality of life, whilst a third of the audience surveyed were acutely aware of the rising cost of living and the impact this would have upon them.

A key part of our community activity this year has been to channel our support into programmes and issues which not only align with our Vision, but have been further exposed by the pandemic. One such area was bereavement support. In January, we announced a new partnership with Cruse to provide a series of online services to help communities talk more openly about loss and grief.

This joined-up community thinking was also at the heart of Caboodle – a major not-for-profit platform that launched in June to help support our fight on food waste. With our founding partner Microsoft, supported by technology consultancy BJSS and Team ITG, Caboodle enables supermarkets, cafes and restaurants to connect with community groups and volunteers to redistribute surplus food.

Our colleagues also made an incredible effort in the first half of the year towards achieving an £8m target for our mental wellbeing partnership with Mind, SAMH and Inspire in H2, creating new services in local communities.

Whilst supporting our local communities has been a clear priority, it hasn't been at the expense of us focusing upon wider international and environmental issues. In April, our Co-op was honoured with a Queen's Award for Enterprise for Sustainable Development. The award recognised the reach and depth of our work on reducing the impact of our operations in areas such as carbon emissions, recycling and

sustainable pensions. It was an honour for our Co-op to receive this prestigious award, and testimony to the fact that sustainability is truly embedded into the heart of what we do as a business.

PRINCIPAL RISKS AND UNCERTAINTIES

Our Board and Risk and Audit Committee regularly review the principal risks to our business, our position against our risk appetite, and monitor progress to manage risks within that appetite. Consideration is given to emerging risks and to any changes in the internal or external environment that could impact our strategy and how we operate. We regularly update our risks and responses where required. The Board and Risk and Audit Committee have reviewed the principal risks and uncertainties faced by our Co-op.

Geopolitical events and the broader economic environment

We are experiencing changes in the economic environment that have not been witnessed in over a generation. These are being driven by the war in Ukraine, the recent political instability in the UK and the continued effects of the pandemic. Inflationary pressures combined with challenges in the supply chain and shortages of raw materials have heightened uncertainty for our members, customers and suppliers. The increased cost of living is materialising in industrial action across multiple sectors of the UK economy and impacting the availability of labour. In terms of outlook, continued deterioration in the external environment, coupled with a fall in consumer spending in the UK, could see the UK economy entering a mild recession next year. In July, the International Monetary Fund also warned of a global recession and it predicted that the UK is expected to see the slowest growth of all the G7 nations over the next year.

Covid

Following the removal of Covid restrictions, we maintain a safe working environment for our colleagues. We have additional support in place for those who are higher risk and more vulnerable to infection, as well as those experiencing long-term effects of the virus. We will monitor how the pandemic evolves. If restrictions are reintroduced, we are well placed to respond and have contingency plans in place across our operations.

Changes to our principal risks

Our principal risks set out in the 2021 Annual Report and Accounts remain relevant for the first half of 2022. These are the risks which, should they materialise, would have the most impact on the delivery of our business strategy and our commitment to create value for our members and communities.

Though the environment our businesses are operating within has been impacted by the combined pressure of rising inflation, geopolitical events and more intense competition, those stresses to the supply chain in the grocery sector have most acutely affected our Co-op, as Food is our largest business.

Our Co-op relies on a combination of external funding and cashflow generation to run our businesses. The current economic and geo-political environment has impacted our profitability and cashflow generation. Our financial statements have been prepared on a going concern basis and our directors reasonably expect the business to have sufficient funding for the foreseeable future. However, should such economic conditions prevail or deteriorate further, our Co-op may need to take mitigating action to ensure adequate funding and cashflows. Such mitigating actions could include reducing or delaying capital expenditure, eliminating discretionary costs and/or disposal of non-core assets. As a result, we have elevated the risk related to funding and liquidity to our principal risks.

The principal risks disclosed in our 2021 Annual Report and Accounts remain the most significant to our business, with seven intensifying due to changes in our internal and the external environment.

Risk	What's changed in the half year?
Change <i>We will make changes to the way we operate through our four year plan. If our plans are not delivered in an effective way, we will not be able to see the benefits of our change programmes.</i>	<ul style="list-style-type: none">As part of rebalancing our cost structure, we are reducing the level of transformation and change to focus on delivery of an optimised change portfolio to support our strategy and in turn our Vision. An important part of this will be realising the benefits from our investment in new SAP software solutions - improved ranging, stockholding,

Risk	What's changed in the half year?
	demand forecasting and availability in our Co-op stores – by further embedding into our Food business operations
Competitiveness and External Environment <i>The competitive and economic landscape in which we operate means that we need to monitor our growth targets, market share and competitor behaviour to remain viable and innovative.</i>	<ul style="list-style-type: none"> Economic conditions continue to severely impact real income for UK households, as well as significantly increase our costs. Across all businesses, we continue to focus on delivering compelling propositions in response to evolving customer needs and market trends. They have distinct plans to maintain growth and continue to respond to the market conditions they operate in. We're also undertaking a full review of our strategy in Food given this context and the necessity of economic sustainability in a fierce market. Alongside this, we continue to optimise our cost base and invest in our most essential transformation activity
Technology and Cyber Threats <i>We hold data on our members, colleagues, customers and partners. We are reliant on technology to deliver our business operations so theft of data or a cyber-attack could significantly disrupt our operations.</i>	<ul style="list-style-type: none"> We've seen a significant increase in successful ransomware attacks across multiple sectors of the economy in the first half of 2022. Given the changes in the external landscape we are collaborating closely with similar organisations and focusing on ransomware to further protect our environment. We continue to adapt our cyber stance and strategy in response to the threat level to protect ourselves and minimise vulnerabilities
People <i>Our ability to attract and retain colleagues with relevant skills and experience while fostering a diverse and fairer workplace is important to achieving a strong, competitive Co-op. If we do not continue to recruit talent and to invest in our colleagues, then it may impact our operations and our ability to deliver on our strategic plans.</i>	<ul style="list-style-type: none"> In a buoyant job market, we are seeing increased competition among employers, particularly for certain classes of job. This, together with a need for a more aligned approach to internal talent mobility, has made it harder to attract and retain talent in certain parts of our business The organisational design changes we are making in 2022 will help establish the best structure to position Co-op to deliver against our strategic priorities and ease the challenges we have seen in the first half of 2022. Resources are in place to support our colleagues' wellbeing through these changes
Supply Chain and Operational Resilience <i>If we are unable to prevent, adapt or respond to a major failure or external event impacting a key part of our business or supply chain, it could significantly affect the availability and quality of products and services delivered to our members, colleagues, customers and partners.</i>	<ul style="list-style-type: none"> The war in Ukraine has created shortages of raw materials and disrupted energy supplies, which will likely continue into 2023. We are working closely with our suppliers to manage potential impacts. In the Food supply chain, challenges remain in the labour market for both agriculture and food manufacturing following our exit from the European single market and the economic impact of the pandemic
Pre-Paid Funeral Plan Obligations <i>The measurement of our pre-paid funeral plan obligations is sensitive to changes in several factors. Adverse movements could result in lower-than-expected funds being available and the business receiving a lower amount per funeral, or may result in individual contracts becoming onerous.</i>	<ul style="list-style-type: none"> Over the short term, inflationary pressures may cause the future cost of fulfilling a funeral to grow at a rate that is higher than the assets we hold. Covering this cost will weaken our actuarial funding position. We do not expect high levels of inflation to last beyond the short term and we anticipate the funding position to improve thereafter
Environment and Sustainability <i>The way we choose to run our business operations and the products and services we provide have both social and environmental impacts and affects the future of our planet. Running our business in a sustainable manner is essential to Co-op's commercial success, to being climate resilient and to transition to a greener and fairer economy.</i>	<ul style="list-style-type: none"> Changes in the broader economic and geo-political environment, along with increasing environmental regulation and associated costs, mean that the resources and investment required to meet our commitment to being Net Zero by 2040 (ahead of the Government's target of 2050) are more challenging than originally anticipated

Our remaining principal risks, Brand and Reputation, Misuse and/or Loss of Personal Data, Health and Safety and Security, Pensions Obligations and Regulatory Compliance remain stable. You can find details of our remaining principal risks on pages 49-52 of our [Annual Report, available on www.co-operative.coop](https://www.co-operative.coop/annual-report).

Emerging risks and trends

The size and diversity of our business means we regularly face into change, assessing the associated emerging risks, opportunities and implications it brings. We shape our responses depending on their scale and how soon they will impact our business.

Food and energy security

As Russia responds to sanctions imposed by NATO, the supply of energy becomes less secure and may lead to disruptions in the power supply impacting our business, and power providers rationing energy to maintain essential services. Power costs are a leading indicator of other price increases and there may also be impacts on global agriculture and manufacturing, creating further risks to global food security and supply chains. We forward purchase energy to minimise impacts of price fluctuation. As these older hedges mature, we will have limited ability to protect the businesses who purchase energy from us from price increases.

Worsening economic outlook

Due to current economic pressures and increases in the cost of living, household budgets are coming under increasing pressure. We expect to see changes in people's shopping habits as they seek to maximise value. With economic difficulties, we tend to see increases in theft and financial crime. We engage with the relevant authorities to minimise the risk to our business, as well as supporting community programmes which focus on the rehabilitation of offenders.

Regulatory landscape

The various businesses within our Co-op are each affected in different ways by changes in regulation. We continuously monitor planned changes to regulation and adapt our business to meet the new requirements. Particularly relevant to Co-op as a whole is the outcome of the Government's consultation on restoring trust in audit and corporate governance, and the requirement to disclose climate-related financial information.

The UK Government has now published the outcome of its consultation and we're continuing to understand the implications of the proposed reforms for our Co-op as a large private company; in particular changing expectations of our directors, systems, risk and internal controls and reporting, along with the stronger review powers for the regulator.

We are already underway with our work to comply with the Government's mandate to disclose Taskforce for Climate-related Financial Disclosure (TCFD) aligned financial information by 2023. We are considering the physical and transition risk, as well as the opportunities to our business because of changes to the climate.

In our accounting and reporting we will adopt IFRS17 – Insurance Contracts from January 2023, which will apply to all pre-paid funeral plans. We are progressing our implementation plan and impact assessment to meet the adoption date.

In our Food business we are continuing our work to respond to changing regulations such as those around sales of High in Fat, Salt and Sugar (HFSS) products and the Deposit Return scheme in Scotland, which will come into force from August 2023.

Co-op Funeral Plans Limited was approved to sell pre-paid funeral plans by the Financial Conduct Authority on 29 July 2022. This follows intense activity in our funerals business to put in place the structures, processes and culture to comply with the newly introduced regulatory requirements for the industry. Looking ahead, the Financial Conduct Authority intends to set out new rules on consumer duty, which will also apply to funeral plan providers coming into effect from the end of July 2023. They are anticipated to have the greatest impact on the areas of consumer understanding and consumer support.

OUR FINANCIAL PERFORMANCE

Summary of financial performance	2022 £m	2021 £m
Revenue	5,643	5,616
<u>Underlying operating profit:</u>	-	
Food	41	68
Wholesale	4	2
Funeralcare	11	17
Legal Services	4	2
Insurance	3	7
Costs of supporting functions	(45)	(44)
Other	-	(1)
Total underlying operating profit (a)	18	51
Property revaluations, disposals and one-off items	(38)	(43)
Operating (loss) / profit	(20)	8
Underlying interest (b)	(28)	(29)
Net underlying lease interest (c)	(39)	(37)
Net finance income / (cost) on funeral plans	21	(9)
Other non-underlying net interest	73	12
One-off gain on settlement of Group Relief Creditor	-	99
Profit before tax	7	44
Tax	(19)	(7)
Discontinued operations *	60	10
Profit for the half year	48	47
Underlying loss before tax (a)-(b)-(c)	(49)	(15)

* Discontinued operations includes a gain of £78 million (less tax charge of £18m) following the judgment that was handed down by the Court of Appeal in April 2022 in relation to the historic legal claim against IBM, as disclosed as a post balance sheet event in the 2021 Annual Report and Accounts. The gain of £78 million reflects £72 million of cash that was received in 2022 following the Appeal judgment and a further £6 million received in 2021 in connection with the earlier Technology and Construction Court judgment, which was held on the balance sheet but has now been released to the Income Statement within Discontinued Operations.

Our headline performance

The first half of 2022 proved to be a particularly difficult trading period. In line with all retailers, we had to face into an unprecedented combination of broad, global economic challenges. This saw downward pressure on revenue and significant increases in costs, which is reflected within our results, as margins were squeezed and profitability reduced.

As we looked to build back in the first half of 2022 from the most challenging stages of the pandemic, new headwinds arose for consumers and retailers in general. The cost of living crisis is having a significant impact on the day-to-day lives and shopping habits of our customers and members, as rising inflation and energy costs have squeezed many household budgets to near breaking point. Global supply chain issues,

exacerbated by the conflict in Ukraine, in combination with material rises in energy prices, have also significantly increased the costs we incur to run our business and serve our members.

Despite these material challenges, we continued to focus on our members and customer propositions. Strong cost control and working capital management saw our net debt levels reduce markedly from the 2021 year end position.

Total Group revenue is consistent with the first half of last year at £5.6 billion. Modest gains in our Food and Legal Services businesses were offset by a slight reduction in sales in our Wholesale, Federal, Funeralcare and Insurance businesses.

Although Group sales were in line with the prior year, our underlying operating profit decreased by £33 million to £18 million (H1 2021: £51 million). The costs that we incur to serve our customers have increased significantly - both the input costs of products that we sell and also the costs we incur to run our businesses and serve our customers, such as energy prices. We've worked hard to maintain our buying margin but our underlying profitability has been impacted by costs rises – and in particular the sharp rise in energy prices. After charging underlying interest on our bank borrowings and leases, we made an underlying loss before tax of £49 million compared to an equivalent loss of £15 million in the first half of 2021. Although our sales and profits are generally higher in the second half of the year, our first half result is still slightly behind our budget expectations.

Our operating loss of £20 million is down £28 million on the H1 2021 figure of £8 million. This reduction in profitability was mainly driven by the tough trading environment and inflationary cost rises impacting our core businesses, with Group underlying operating profit down by £33 million on the comparative period as noted above. Similarly our EBITDA of £180 million and underlying EBITDA of £218 million are both down against the comparative period figures of £205 million and £248 million respectively.

Our profits are shown after deducting the amount our members have earned for themselves and their communities, which totalled £16 million in the first half of the year (H1 2021: £21 million). Operating profit in the prior period also included £20 million of Government assistance in relation to the pandemic, which we benefitted from in the first three months of 2021 through business rate relief.

Profit before tax of £7 million is £37 million lower than last year. This was driven by the fall in operating profit of £28 million noted above and a net reduction in finance income and expenses of £9 million. Finance income in the prior period included a one-off gain of £99 million in relation to the discount on the early settlement of the Group Relief creditor owed to the Co-operative Bank PLC. This has been offset to some degree by £51 million of net gains from a favourable fair value movement in the valuation of our Eurobonds and foreign exchange and commodity derivatives (mainly diesel positions). Furthermore, the net interest gain on funeral plans of £21 million compares favourably to the net interest charge of £9 million in the comparative period - investment returns on plan investments outweighed the interest charged on plan liabilities. Finally, the finance income recognised on our pensions schemes is also £8 million higher than last year.

After a tax charge of £19 million (H1 2021: £7 million) we made a loss after tax from continuing operations of £12 million (H1 2021: £37 million profit). Following the judgment handed down on the IBM case in April, we also recorded a net gain after tax of £60 million from discontinued operations (H1 2021: £10 million gain) contributing to an overall profit for the Society of £48 million in the first half of 2022 (H1 2021: £47 million).

How our businesses have performed

Overall Food sales totalled £3.9 billion in H1 2022, reflecting a moderate increase of £52 million in comparison to the same period of 2021. Within these figures, fuel sales increased by just over £100 million (up 45%), primarily driven by rising prices at the pumps. The modest reduction in food sales (excluding fuel) reflects the combined effect of food price inflation offset by reduced volumes and transactions. Evolving customer behaviour has seen shoppers look to trade down to value range products as the cost of living crisis bites. The comparative period also includes the impact of the third national lockdown at the start of 2021, which buoyed sales as people shopped more locally and didn't eat out at pubs and restaurants. Absolute sales of food (excluding fuel) across all our store formats are down slightly with a like-for-like of - 0.7%, although convenience sales fared slightly better with a positive like-for-like of 0.4%.

As highlighted in our 2021 Annual Report, sales in the second half of 2021 were impacted by industrywide disruption to global supply chains following the pandemic. They were further exacerbated as we transitioned to our new commercial, ranging and supply chain systems, which resulted in lost sales opportunities by affecting our ability to consistently offer customers the products we wanted to. These impacts continued to a lesser degree into the first half of 2022, and global supply chains and commodity markets have been further impacted by the conflict in Ukraine.

Profitability within our Food business fell; we recorded an underlying profit of £41 million (2021: £68 million). This is partly due to the impact of inflation, which has increased the cost to deliver our customer proposition and serve our members. The comparative figures also benefitted from £18 million of Government assistance through rates relief during the pandemic. The increase in fuel sales has not flowed through to additional profit as input costs have also increased.

We continue to embed our new commercial, ranging and supply chain systems following the implementation of SAP and are working hard to learn and fully realise the benefits of that investment going forward.

Our Wholesale business (covering the former Nisa wholesale business and our emerging franchise operations) generated sales of £0.7 billion, broadly in line with 2021. This reflects a solid performance in light of the broader economic headwinds impacting all retailers. Underlying profit of £4 million continued the upward trend of improving profitability for Wholesale, demonstrating the strength of the collaboration between Co-op and Nisa, and the associated benefits that can be passed through to Nisa customers.

Our Funeralcare business experienced a 1.7% decrease in volumes in comparison to last year, driven by the wider trend in the death rate. Sales of funeral plans were also well down on the levels experienced during the height of the pandemic. Underlying profit decreased by around 35% in H1 2022 to £11 million from £17 million in the first half of 2021, as reduced sales and increased input costs eroded margins. Furthermore, we continued to invest in price and enhance customer choice through offering lower cost funeral and cremation options for our members. We also incurred significant set-up costs as we transition to a regulated environment for funeral plans.

Our Legal Services business continued to perform well. At £22 million, revenue in the first half of 2022 is up £2 million compared to the first half of 2021, driven by strong growth in new probate cases opened, with profits increasing to £4 million from £2 million in the comparative period. Our Insurance business (marketing and distribution) recorded sales of £11 million and underlying profit of £3 million. Its sales performance is in line with the expected year-on-year reduction in income from the declining back book of policies held by our Co-op, following the 13-year deal with Markerstudy. We continue to operate in a highly competitive market which was also impacted by regulatory pricing changes implemented at the start of the year.

Costs of £45 million for our Central Supporting functions are in line with the prior year (2021: £44 million). We were able to mitigate inflationary cost increases through operating savings achieved as we continued to develop and embed a stronger cost-control culture.

'Discontinued Operations' relates to our former insurance underwriting business, which was sold in December 2020. The recorded pre-tax profit of £78 million reflects the judgment that was handed down by the Court of Appeal in April 2022, in relation to the historic legal claim against IBM. This was disclosed as a post balance sheet event in the 2021 Annual Report and Accounts.

Disposals, property valuation gains and one-off items

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

	2022 £m	2021 £m
Property and business disposals and closures	(34)	(26)
Change in value of investment properties	(3)	-
One-off items	(1)	(17)
Total	(38)	(43)

The loss of £34 million on property disposals and closures includes £56 million of impairment charges (H1 2021: £14 million) where we have reduced the carrying value of some of our assets. The impairment figure includes a charge of £21 million (H1 2021: £4 million) - we have reduced (impaired) the value of the assets that we hold at around 50 of our Food stores, where our forecasts of future profitability do not support the asset values we were carrying. This is more significant than in previous periods as we have adjusted our expectations to reflect the tough trading conditions and associated squeeze on profitability that we are facing into.

Furthermore, we have reduced (impaired) the value of the leased asset that we hold against our main support centre office space at 1 Angel Square (1AS) by £25 million (H1 2021: £nil). This follows the significant change in working patterns for our support centre colleagues following the pandemic and subsequent transition to more flexible and hybrid working solutions. This change has reduced the utilisation of 1AS which, under accounting rules, requires us to reduce the value of the leased asset that we hold.

The comparative period includes a significant one-off charge of £17 million, reflecting the costs of some organisational changes made to colleague structures in our Food stores as part of the Fit for Future programme.

Financing and debt

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

	2022 £m	2021 £m
Underlying bank and loan interest payable	(28)	(29)
Net underlying lease interest	(39)	(37)
Total underlying interest	(67)	(66)
Net pension finance income	20	14
Net finance income / (cost) on funeral plans	21	(9)
Fair value movement on foreign exchange contracts	27	3
Fair value movement on quoted debt and swaps	24	(3)
Other non-underlying finance interest (net)	2	(2)
One-off gain on settlement of Group Relief Creditor	-	99
Non-underlying interest income	94	102

Our underlying financing costs from our borrowings and lease commitments are consistent with the prior period as our principal loan balances have not changed. The value of the leases we have is broadly comparable too.

Net pension income at £20 million is up from £14 million due to the comparative increase in the net pension scheme surplus at the start of the year, and an increase in the discount rate that is used to calculate the net interest.

Following the change in accounting treatment for revenue recognition, we now see a net interest income or charge on funeral plans in our income statement. In the first half of 2022, the returns on funeral plan investments outweighed the interest that we accrued, so we show a net finance income of £21 million. This compares to a £9 million charge in the prior year as investment returns were outweighed by the interest

charge. Interest on our funeral plan liabilities accrues fairly evenly over time whereas the returns on plan investments are more variable, being dependent upon the short term market conditions in any given period.

Finance income includes a gain in the first half of 2022 of £27 million on foreign exchange contracts and commodity derivatives. The bulk of this relates to diesel positions, which moved in our favour. The net market valuation of our Eurobond debt and swaps also reduced, which shows as finance income of £24 million in the period.

Our total net debt of £2.1 billion at the end of the period, including the IFRS 16 lease liability of £1.3 billion, is down £0.3 billion from the start of the year. Excluding the lease liability, net debt was £731 million; a decrease of £189 million from year end.

The reduction in debt was primarily driven by an increased cash position (with cash up to £108 million from £60 million at 2021 year end) and a reduction in our overdraft, which is down from £163 million to £40 million. This reflects the positive results from our renewed focus (as we noted at 2021 year end) on cost control, management of working capital and capital investment. The market valuation of our Eurobond debt also moved in the first half of the year, reducing the value of the debt shown on our balance sheet by £29 million. Cash inflow in the first half of 2022 also includes £72 million of cash received following the appeal judgement on the IBM claim.

The principal amounts of our loans and borrowings were consistent with the year end position and overall indebtedness remained below the ceiling we set ourselves.

Tax

The half year tax charge of £19 million represented an effective tax rate of 276% on a profit before tax of £7 million. This is higher than the mainstream Corporation Tax rate of 19% primarily due to depreciation on non-qualifying assets. The tax charge also includes a £5 million charge from the impact of the enacted Corporation Tax rate rise from 19% to 25% (due 1st April 2023). There is also a £44 million deferred tax charge taken to other comprehensive income in relation to the movement in the valuation of our pension schemes.

We do not have a current year Corporation Tax charge or liability because of available tax reliefs and losses that offset taxable profits.

Our balance sheet

Net assets have increased by £0.2 billion from the start of the year. The main movement driving this is an increase in the net pension surplus of £0.2 billion.

The actuarial surplus on our largest pensions scheme, PACE, increased by £0.2 billion with asset values falling by £2.1 billion, whilst liabilities decreased by £2.3 billion. Asset values have fallen considerably due to the uncertainty in global financial markets, but this has been more than offset by an increase in the discount rate which reduces the present value of the scheme's obligations.

The assets and liabilities associated with the sale of our 129 petrol forecourt sites, which form part of our Food business, have been classified as separate line items in our balance sheet under the caption of 'Held for Sale'. This has been done as the sale of these assets was highly probable at the balance sheet date. The assets are valued at the lower of their book value and fair value less costs to sell.

Going forward

Our results for the first half of the year reflect the unprecedented trading and broader economic environment in which we found ourselves and it's clear that these material headwinds will continue in the near to medium term. Inflationary pressures on household budgets will continue to change consumer behaviours as well as increase the costs we incur to serve our customers. In response to this, we'll need to continue to innovate and adapt our customer proposition to ensure we deliver what our customers and members want.

The difficult trading environment will continue to suppress sales, growth and operating margins, requiring us to maintain our laser-like focus on our cash position through appropriate management of costs, working capital and capital investment.

Despite the ongoing external pressures, our core businesses remain sound and resilient. It's clear our Vision and strategy are more relevant than ever as we continue to strive to serve our members as they face into a difficult and challenging economic reality.

Condensed Consolidated Income Statement

for the 26 weeks ended 2 July 2022

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

Continuing Operations	Notes	26 weeks ended 2 July 2022 (unaudited) £m	26 weeks ended 3 July 2021 (unaudited) £m	52 weeks ended 1 January 2022 (audited) £m
Revenue	1	5,643	5,616	11,151
Operating expenses		(5,668)	(5,613)	(11,097)
Other income		5	5	10
Operating (loss) / profit	1	(20)	8	64
Finance income	3	128	142	196
Finance costs	4	(101)	(106)	(203)
Profit before tax		7	44	57
Taxation	5	(19)	(7)	(25)
(Loss) / profit from continuing operations		(12)	37	32
Discontinued Operation				
Profit on discontinued operation (net of tax)	6	60	10	13
Profit for the period (all attributable to members of the Society)		48	47	45

Non-GAAP measure: underlying loss before tax*

What does this show? The table below adjusts the operating profit figure shown in the consolidated income statement above by taking out items that are not generated by our day-to-day trading. This makes it easier to see how our business is performing. We also take off the underlying interest we pay (being the day-to-day interest on our bank borrowings and lease liabilities).

Continuing Operations	Notes	26 weeks ended 2 July 2022 (unaudited) £m	26 weeks ended 3 July 2021 (unaudited) £m	52 weeks ended 1 January 2022 (audited) £m
Operating (loss) / profit (as above)		(20)	8	64
Add back / (deduct):				
One-off items	1	1	17	15
Property, business disposals and closures	1	34	26	30
Change in value of investment properties		3	-	(9)
Underlying operating profit		18	51	100
Less underlying loan interest payable	4	(28)	(29)	(56)
Less underlying net interest expense on lease liabilities	3, 4	(39)	(37)	(76)
Underlying loss before tax		(49)	(15)	(32)

The accompanying notes form an integral part of these financial statements.

* Refer to note 1 for a definition of underlying (loss) / profit before tax.

Condensed Consolidated Statement of Comprehensive Income

for the 26 weeks ended 2 July 2022

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

	Notes	26 weeks ended 2 July 2022 (unaudited) £m	26 weeks ended 3 July 2021 (unaudited) £m	52 weeks ended 1 January 2022 (audited) £m
Profit for the period		48	47	45
Items that will never be reclassified to the income statement:				
Remeasurement gains / (losses) on employee pension schemes	7	175	(95)	350
Related tax on items above	5	(44)	(17)	(130)
		131	(112)	220
Items that are or may be reclassified to the income statement:				
Gain on revaluation of Right-of-use assets prior to transfer to Investment property		-	-	5
		-	-	5
Other comprehensive (loss) / income for the period net of tax		131	(112)	225
Total comprehensive income / (loss) for the period (all attributable to members of the Society)		179	(65)	270

The accompanying notes form an integral part of these financial statements.

Condensed Consolidated Balance Sheet

as at 2 July 2022

What does this show? Our balance sheet is a snapshot of our financial position as at 2 July 2022. It shows the assets we have and the amounts we owe.

	Notes	As at 2 July 2022 (unaudited) £m	As at 3 July 2021 (unaudited) £m	As at 1 January 2022 (audited) £m
Non-current assets				
Property, plant and equipment		1,721	1,956	1,912
Right-of-use assets		920	1,063	1,086
Goodwill and intangible assets		1,067	1,093	1,075
Investment properties		52	14	55
Investments in associates and joint ventures		4	4	4
Funeral plan investments	12	1,399	1,344	1,372
Derivatives		4	2	-
Pension assets	7	2,464	1,799	2,262
Trade and other receivables		190	224	214
Finance lease receivables		28	30	30
Contract assets (funeral plans)		42	62	43
Total non-current assets		7,891	7,591	8,053
Current assets				

Inventories		447	454	488
Trade and other receivables		547	556	551
Finance lease receivables		12	11	12
Derivatives		20	3	4
Contract assets (funeral plans)		5	6	5
Cash and cash equivalents		108	130	60
Assets held for sale	8	276	2	7
Total current assets		1,415	1,162	1,127
Total assets		9,306	8,753	9,180
Non-current liabilities				
Interest-bearing loans and borrowings	9	765	803	796
Lease liabilities	9	1,158	1,265	1,306
Trade and other payables		38	55	44
Contract liabilities (funeral plans)		1,575	1,606	1,614
Provisions		82	96	74
Derivatives		9	1	2
Pension liabilities	7	4	13	4
Deferred tax liabilities	5	397	185	314
Total non-current liabilities		4,028	4,024	4,154
Current liabilities				
Overdrafts		-	-	4
Interest-bearing loans and borrowings	9	74	39	180
Lease liabilities	9	180	197	210
Trade and other payables		1,420	1,669	1,472
Contract liabilities (funeral plans)		183	176	164
Derivatives		1	2	3
Provisions		34	42	52
Liabilities held for sale	8	268	-	2
Total current liabilities		2,160	2,125	2,087
Total liabilities		6,188	6,149	6,241
Equity				
Members' share capital		74	74	74
Retained earnings		3,038	2,529	2,859
Other reserves		6	1	6
Total equity		3,118	2,604	2,939
Total equity and liabilities		9,306	8,753	9,180

The accompanying notes form an integral part of these financial statements.

Condensed Consolidated Statement of Changes in Equity

for the 26 weeks ended 2 July 2022

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

For the 26 weeks ended 2 July 2022 (unaudited)	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 1 January 2022		74	2,859	6	2,939
Profit for the period		-	48	-	48
Other comprehensive income / (losses):					
Remeasurement gains on employee pension schemes	7	-	175	-	175
Tax on items taken directly to other comprehensive income	5	-	(44)	-	(44)
Total other comprehensive income		-	131	-	131
Balance at 2 July 2022		74	3,038	6	3,118

For the 26 weeks ended 3 July 2021 (unaudited)	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 2 January 2021		74	2,594	1	2,669
Profit for the period		-	47	-	47
Other comprehensive income / (losses):					
Remeasurement losses on employee pension schemes	7	-	(95)	-	(95)
Tax on items taken directly to other comprehensive income	5	-	(17)	-	(17)
Total other comprehensive loss:		-	(112)	-	(112)
Balance at 3 July 2021		74	2,529	1	2,604

For the 26 weeks ended 1 July 2022 (audited)	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 2 January 2021		74	2,594	1	2,669
Profit for the period		-	45	-	45
Other comprehensive income / (losses):					
Remeasurement gains on employee pension schemes	7	-	350	-	350
Gain on revaluation of Right-of-use assets prior to transfer to Investment property		-	-	5	5
Tax on items taken directly to other comprehensive income	5	-	(130)	-	(130)
Total other comprehensive income:		-	220	5	225
Balance at 1 January 2022		74	2,859	6	2,939

The accompanying notes form an integral part of these financial statements.

Condensed Consolidated Statement of Cash Flows

for the 26 weeks ended 2 July 2022

What does this show? Our statement of cash flows shows the cash coming in and out during the period. 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 2 July 2022 (unaudited) £m	26 weeks ended 3 July 2021 (unaudited) £m	52 weeks ended 1 January 2022 (audited) £m
Net cash from operating activities	10	315	162	178
Cash flows from investing activities				
Purchase of property, plant and equipment		(62)	(150)	(297)
Purchase of intangible assets		(7)	(11)	(28)
Proceeds from sale of property, plant and equipment		19	19	80
Acquisition of businesses, net of cash acquired		(2)	(26)	(30)
Disposal of business		-	6	22
Payments to funds for pre-paid funeral plans		(36)	(42)	(93)
Receipts from funds for pre-paid funeral plans performed and cancelled		57	54	105
Net cash used in investing activities		(31)	(150)	(241)
Cash flows from financing activities				
Interest paid on borrowings		(10)	(10)	(57)
Interest paid on lease liabilities		(39)	(39)	(79)

Payments and interest received on subleases		1	5	3
Settlement of Group Relief Creditor owed to The Co-operative Bank Plc		-	(48)	(48)
(Repayment) / issue of corporate investor shares	9	(1)	6	1
Repayment of borrowings	9	-	-	(2)
RCF (repayment) / drawdown		(123)	-	163
Payment of lease liabilities		(66)	(65)	(134)
Derivative settlements		6	-	3
Net cash used in financing activities		(232)	(151)	(150)
Net increase / (decrease) in cash and cash equivalents		52	(139)	(213)
Cash and cash equivalents at beginning of period		56	269	269
Cash and cash equivalents at end of period		108	130	56
Analysis of cash and cash equivalents				
Cash and cash equivalents (per balance sheet)		108	130	60
Overdrafts (per balance sheet)		-	-	(4)
		108	130	56

The balances above include cashflows from Discontinued operations.

The accompanying notes form an integral part of these financial statements.

		As at 2 July 2022 (unaudited)	As at 3 July 2021 (unaudited)	As at 1 January 2022 (audited)
	Notes	£m	£m	£m
Group Net Debt				
Interest-bearing loans and borrowings:				
- current		(74)	(39)	(180)
- non-current		(765)	(803)	(796)
Total Interest-bearing loans and borrowings		(839)	(842)	(976)
Lease liabilities:				
- current *		(180)	(197)	(210)
- non-current *		(1,158)	(1,265)	(1,306)
Total lease liabilities		(1,338)	(1,462)	(1,516)
Total Debt		(2,177)	(2,304)	(2,492)
- Group cash		108	130	60
- Overdrafts		-	-	(4)
Group Net Debt		(2,069)	(2,174)	(2,436)
Group Net Debt (excluding lease liabilities)	9	(731)	(712)	(920)

*As at 2 July 2022 a total of £167m of lease liabilities have been reclassified to liabilities held for sale (and excluded from the table above); split £22m (current) and £145m (non-current). See Note 8 for further details).

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 2 July 2022 (unaudited)	Food	Wholesale	Funeral	Insurance	Legal	Other businesses (c)	Federal (d)	Costs from supporting functions	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue from external customers	3,912	679	139	11	22	-	880	-	5,643
Underlying segment operating profit / (loss) (a)	41	4	11	3	4	-	-	(45)	18
One-off items (a) (i)	1	-	-	(1)	-	-	-	(1)	(1)

Property, business disposals and closures (a) (ii)	(19)	-	-	-	-	-	-	(15)	(34)
Change in value of investment properties	-	-	-	-	-	-	-	(3)	(3)
Operating profit / (loss) (b)	23	4	11	2	4	-	-	(64)	(20)
Depreciation and amortisation	169	4	13	-	-	-	-	14	200
EBITDA (e)	192	8	24	2	4	-	-	(50)	180
Underlying EBITDA (e)	210	8	24	3	4	-	-	(31)	218

26 weeks ended 3 July 2021 (unaudited)	Food	Wholesale	Funeral	Insurance	Legal	Other businesses (c)	Federal (d)	Costs from supporting functions	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue from external customers	3,860	688	142	18	20	1	887	-	5,616
Underlying segment operating profit / (loss) (a)	68	2	17	7	2	(1)	-	(44)	51
One-off items (a) (i)	(17)	-	-	-	-	-	-	-	(17)
Property, business disposals and closures (a) (ii)	(26)	-	(1)	-	-	(1)	-	2	(26)
Change in value of investment properties	-	-	-	-	-	-	-	-	-
Operating profit / (loss) (b)	25	2	16	7	2	(2)	-	(42)	8
Depreciation and amortisation	163	2	14	-	-	-	-	18	197
EBITDA (e)	188	4	30	7	2	(2)	-	(24)	205
Underlying EBITDA (e)	231	4	31	7	2	(1)	-	(26)	248

52 weeks ended 1 January 2022 (unaudited)	Food	Wholesale	Funeral	Insurance	Legal	Other businesses (c)	Federal (d)	Costs from supporting functions	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue from external customers	7,671	1,386	264	34	39	1	1,756	-	11,151
Underlying segment operating profit / (loss) (a)	156	7	12	15	5	(1)	-	(94)	100
One-off items (a) (i)	(17)	-	-	-	-	-	-	2	(15)
Property, business disposals and closures (a) (ii)	(36)	-	2	-	-	(1)	-	5	(30)
Change in value of investment properties	-	-	-	-	-	-	-	9	9
Operating profit / (loss) (b)	103	7	14	15	5	(2)	-	(78)	64
Depreciation and amortisation	332	9	32	-	1	-	-	31	405
EBITDA (e)	435	16	46	15	6	(2)	-	(47)	469
Underlying EBITDA (e)	488	16	44	15	6	(1)	-	(63)	505

a) Underlying segment operating profit / (loss) is a non-GAAP measure of segment operating profit / (loss) before the impact of property and business disposals (including impairment of non-current assets within our businesses), the change in the value of investment properties and one-off items. The difference between underlying segment operating profit / (loss) and operating profit / (loss) includes:

i) One-off items comprises a charge of £1m (2021: £17m). The comparative figure related to organisational changes to colleague structures within our food store teams (under the Fit for Future programme).

ii) Losses from property and business disposals of £34m (2021: £26m loss). This comprises a net gain on disposal and closure of properties of £22m less impairment charges of £56m (see table overleaf for further details).

b) Operating profit for the 26 weeks ended 2 July 2022 does not include any government assistance received through business rates relief or through employee furlough payments. Equivalent figures for both the 26 weeks ended 3 July 2021 and the 52 weeks ended 1 January 2022 were £20m of business rates relief and £nil furlough payments. These amounts were netted against relevant cost lines in operating profit.

c) The 'Other businesses' segment includes activities which are not reportable per IFRS 8. In the comparative period then this mainly comprised the results of Co-op Health which was sold on 6 April 2021.

d) 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.

e) EBITDA (earnings before interest, tax, depreciation and amortisation) and underlying EBITDA are non-GAAP measure of performance which help us to understand the profits our business segments are generating before capital investment and interest charges. EBITDA is calculated by adding back depreciation and amortisation charges to Operating profit (which is calculated before interest charges). Underlying EBITDA is calculated in a similar way but starting from underlying operating profit.

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

		26 weeks ended 2 July 2022 (unaudited) £m	26 weeks ended 3 July 2021 (unaudited) £m	26 weeks ended 1 January 2022 (audited) £m
	Notes			
Underlying operating profit	1	18	51	100
Underlying loan interest payable	4	(28)	(29)	(56)
Underlying net interest expense on lease liabilities	3, 4	(39)	(37)	(76)
Underlying loss before tax		(49)	(15)	(32)
One-off items	1	(1)	(17)	(15)
Gain / (loss) on property, business disposals and closures (see below)	1	(34)	(26)	(30)
(Decrease) / increase in value of investment properties	1	(3)	-	9
Finance income (net pension income)	3	20	14	30
Fair value movement on derivatives (net)	3	22	-	-
Fair value movement on Group debt	3	29	-	5
Finance income (one-off gain on settlement of Group Relief Creditor)	3	-	99	99
Finance income (funeral plans)	3	48	25	54
Finance costs (funeral plans)	4	(27)	(34)	(58)
Net other non-cash finance income / (cost)	3, 4	2	(2)	(5)
Profit before tax		7	44	57

Losses from property and business disposals and closures and impairment on non-current assets		26 weeks ended 2 July 2022 (unaudited) £m	26 weeks ended 3 July 2021 (unaudited) £m	26 weeks ended 1 January 2022 (audited) £m
Disposals, closures and onerous contracts				
- proceeds		19	25	80
- less net book value written off		(2)	(31)	(71)
- provisions released / (recognised)		5	(6)	(9)
		22	(12)	-
Impairment of property, plant and equipment, right-of-use assets and goodwill		(56)	(14)	(30)
Total		(34)	(26)	(30)

Impairment

The Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets and goodwill to determine whether there is any indication that those assets have suffered an impairment loss.

This review is performed annually or in the event where indicators of impairment are present. At 2 July 2022, the Group has considered whether general uncertainty in the wider macro-economic environment including the cost-of-living crisis, rising inflation, energy price increases, the on-going conflict in Ukraine as well as the continuing impacts of the COVID-19 pandemic has the potential to represent a significant impairment indicator as at 2 July 2022. Despite the difficult trading conditions and associated additional costs of serving our customers the Group's main business areas have proven resilient and the performance of the Group's cash-generating units has remained strong. Therefore, management concluded that the impact of the factors noted on the longer term outlook for these cash-generating units did not constitute an indicator of significant impairment and hence a full impairment test across all CGUs was not required. This judgement is unchanged from 1 January 2022.

The Group is currently working to identify the physical risk to our business and supply chains from the changing climate, along with the potential impact of policy, technology and market changes as we transition to a lower carbon future. This is a developing area with inherent uncertainty which is constantly evolving. The work being undertaken will help inform our overall response to the risks and opportunities that are identified. Our assessment of the impact of climate-related risk and related expenditure is reflected in the financial models and plans and will continue to be monitored in future periods.

The methodology for our impairment reviews is consistent with the methodology disclosed in the 2021 annual report. This methodology is summarised in the table below:

Assumption	Food Segment	Funeral Segment
Structure of a CGU	Each individual food store is deemed to be an individual CGU.	A CGU is deemed to be a local network of interdependent branches, known as a Funeralcare Hub.

Cash flow years / assumptions	<p>Future cash flows derived from Board approved three-year plan cash flow assumptions.</p> <p>These forecasts are extrapolated over a period of 2 years and then subject to a long term growth rate of 1.9% (2020: 0%) reflecting the UK's long-term post war growth rate which is in-line with industry norms for the period of the lease. Where lease terms are shorter than this, the remaining lease terms have been used. Perpetuities are included in cash flows with 0% growth (2020: 0%) where stores are expected to be operated beyond their current lease term.</p> <p>Cash flows include estimated store capital maintenance costs based on the square footage of the store.</p> <p>The Group is currently working to identify the physical risk to our business and supply chains from the changing climate, along with the potential impact of policy, technology and market changes as we transition to a lower carbon future. This is a developing area with inherent uncertainty which is constantly evolving. The work being undertaken will help inform our overall response to the risks and opportunities that are identified. Our assessment of the impact of climate related risk and related expenditure is reflected in the financial models and plans and will continue to be monitored in future periods.</p>	<p>Future cash flows derived from Board approved three-year plan cash flow projections.</p> <p>These cash flows are extrapolated over the remaining lease term for leasehold properties or into perpetuity for freehold properties. Perpetuities included in cash flows where the Hub is expected to be operational beyond its current lease terms. A growth rate of 1.9% (2020: 0%) is applied beyond Board approved three-year plan horizon (reflecting the UK's long-term, post-war growth rate, which is in line with industry norms).</p> <p>The Group is currently working to identify the physical risk to our business and supply chains from the changing climate, along with the potential impact of policy, technology and market changes as we transition to a lower carbon future. This is a developing area with inherent uncertainty which is constantly evolving. The work being undertaken will help inform our overall response to the risks and opportunities that are identified. Our assessment of the impact of climate related risk and related expenditure is reflected in the financial models and plans and will continue to be monitored in future periods.</p>
Discount rate	<p>Post tax discount rate representing the Food segment's weighted average cost of capital (WACC), subsequently grossed up to a pre-tax rate of 7.3% (2021: 8.2%).</p> <p>Post tax WACC calculated using the capital asset pricing model.</p> <p>Certain inputs into the capital asset pricing model are not readily available for non-listed entities. As such, certain inputs have been obtained from industry benchmarks which carries a measure of estimation uncertainty. However, as discussed in the sensitivity section below, this estimation uncertainty level is not deemed to be material.</p> <p>In each of the current and comparative years, sensitivity analysis has been performed in relation to our store impairment testing, testing for a 1% increase in discount rate and a decrease in growth to minus 1%; within both these sensitivities no additional material impairment was calculated. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions.</p>	<p>Post tax discount rate representing the Funeralcare segment's weighted average cost of capital (WACC), subsequently grossed up to a pre-tax rate of 9.5% (2020: 8.2%).</p> <p>Post tax WACC calculated using the capital asset pricing model.</p> <p>Certain inputs into the capital asset pricing model are not readily available for non-listed entities. As such, certain inputs have been obtained from industry benchmarks which carries a measure of estimation uncertainty. However, as discussed in the sensitivity section below, this estimation uncertainty level is not deemed to be material.</p> <p>In each of the current and comparative years, sensitivity analysis has been performed in relation to our Funeralcare Hub impairment testing, testing for a 1% increase in discount rate and a decrease in growth to minus 1%; within both these sensitivities no additional material impairment was calculated. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions.</p>

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 2 July 2022 (unaudited) £m	26 weeks ended 3 July 2021 (unaudited) £m	52 weeks ended 1 January 2022 (audited) £m
Food - Long-term agreements	75	77	158
Food - Bonus income	22	24	82
Food - Promotional income	147	176	341
Total Food supplier income	244	277	581
Wholesale - Long-term agreements	12	12	27
Wholesale - Bonus income	4	8	19
Wholesale - Promotional income	40	48	99
Total Wholesale Supplier income	56	68	145

Total Supplier income	300	345	726
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Percentage of Cost of Sales (before deducting Supplier Income)	%	%	%
Food - Long-term agreements	2.5%	2.5%	2.6%
Food - Bonus income	0.7%	0.8%	1.4%
Food - Promotional income	4.8%	5.8%	5.7%
Total Food supplier income %	8.0%	9.2%	9.7%
Wholesale - Long-term agreements	1.9%	1.8%	2.0%
Wholesale - Bonus income	0.7%	1.1%	1.4%
Wholesale - Promotional income	6.2%	7.1%	7.3%
Total Wholesale supplier income %	8.8%	10.0%	10.7%

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

3 Finance income

What does this show? Finance income arises from the interest earned on our pension scheme and interest from finance lease receivables which have been discounted. If they are gains then we also include the movement in the fair value of some elements of our debt, our interest rate swap positions, foreign exchange contracts and commodity derivatives (which are used to manage risks from interest rate movements). If they are losses, they are included in Finance costs (see Note 4). If they are gains, then we also show the fair value movement on our funeral plan investments.

	26 weeks ended 2 July 2022 (unaudited)	26 weeks ended 3 July 2021 (unaudited)	52 weeks ended 1 January 2022 (audited)
	£m	£m	£m
Net pension finance income	20	14	30
Underlying interest income from finance lease receivables	1	1	3
Fair value movement on foreign exchange contracts and commodity derivatives	27	3	5
Fair value movement on quoted Group debt	29	-	5
One-off gain on settlement of Group Relief Creditor owed to The Co-operative Bank Plc	-	99	99
Other non-underlying finance income	3	-	-
Finance income (excluding funeral plans)	80	117	142
Unrealised fair value movement on funeral plan investments	48	25	54
Finance income (on funeral plans)	48	25	54
Total finance income	128	142	196

4 Finance costs

What does this show? Our main finance costs are the interest that we've paid during the year on our bank borrowings (that help fund the business) and the interest payments we incur on our lease liabilities. We also include the movement in the fair value of some elements of our debt and our interest rate swap positions (which are used to manage risks from interest rate movements) if these are losses. If they are gains, they are included in Finance income (see note 3). We also include the interest that accrues on the funeral plans we hold and any impact of discounting on funeral plan instalment debtors if it is a charge.

	26 weeks ended 2 July 2022 (unaudited)	26 weeks ended 3 July 2021 (unaudited)	52 weeks ended 1 January 2022 (audited)
	£m	£m	£m

Loans repayable within five years	(28)	(15)	(56)
Loans repayable wholly or in part after five years	-	(14)	-
Underlying loan interest payable	(28)	(29)	(56)
Underlying interest expense on lease liabilities	(40)	(38)	(79)
Total underlying interest expense	(68)	(67)	(135)
Fair value movement on interest rate swaps	(5)	(3)	(5)
Other non-underlying finance interest	(1)	(2)	(5)
Finance costs (excluding funeral plans)	(74)	(72)	(145)
Interest accruing on funeral plan liabilities	(27)	(29)	(54)
Discounting on funeral plan debtors	-	(5)	(4)
Finance costs (on funeral plans)	(27)	(34)	(58)
Total finance costs	(101)	(106)	(203)

5 Taxation

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

The Group does not expect to be tax-paying in respect of its half year results due to the availability of brought forward tax losses and allowances. The tax charge therefore relates to forecast use or movements of deferred tax assets or liabilities.

The tax charge in respect of continuing operations of £19m (26 weeks ended 3 July 2021: charge of £7m; and 52 weeks ended 1 January 2022: charge of £25m) and effective tax rate of 276% (26 weeks ended 3 July 2021: 16%; and 52 weeks ended 1 January 2022: 45%) relates to:

1. A review of the effective tax rate for the full year has been applied to the underlying trading results (excluding recurring net pension credits taken to the income statement) - this results in a tax charge of £2m.
2. A review of material transactions reflected in the 26 week period ended 2 July 2022 gave rise to a net tax charge of £14m. The tax impact of these material transactions mainly relate to losses on property disposals (tax credit of £5m) offsetting fair value movements (tax charge of £10m), net pension credits (tax charge £4m) and net funeral plan finance income (tax charge of £4m). See Note 1 for more detail of non-underlying profit movements.
3. HMRC have not raised any further enquiries in the first half of the year, as such the uncertain tax risk provision for existing enquiries remains unchanged from as at 1 January 2022.
4. The Finance Act 2021 enacted the Corporation Tax rate rise from 19% to 25% on 1 April 2023. The deferred tax assets and liabilities of the Group were restated to the prevailing 25% tax rate last year, where these were materially expected to unwind after 1 April 2023. Current year movement in deferred tax is therefore restated to reflect a rate of 25% and not the current 19% corporation tax rate. The impact of this rate change is a £5m net tax charge in relation to the restatement of these deferred tax assets and liabilities.

A charge of £33m has been posted to other comprehensive income in respect of the actuarial movement arising on the Group's pension schemes. In addition, a charge of £11m has been posted to other comprehensive income in respect of the restatement of the deferred tax liability related to the Group's pension schemes.

The net deferred tax liability of the Group at half year is £397m (as at 3 July 2021: £185m; and 1 January 2022: £314m) and the corporation tax creditor for continuing operations is £nil.

Deferred taxes in respect of brought forward tax losses and allowances are fully recognised and offset against deferred tax liabilities. A reconciliation of the opening deferred tax balance to the closing balance is set out below:

	26 weeks ended 2 July 2022 (unaudited) £m
Movements in deferred tax in period to 2 July 2022	
At beginning of the year (net liability)	(314)
<u>Charged to the Income Statement:</u>	
- Current period movement	(14)
- Impact of change to deferred tax rate	(5)
- Tax charge relating to discontinued operations (see Note 6)	(18)

Assets moved to Held for Sale in the Balance Sheet:

- Assets moved to Held for Sale (see Note 8)

(2)

Charged to equity:

- Employee pension schemes

(33)

- Impact of change to deferred tax rate

(11)

At end of period (net liability)

(397)

6 Profit on discontinued operation, net of tax

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

Discontinued operation - Insurance (underwriting business)

The sale of our insurance underwriting business completed on 3 December 2020. The results of that business have been classified as a discontinued operation since 2019 and shown in a separate line at the bottom of the consolidated income statement under Discontinued Operations. As part of the sale agreement Co-op continued to supply certain agreed services in the first half of 2021 under a service agreement (TSA). The costs and recoveries associated with that agreement are included in the table below within operating expenses and operating income respectively and are shown within Discontinued operations in the Consolidated Income statement. Other income also includes a gain of £78m (2021: £12m) following the judgment that was handed down by the Court of Appeal in April 2022 in relation to the historic legal claim against IBM as disclosed as a post balance sheet event in the 2021 Annual Report and Accounts. The gain of £78 million reflects £72 million of cash that was received in 2022 following the Appeal judgment and a further £6 million that was received in 2021 following the original judgment but which was held on the balance sheet until the outcome of the Appeal was known at which point it has been released to the Income Statement within Discontinued Operations.

Results of discontinued operation - Insurance (underwriting business)	26 weeks ended 2 July 2022 (unaudited) £m	26 weeks ended 3 July 2021 (unaudited) £m	52 weeks ended 1 January 2022 (audited) £m
Operating income	-	14	12
Operating expenses	-	(16)	(13)
Other income	78	12	13
Profit before tax from discontinued operation	78	10	12
Tax - relating to the pre-tax profit on discontinued operation	(18)	-	1
Profit for the period from discontinued operation	60	10	13

Segmental analysis - Insurance (underwriting business)	26 weeks ended 2 July 2022 (unaudited) £m	26 weeks ended 3 July 2021 (unaudited) £m	52 weeks ended 1 January 2022 (audited) £m
Operating income	-	14	12
Underlying segment operating profit / (loss)	-	(2)	(1)
Operating profit	78	10	12

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

Cash flows used in discontinued operations:	26 weeks ended 2 July 2022 (unaudited) £m	26 weeks ended 3 July 2021 (unaudited) £m	52 weeks ended 1 January 2022 (audited) £m
Operating profit from discontinued operations	78	10	13
Decrease in discontinued payable*	(6)	-	-

*£6m payment on account received in relation to fees following the original IBM judgment in May 2021 was held on the balance and only released to the Income statement (Discontinued operations) in 2022 following the appeal judgment.

Cash flows from financing and investing activities were not significant in any period.

7 Pensions

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

	2 July 2022 (unaudited)	3 July 2021 (unaudited)	1 January 2022 (audited)
	£m	£m	£m
Net retirement benefit asset (per balance sheet)			
Pension schemes in surplus	2,464	1,799	2,262
Pension schemes in deficit	(4)	(13)	(4)
Closing net retirement benefit	2,460	1,786	2,258

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 2 July 2022 in accordance with IAS 19. Valuations for the Somerfield and United schemes have also been updated for the 2022 interim financial statements.

Assumptions	2 July 2022 (unaudited)	3 July 2021 (unaudited)	1 January 2022 (audited)
The principal assumptions used to determine the liabilities of the Pace pension scheme were:			
Discount rate	3.75%	1.90%	1.90%
RPI Inflation rate	3.38%	3.38%	3.48%
Pension increases in payment (RPI capped at 5.0% p.a.)	3.27%	3.29%	3.37%
Future salary increases	3.63%	3.63%	3.73%

Net Retirement benefit asset	2 July 2022 (unaudited) £m	3 July 2021 (unaudited) £m	1 January 2022 (audited) £m
Opening net retirement benefit attributable to Group	2,258	1,854	1,854
Admin expenses paid from plan assets	(2)	(2)	(5)
Net finance income	20	14	30
Employer contributions	9	15	27
Settlements (trivial commutation exercises)	-	-	2
Remeasurement gains / (losses)	175	(95)	350
Closing net retirement benefit asset	2,460	1,786	2,258

Amounts recognised in the balance sheet:	2 July 2022 (unaudited) £m	3 July 2021 (unaudited) £m	1 January 2022 (audited) £m
Fair value of plan assets:			
- Pace	7,396	9,189	9,486
- Somerfield scheme	1,128	1,173	1,141
- United scheme	822	818	825
Total assets	9,346	11,180	11,452

Present value of liabilities:			
- Pace	(5,117)	(7,461)	(7,399)
- Somerfield scheme	(1,019)	(1,102)	(1,033)
- United scheme	(746)	(826)	(758)
- Unfunded liabilities	(4)	(5)	(4)
Total liabilities	(6,886)	(9,394)	(9,194)

Net retirement benefit asset per balance sheet:

Pace	2,279	1,728	2,087
Somerfield scheme	109	71	108
United scheme	76	-	67
Total assets	2,464	1,799	2,262
United scheme	-	(8)	-
Unfunded liabilities	(4)	(5)	(4)
Total Liabilities	(4)	(13)	(4)
Net Assets	2,460	1,786	2,258

8 Assets and liabilities held for sale

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

Assets and liabilities classified as held for sale	2 July 2022 (unaudited) £m	3 July 2021 (unaudited) £m	1 January 2022 (audited) £m
Property, plant and equipment	91	2	3
Right-of-use assets (leases)	130	-	1
Goodwill and intangible assets	3	-	3
Inventories	21	-	-
Trade and other receivables	29	-	-
Deferred tax assets	2	-	-
Total assets	276	2	7
Lease liabilities	(167)	-	(2)
Trade and other payables	(101)	-	-
Total liabilities	(268)	-	(2)

We have announced our intention to sell our 129 Petrol Forecourt sites, which form part of our Co-op Food business. As at 2 July 2022, the assets and liabilities associated with these sites have been classified as held for sale in our consolidated balance sheet as their disposal was highly probable at the half-year date. Assets have been measured at the lower of their carrying value and fair value (less costs to sell). The financial results associated with these locations continues to be shown within our Food operating segment (see Note 1) within Continuing operations as they do not meet the criteria to be classed within Discontinued operations. Our expectation is that the sale will complete in the last quarter of the year; see Note 14 for further details.

9 Interest-bearing loans and borrowings

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

See Note 12 for a breakdown of the IFRS 13 level hierarchies (which reflect different valuation techniques) in relation to these borrowings.

Non-current liabilities:	2 July 2022 (unaudited)	3 July 2021 (unaudited)	1 January 2022 (audited)
	£m	£m	£m
£105m 7.5% Eurobond Notes due 2026 (fair value)	94	128	123
£245m 7.5% Eurobond Notes due 2026 (amortised cost)	256	258	258
£300m 5.125% Sustainability Bond due 2024 (amortised cost)	299	299	299
£109m 11% final repayment subordinated Notes due 2025	109	109	109
£20m 11% Instalment repayment Notes (final payment 2025)	7	9	7
Total (excluding lease liabilities)	765	803	796
Lease liabilities*	1,158	1,265	1,306
Total Group non-current interest-bearing loans and borrowings	1,923	2,068	2,102

Current liabilities:	2 July 2022 (unaudited)	3 July 2021 (unaudited)	1 January 2022 (audited)
	£m	£m	£m
£245m 7.5% Eurobond Notes due 2026 (amortised cost) - interest accrued	19	19	9
£300m 5.125% Sustainability Bond due 2024 (amortised cost) - interest accrued	2	2	2
£20m 11% Instalment repayment Notes (final payment 2025)	3	3	2
£109m 11% final repayment subordinated Notes due 2025 - interest accrued	7	6	-
£400m Sustainable revolving credit facility (RCF)	40	-	163
Corporate investor shares	3	9	4
Total (excluding lease liabilities)	74	39	180
Lease liabilities*	180	197	210
Total Group current interest-bearing loans and borrowings	254	236	390

*As at 2 July 2022 a total of £167m of lease liabilities have been reclassified to liabilities held for sale; split £22m (current) and £145m (non-current). See Note 8 for further details).

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 the 26 weeks ended 2 July 2022 (unaudited)	Non-cash movements			Cash flow	
	Start of period	New leases	Other	End of period	
	£m	£m	£m	£m	£m
Interest-bearing loans and borrowings:					
- current	(180)	-	(18)	124	(74)
- non-current	(796)	-	31	-	(765)
Lease liabilities					
- current	(210)	(10)	(65)	105	(180)
- non-current	(1,306)	(67)	215	-	(1,158)
Total Debt	(2,492)	(77)	163	229	(2,177)
Group cash:					
- cash & overdrafts	56	-	-	52	108
Group Net Debt	(2,436)	(77)	163	281	(2,069)

Other non-cash movements on lease liabilities includes the transfer of £167m of lease liabilities to liabilities held for sale; split £22m (current) and £145m (non-current). See Note 8 for further details.

For the 26 weeks ended 3 July 2021 (unaudited)	Non-cash movements			Cash flow	
	Start of period	New leases	Other	End of period	
	£m	£m	£m	£m	£m
Interest-bearing loans and borrowings:					
- current	(16)	-	(25)	2	(39)

- non-current	(803)	-	-	-	(803)
Lease liabilities					
- current	(191)	(15)	(95)	104	(197)
- non-current	(1,234)	(97)	66	-	(1,265)
Total Debt	(2,244)	(112)	(54)	106	(2,304)
Group cash:					
- cash and overdrafts	269	-	-	(139)	130
Group Net Debt	(1,975)	(112)	(54)	(33)	(2,174)

For the 52 weeks ended 1 January 2022 (audited)	Non-cash movements			Cash flow	End of period £m
	Start of period	New leases	Other		
	£m	£m	£m	£m	
Interest-bearing loans and borrowings:					
- current	(16)	-	-	(164)	(180)
- non-current	(803)	-	5	2	(796)
Lease liabilities					
- current	(191)	(34)	(198)	213	(210)
- non-current	(1,234)	(210)	138	-	(1,306)
Total Debt	(2,244)	(244)	(55)	51	(2,492)
Group cash:					
- cash and overdrafts	269	-	-	(213)	56
Group Net Debt	(1,975)	(244)	(55)	(162)	(2,436)

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 2 July 2022 (unaudited) £m	26 weeks ended 3 July 2021 (unaudited) £m	52 weeks ended 1 January 2022 (audited) £m
Operating (loss) / profit from continuing operations (Note 1)	(20)	8	64
Depreciation and amortisation charges	200	197	405
Non-current asset impairments	56	14	30
Gain / (loss) on closure or disposal of businesses and non-current assets	(24)	12	(2)
Decrease / (increase) in fair value of investment properties	3	-	(9)
Retirement benefit obligations	(6)	(14)	(24)
Decrease / (increase) in inventories	20	6	(28)
Increase in receivables	(1)	(46)	(17)
Decrease / (increase) in contract assets (funeral plans)	1	(2)	18
(Decrease) / increase in contract liabilities (funeral plans)	(47)	24	(19)
Increase / (decrease) in payables and provisions	61	(47)	(253)
Net cash flow from operating activities (continuing operations)	243	152	165
Net cash flow from operating activities (discontinued operations)	72	10	13
Net cash flow from operating activities	315	162	178

Net cash flow from operating activities (discontinued operations) includes £68m of cash received following the judgment handed down on 4 April 2022 by the Court of Appeal on the IBM case (this was disclosed as a post balance sheet event (Note 34) in our 2021 Annual Report and Accounts) and a further £3m of monies also received in 2022 relating to the original judgment in 2021.

11 Commitments and contingent liabilities

What does this show? This note shows 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 2021 annual report.

Capital commitments - Capital expenditure which the Group is committed to at 2 July 2022 (but which has not been accrued for at that date as it has not yet been incurred) was £8m (3 July 2021: £14m).

Contingent liabilities - In common with other retailers, the Group has received Employment Tribunal claims from current and former food store colleagues alleging their work is of equal value to that of distribution centre colleagues and differences in pay and other terms are not objectively justifiable. The claimants are seeking the differential in pay (and other terms) together with equalisation going forward. There are circa 1,600 claims. The claims are at an early stage; the number of claims, merit, outcome and impact are all highly uncertain. No provision has been made as it is not possible to assess the likelihood nor quantum of any outcome. There are substantial factual and legal defences to the claims and the Group intends to defend them robustly.

12 Funeral plan investments and fair values of financial assets and financial liabilities

What does this show? Our Funerals business holds some investments in relation to funeral plans. This note provides information on these investments as well as how any other financial assets and liabilities are valued.

Funeral plan investments as per the balance sheet:	2 July 2022 (unaudited) £m	3 July 2021 (unaudited) £m	1 January 2022 (audited) £m
Current	-	-	-
Non-current	1,399	1,344	1,372
Funeral plan investments	1,399	1,344	1,372

Fair value through the income statement:	2 July 2022 (unaudited) £m	3 July 2021 (unaudited) £m	1 January 2022 (audited) £m
Funeral plan investments	1,399	1,344	1,372
Total Funeral plan investments	1,399	1,344	1,372

Fair values recognised in the balance sheet

The following table provides an analysis of the financial assets and liabilities 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).

Fair values recognised in the balance sheet continued

2 July 2022 (unaudited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through income or expense				
- Derivative financial instruments	-	24	-	24
- Funeral plan investments	-	-	1,399	1,399

Total financial assets held at fair value	-	24	1,399	1,423
Liabilities				
Financial liabilities at fair value through income or expense				
- Fixed-rate sterling Eurobond	-	94	-	94
- Derivative financial instruments	-	10	-	10
Total financial liabilities held at fair value	-	104	-	104

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 that are "financial assets". 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 at the end of this note and indicates we have headroom of over 27% on a pre-tax wholesale basis.

3 July 2021 (unaudited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through income or expense				
- Derivative financial instruments	-	5	-	5
- Funeral plan investments	-	-	1,344	1,344
Total financial assets held at fair value	-	5	1,344	1,349
Liabilities				
Financial liabilities at fair value through income or expense				
- Fixed-rate sterling Eurobond	-	128	-	128
- Derivative financial instruments	-	3	-	3
Total financial liabilities held at fair value	-	131	-	131

1 January 2022 (audited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through income or expense				
- Funeral plan investments	-	-	1,372	1,372
- Derivative financial instruments	-	4	-	4
Total financial assets held at fair value	-	4	1,372	1,376
Liabilities				
Financial liabilities at fair value through income or expense				
- Fixed-rate sterling Eurobond	-	123	-	123
- Derivative financial instruments	-	5	-	5
Total financial liabilities held at fair value	-	128	-	128

Basis of valuation of Level 2 financial assets and liabilities:

Derivatives - the Group uses derivative financial instruments to provide an economic hedge to its exposure to interest rate risks arising from operational, financing and investment activities. In accordance with our Treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. Derivatives entered into include swaps, forward rate agreements and commodity (diesel) swaps. Derivative financial instruments are measured at fair value and any gains or losses are included in the income statement. Fair values are based on quoted prices and where these are not available, valuation techniques such as discounted cash flow models are used. Interest payments or receipts arising from interest rate swaps are recognised within finance income or finance costs in the period in which the interest is incurred or earned.

Eurobonds - on inception these drawn-down loan commitments were designated as financial liabilities at fair value through the income statement. The Group adopted IFRS 9 from 7 January 2018 and subsequently only £105m of the original par value of £350m 2026 notes were designated as financial liabilities at fair value through the income statement. Fair values are determined in whole by using quoted market prices. The remaining Eurobonds are held at amortised cost using an effective interest rate.

Basis of valuation of Level 3 financial assets and liabilities:

Funeral plans - when a customer takes out a funeral plan the initial plan value is recognised as an investment asset in the balance sheet and at the same time a liability is also recorded in the balance sheet representing the deferred income to be realised on performance of the funeral service covered by each of the funeral plans. The investments are held in insurance policies or cash-based trusts and attract interest and bonus payments throughout the year dependent upon market conditions. The plan investment is a financial asset, which is recorded at fair value each period through the income statement using valuations provided to Co-op by the insurance policy provider. The plan values represent what the policy provider would pay out on redemption of the policy at the valuation date with the main driver being underlying market and investment performance. The performance obligation to deliver the funeral is treated as a contract liability (deferred income) under IFRS 15. The deferred amount is subject to adjustment to reflect a significant financing component which is charged to the income statement each period. The liability accretes interest in-line with the discount rate applied to the plan on inception. The discount rate applied is based on an estimated borrowing rate between the customer and the Group at the point the contract is entered into. The contract liability is held on the balance sheet as additional deferred income until the delivery of the funeral at which point the revenue is recognised.

Funeral plan investments	2 July 2022 (unaudited)	3 July 2021 (unaudited)	1 January 2022 (audited)
	£m	£m	£m
At start of period	1,372	1,331	1,331
New plan investments (including on-going instalments)	36	42	92
Plans redeemed or cancelled	(57)	(54)	(105)
Unrealised fair value movement on funeral plan investments (see Note 3)	48	25	54
At end of period	1,399	1,344	1,372

The Group holds investments on the balance sheet in respect of funeral plan policies which are invested in either individual whole of life policies and, to a much smaller extent, independent trusts (<5% of total). The investments are subject to an annual actuarial valuation. This gives an assessment as to the headroom of the funeral plan investments over an estimated present value (on a wholesale basis) of delivering the funerals on a portfolio basis. The most recent valuation was performed as at 30 September 2021 and reported headroom on a wholesale basis (pre-tax) of £295m (2019: £129m).

Funeral Plan Investments Actuarial Valuation (pre-tax)	30 September 2021	30 September 2020
	£m	£m
Total Assets	1,397	1,287
<u>Liabilities:</u>		
Present value (wholesale basis)	1,102	1,158
Total Liabilities (pre-tax)	1,102	1,158
Headroom (pre-tax)	295	129
Headroom as a % of liabilities (pre-tax)	27%	11%

13 Membership and community reward

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

Members	2 July 2022 (unaudited)	3 July 2021 (unaudited)	1 January 2022 (unaudited)
	m	m	m
Active Members	4.3	4.2	4.2
Membership and community rewards (within the income statement)	£m	£m	£m
Member reward earned	10	11	21
Community reward earned	6	10	19
Total reward	16	21	40

Member and Community rewards are earned at 2% of member spend on selected Co-op products and services.

14 Events after the reporting date

What does this show? This note gives details of any significant events that have happened after the balance sheet date but before the date that the accounts are approved. These are things that are of such significance that it is appropriate to give a reader of the accounts further detail as to the impact of such events on the financial statements or any expected likely impact in future periods.

Colleague structure changes - on 21 July 2022 the Group announced proposed changes to our ways of working to support our strategic priorities in response to the particularly challenging trading environment the Group is facing. As a result of these changes, we will need to adapt and restructure our teams. The changes primarily relates to support centre colleagues and it is expected that around 400 colleagues will leave our Co-op in the second half of the year once a consultation process has completed. The announcement is a non-adjusting post balance sheet event and any costs or provisions associated with the proposals will be assessed for 2022 year end reporting.

Petrol forecourt sale - on 31 August 2022 the Group announced our intention to sell our 129 Petrol Forecourt sites, which form part of our Co-op Food business, to Asda, for a value of approximately £600m (which will include cash consideration of £438m and is also inclusive of IFRS 16 lease liabilities of approximately £162m with final amounts to be confirmed on completion). As at 2 July 2022, the assets and liabilities associated with these sites have been classified as held for sale in our consolidated balance sheet as their disposal was highly probable at the half-year date. Our expectation is that the sale will complete in the last quarter of the year. The announcement is a non-adjusting post balance sheet event and accounting for the disposal will be assessed for 2022 year end reporting.

Accounting policies and basis of preparation

What does this show? This section outlines the overall approach to preparing the interim financial statements. This section also gives details of the impact of any new accounting standards that we've applied for the first time and the expected impact of upcoming standards that will be adopted in future years where that impact is likely to be significant.

These condensed consolidated interim financial statements of Co-operative Group Limited ('the Society') for the period ended 2 July 2022 ('the interim financial statements') include the Society and its subsidiaries (together referred to as 'the Group').

The audited consolidated financial statements ('the 2021 annual report') of the Group for the year ended 1 January 2022 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 2 July 2022 are unaudited and do not constitute statutory accounts.

Statement of compliance

These interim financial statements have been prepared in accordance with UK adopted IAS 34 Interim Financial Reporting 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 2021 annual report.

The comparative figures for the financial year ended 1 January 2022 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 and filed with the Mutuals Public Register. 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 28 September 2022.

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 2021 annual report except where stated within the notes to these accounts.

New standards and accounting policies adopted by the Group

Except as described below, the accounting policies applied in preparing these interim financial statements are consistent with those described in the 2021 annual report.

(A) New standards:

The Group has considered the following standards and amendments that are effective for the Group for the period commencing 2 January 2022 and concluded that they are either not relevant to the Group or do not have a significant impact on the financial statements:

- Amendments to IFRS 3 Reference to the Conceptual Framework
- Amendments to IAS 16 Property, Plant and Equipment (Proceeds before Intended Use)
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, and IAS 41 Agriculture)
- IAS 37 Onerous contracts (amendments re cost of fulfilling a contract)

(B) 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 2021 annual report. The adoption of the following standards will or may have a material impact when adopted. Management continue to assess the expected impact of applying the new standards on the Group's financial statements and details are shown in the 2021 annual report.

- IFRS 17 Insurance Contracts.*

** Effective 1 January 2023.*

Impact of Covid-19, the Russia / Ukraine conflict, rising energy costs and inflation on interim financial statements

Management has considered the ongoing impact of Covid-19, the conflict in Ukraine and rising energy costs and inflation and associated squeeze on consumer spending on the Group's accounting policies, judgements and estimates. Impairment reviews have been carried out in the period to reflect the current economic environment. The results of these impairment reviews have been detailed in note 1.

Impact of Climate Change on our Interim financial statements

In preparing the Groups' Consolidated Financial statements management has considered the impact of climate change covering both the financial statements and the disclosures included in the Strategic report. This included an assessment of the potential impact of, and associated responses to, climate change, and how that could impact the non-current assets that we hold as well as our expectations of future trading conditions. This assessment did not identify any requirement to shorten asset lives of the Group's asset base and neither did it identify any material risks arising from climate change, accordingly, there has been no material impact on the valuation of the Group's assets or liabilities or the cashflow forecasts used to assess the going concern basis and the viability statement. Furthermore, our forecasts do not include any material spend in relation to climate change. The Group will keep this assessment under review and continue to monitor developments in the future.

Going concern

The financial statements are prepared on a going concern basis as the directors have a reasonable expectation that the Group has enough money to continue in business for the foreseeable future.

Our Co-op borrows money from banks and others, and as part of this process, we have checked that we can comply with the terms of those agreements, for example, banking covenants and facility levels. Accounting standards require that the foreseeable future covers a period of at least 12 months from the date of approval of the financial statements, although they do not specify how far beyond 12 months a Board should consider. The assessment of going concern relies heavily on the ability to forecast future cashflows over the going concern assessment period, to 30 September 2023.

In making their assessment the directors have considered a wide range of information relating to present and future conditions, including future forecasts of profitability, cash flow and covenant compliance, and available capital resources.

The potential scenarios which could lead to our Co-op not being a going concern are:

a. Not having enough cash to meet our liabilities as they fall due. Throughout the going concern period the facility limit within which we need to operate is £1,168m, which includes £779m non-bank facilities and £400m bank syndicate facilities; and/or

b. A breach of the financial covenants implicit in our bank facility agreement.

• Net Debt Leverage: Consolidated net debt as a multiple of bank-defined EBITDA must not exceed 3.00:1.00 at each six-monthly covenant test date.

• Adjusted Interest Cover: The bank-defined EBITDA (further adjusted by a fixed rental figure) as a multiple of the consolidated net finance charges, must not fall below 1.75:1.00 measured at each six-monthly covenant test date.

The Group has been in compliance with all covenants applicable to this facility within the financial year and is forecast to continue to be in compliance for 12 months from the date of signing of the financial statements. Further mitigating actions could also be taken should it be required, including reducing capital expenditure and price investment.

Post the 2021 year-end balance sheet date, there have been positive changes to the liquidity position. We note at the half-year end date, of the total £1,168m of facilities available to us, we were £839m drawn down and our net debt position was £731m, excluding lease liabilities. It is being assumed that amounts due for repayment in the going concern period are repaid.

We have reviewed our actual results in the first half of 2022 against those that were used in the going concern forecast and assessment for our 2021 financial statements and conclude that there are no material differences between the actuals and the forecast that was used which would change the going concern assessment and assumption.

The Directors, having made appropriate enquiries, consider that adequate resources exist for the Group to continue in operational existence for a period of at least 12 months from the date of approval of these financial statements and that, therefore, it is appropriate to adopt the going concern basis in preparing the consolidated financial statements as at and for period ended 2 July 2022.