Co-operative Group Limited News release

21 September 2023

Interim Results Announcement: 26 weeks to 1 July 2023

Stronger Co-op grows membership and delivers support during cost-of-living crisis

21 September 2023

- Enhanced financial strength, with notable improvements in net debt and net cashflows, despite external economic headwinds costing £117m in H1.
- H1 saw a 55% increase in new members joining Co-op, (H1 2023: 430k vs H1 2022: 278k). This is ahead of expected progress and demonstrates the level of ambition we have in membership acquisition.
- £29m of additional financial support, provided to colleagues and members in H1 to support the ongoing cost of living challenges, beyond pay awards.

Financial Highlights*

	H1 2023	H1 2022*	YoY
Revenue	£5.4bn	£5.6bn	(£0.2bn)
Underlying operating profit	£43m	(£1m)	£44m
Underlying loss before tax	(£9m)	(£68m)	£59m
Underlying EBITDA	£226m	£199m	£27m
Net cash from operating activities	£350m	£315m	£35m
Net debt	(£123m)	(£731m)	£608m

* All 2022 comparative figures have been restated to reflect new accounting treatment for funeral plans under IFRS 17. 2022 H1 figures also include the results from the Petrol Forecourt business, which was subsequently sold in H2 2022

- Despite a challenging economic backdrop, Co-op delivered a robust sales performance, with revenues marginally down on H1 2022, driven by lower revenue in the Food Retail business, resulting from the impact of the petrol forecourt sale.
- Underlying operating profit increased by £44m, driven by annualisation of £101m cost savings achieved in 2022 and further cost savings in H1 2023, streamlining operational processes and realising the benefits of lower costs to serve as a result of previous investments in supply chain infrastructure and IT systems.
- Underlying loss before tax of £9m, £59m less than H1 2022, helping mitigate inflationary headwinds and invest in our members, colleagues and communities.
- EBITDA improvement of £27m in H1 2023, evidencing the strength in underlying performance and getting the strategic choices right in how we run the business.
- Continued work to strengthen the balance sheet, resulting in a net debt of £123m, a substantial reduction of £608m on H1 2022. Focused intent on growth of our most profitable channels delivering an additional £35m cash from operations.

Strategic Highlights – supporting our vision

Our enhanced financial strength has enabled us to provide additional support to members, communities and colleagues amidst the cost-of-living crisis, while maintaining a focus on our wider sustainability goals

- £20million invested in H1, with a further additional £70m investment announced in July, into lower pricing across key lines in our Food stores, and introduction of member exclusive pricing.
- Continued commitment to the Real Living Wage, as part of an investment of £34m in salary increases in H1 2023
- Invested £5m in extending our 30% colleague discount on Co-op branded products in Food Retail stores to the end of the year and a further £4m in winter support payments to colleagues in Q1.

- Published first socio-economic background report as part of efforts to better support colleagues from lower socio-economic backgrounds.
- Launched a new partnership with Barnardo's, the UK's largest children's charity, to support 750,000 young people by raising £5m (£1m already raised since launch).
- Launched ambitious peatland restoration partnership with RSPB to preserve nature's carbon 'stores', the equivalent of 400 football pitches in size, starting with two initial sites in Scotland and Wales. In the UK alone, an estimated 3.2 billion tonnes of carbon are stored in peatlands – this vital work will help tackle climate change and preserve nature.
- Continued to place wellbeing first through a comprehensive support package that includes mental and financial wellbeing, and new and updated policies such as compassionate leave, doubling paid leave.

Membership Highlights – creating value for our member owners

Significant progress in realising our ambition for membership recruitment, alongside our ambition for the future:

- 55% growth in member acquisition, with almost half a million (430k) new member owners joining our Co-op. This stands in contrast to H1 2022, which saw 278k new members joining.
- Reactivated 143k lapsed members, meaning we enter the second half of this year with 4.58 million active member owners - a 5.2% increase on H1 2022, with 4.35 million active members
- A strategic focus on younger members - our Co-operators of the future - with 44% of new members this half year aged 35 or younger.
- Increased member engagement through the introduction of exclusive member competitions and pre-sale tickets for 'Co-op Live' events. Notably, 100k members have opted to receive priority updates about upcoming Co-op Live events.
- An upswing in member participation in the Co-op's community endeavours, with 788,738 contributions in H1 2023, a marked increased from H1 2022 which had 590,519 contributions.

Outlook

We expect the volatile external environment and turbulent economic headwinds, including inflationary pressures, to persist. However, we have gone from a position of needing to improve on our financial performance, operational efficiency and internal ways of working, to running the business differently and setting the business up for success. We are stronger, more financially stable, more able to face into ongoing headwinds, more ready to invest and grow, and we are looking to the future with confidence and excitement.

The Board remains confident in the strategy. With Membership central to our ambition, we will leverage the profitability within our portfolio and our Co-op difference, to build on the foundations already laid. Working in partnership with other co-operatives and like-minded businesses, we will build a modern Co-op for the next generation, delivering our growth in markets important to our member-owners.

Importantly, we will continue to prioritise and channel support for colleagues, members and communities during the current cost-of-living environment. Costs arising from this are expected to dampen profitability in the short-term.

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

"I am very proud of our success over the last six months, particularly given the prevailing economic and market conditions. This performance wouldn't have been possible had we not taken the decisions we did, as early as we did in 2022, when it came to better management of our members' money and running the business more efficiently.

"While the economic environment remains challenging, we have again improved our underlying financial strength, significantly grown our membership base and delivered more for our members and their communities. We have done this while staying true to our Rochdale Principles, cooperating through partnerships and campaigning on topics which matter to our members most. We have invested heavily in supporting our members, communities, colleagues and customers through the cost-of-living crisis, and we will continue to do so.

"The business momentum established in the second half of the last financial year has carried through into the first six months of 2023 and has allowed us to significantly strengthen our membership offer and proposition – we have put our member-owners at the heart of what we do. We have listened to what they need, and we have not hesitated in our response.

“While there remains much for us to do, I’d like to thank all of our colleagues for their hard work in the first six months, which is delivering meaningful benefits for our members and their communities.”

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

“At a time when interest rates and borrowing costs have soared, we’ve managed, under Shirine’s leadership, to reduce our net debt to an historically low level. While there is no room for complacency, there is room for confidence in our ability to plan ahead for growth in our Co-op and the impact we can have.

“It has been a pleasure to Chair this amazing business over the past 9 years. Whilst I won’t be a member of the Board into the future, I will certainly remain a Co-op member. The Co-op has always had a special place in my heart and that will continue after I’ve stood down early next year. The Co-op I leave is far stronger and far more member-centric than the one I inherited back in 2015. It is testimony to our amazing colleagues that we can look forward now with such renewed confidence and optimism.”

Business Unit Performance & Highlights

Food Retail/ Wholesale

- Revenue in Food Retail marginally down £0.3bn to £3.6bn (H1 2022: £3.9bn), predominantly driven by the impact of the sale of our petrol forecourt business. Excluding the revenue from these stores generated in H1 2022, sales are up 4% year-on-year, on a like-for-like basis in our convenience stores (H1 2022: £3.4bn).
- Launched new member pricing, enabling members to save more, with extension in H2 to include almost 200 everyday essential lines.
- Continued expansion of quick commerce, with sales of £133m in the first half - including the growth of our partnership with Just Eat to 1,000 stores, with a further 300 stores on other partner delivery sites.
- Increased revenue of £40m in the Wholesale (including Franchise) business to £719m (H1 2022: £679m), with a focus on investment in lowering wholesale pricing, strengthening proposition and choice across Co-op own-brand products, and the addition of 130 new stores.

Funeralcare

- Revenue up £8m to £146m (H1 2022: £138m), driven by a 7.2% increase in volumes
- Funeral volumes increased by almost 3.5k to 51,621 compared to the same period last year (H1 2022: 48,171), with an increase of 0.5% in market share to 14.7%.
- Maintained a clear focus on pioneering more sustainable funeral options, with plans announced to pilot resomation through the launch of water cremation in the UK later in 2023, a first for the Funeralcare industry, and investment in more electric fleet vehicles.

Insurance

- Revenue grew £3m to £14m (H1 2022: £11m), while the motor insurance market was challenging, pet and travel insurance delivered strong performances
- Product development in Pet Insurance drove a strong performance with total policy sales up 88% on the same period last year to 41.6k (H1 2022: 22.1k)
- Policy sales for Travel Insurance up 43% to 17.8k (H1 2022: 12.4k policy sales), supported by the introduction of double membership discount on policies.
- We were recognised by the UK Customer Service Institute as the most improved company across all sectors for customer satisfaction and rated in the top 4 of 26 insurers.

Legal

- Strong year-on-year growth in revenue, up 41%, to £31m (H1 2022: £22 million), driven by continued growth in probate and estate planning and the ongoing success of digital channels and partnerships.
- Against a backdrop of tough market conditions, probate and estate planning prices remained unchanged throughout H1 2023 to support members and clients.
- Significantly higher digital referrals, up 51% on H1 2022, further supported by the expansion of digital customer facing services such as electronic ID checks.

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About 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 2,400 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 £11billion 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.

<u>Interim report 2023</u>

H1 2023 in brief

A stronger Co-op benefitting from greater efficiency, financial discipline and hard work, which is ready to re-invest in growth and look to the future, while navigating headwinds and serving its member-owners

- **£5.4bn***
  Revenue decreased compared with H1 2022 (£5.6bn)

- **£43m***
  Underlying operating profit up £44m on H1 2022 (£1m loss)

- **-£33m***
  *Group loss before tax down £41m on H1 2022 (£8m** profit)*

- **£226m***
  Underlying EBITDA up £27m (H1 2022: £199m)

- **£350m**
  Net cash from operating activities improves by £35m (H1 2022: £315m)

- **Group net debt down to £123m from £333m at 2022 year end**
  Represents a £210m improvement (H1 2022: £731m debt)

** Our comparative figures have been restated to reflect a new accounting treatment for funeral plans. See Note 15 of our financial statements for further details.*
*** Our comparative H1 2022 figures include the revenue and profit from petrol forecourt stores up until their point of sale, which occurred in H2 2022. The H1 2023 results therefore no longer include these stores' results.*

430,000 new member-owners joined our Co-op, (H1 2022: 278,000) with 143,000 lapsed member-owners reactivated - 4.58 million active member-owners by the end of H1 (H1 2022: 4.35 million)

- £20 million invested in lower pricing across key lines in our Food stores, and further investment made in member exclusive pricing.

- £500k raised for Barnardo's, the UK's largest children's charity, and pledge made to raise £5m through new partnership.

- 30% colleague discount on Co-op branded products in Food stores.

- Updated compassionate leave policy for colleagues in place, doubling paid leave.

- Co-op's first ever socio-economic background report published, as part of effort to better support colleagues from lower socio-economic backgrounds.

- Launched ambitious peatland restoration partnership with RSPB to preserve nature's carbon 'stores', the equivalent of 400 football pitches in size.

Co-operating for a Fairer World

We're a member-owned co-operative running an ethically responsible business. Our Vision is *'Co-operating for a Fairer World'.*

Every day we champion a better way of doing business for you and your community by offering a range of products and services which create value for you - our Co-op member-owners - and your communities, while also finding ways to support everyone who depends upon us through challenges like the cost of living crisis.

When you spend at Co-op, it does good for you, your local community and communities across the country and around the world.

It's what we do.

Our Co-op has 4.58 million active member-owners and a presence in every postal area in the country.

We're the UK's leading convenience retailer, with a thriving grocery wholesale business; we're the leading funerals provider in the UK; we're the UK's largest regulated provider of wills, estate planning and probate services; we are a major provider of insurance products, with our own charity – the Co-op Foundation – and Co-op Academies Trust, which includes 32 academies with more than 18,500 students.

Our businesses are all UK-based and our main support centre is in Manchester.

Since 1844, the co-operative movement has promoted organisations with a clear social purpose and our Co-op continues that tradition. A stronger Co-op means stronger communities; we're here to create value for you - our member-owners - and the communities in which we trade. We can only do this by running a successful business.

How we run our business is important to us. We set ourselves high standards for responsible retailing and service. And we have a responsibility to be a campaigning business, speaking out on the issues that matter to our member-owners, customers and colleagues.

By offering great products and services we grow our customer base, our membership and the positive Co-op impact and value we can bring to wider society.

For more information on our responsible business performance in 2022, please see our Co-operate Report at www.co-operative.coop

Chair's introduction

"We are well placed to grow and develop our Co-op in the years ahead, but the discipline and focus we showed last year must be maintained given the strong headwinds which still clearly prevail."

In what is my last Chair's statement, before my nine-year term of office ends in February next year, I'm pleased to report that our Co-op is both fit for the present and fit for the future.

Almost 180 years ago, the Rochdale Pioneers understood the power of co-operation and how it could make a sustainable difference to their lives and to society by creating value for member-owners, and sharing that value where it is needed most.

Back then, being member-owned is what set our Co-op aside from others, and you - our member-owners - remain at the heart of our business today. It's our Co-op Difference.

Our strength today is testimony to the talent and commitment of every Co-op colleague who has worked in our business since then, to the loyalty shown by our 4.58 million active member-owners, and to the early decisions and action taken during the last 18 months under Shirine's leadership and her team's – including most recently our new Chief Financial Officer Rachel Izzard, whom I'd like to welcome. Because of all this, we are able to look forward with confidence, despite the uncertainties which continue to surround us.

As global economies continue to grapple with so much, including the effects of the war in Ukraine, we know that the cost of living crisis remains forefront in your minds and in those of our colleagues, communities and the causes that we serve, and will remain so.

Against this challenging backdrop, during the first half of this year, and as this interim report shows, we have once again delivered upon our guiding principles by creating clear value and delivering support for those who rely on us the most.

All of our businesses have shown the ability to trade effectively and be agile, in what remain very challenging market conditions. The fact that we have maintained a good performance and improved upon our underlying profit year-on-year demonstrates underlying strength and resilience, as well as the hard work of all of our colleagues during challenging times, to establish new discipline and cost consciousness which sets us up well for the future.

We have confidence in our ability to manage the headwinds that we continue to face and, more importantly, we're in a position to be able to begin to grow, as a successful and sustainable Co-op that is fit for today's modern world, yet remains true to its heritage and values.

It's a very different business from when I became Chair nine years ago that was still reeling from the effects of its own banking crisis, both reputationally and in its ability to be a successful co-operative business.

Today, we have a strong portfolio of businesses within the Food and Life Services sectors, in markets where we can win. We have worked hard over the past 18 months to determine and agree long-term strategies for each business. Our Co-op is now firmly in control of its own destiny, with a strong balance sheet, supported by low levels of net debt, good cash flows, prudent financial management and strict cost controls. There is no doubt that the management actions led by Shirine and her team last year got us in good shape to weather immediate headwinds, whilst allowing us the headroom to plan ahead for the future.

Our future plan will be centred firmly around Co-op membership and placing your interests and your voice – as our member-owners - even more firmly at the heart of our business. During the second half of this year, we will unveil more exclusive member pricing and deals, as we progress with our ambition to grow our overall active membership by one million over the next few years.

Co-op membership goes far beyond being a loyalty scheme and, at May's AGM, you asked us to engage you even more going forwards. Whether that's through our National Members' Council or other innovative approaches to engagement, there is a genuine drive to increase awareness of our Co-op Difference and of our distinctive membership model.

At the same meeting, you also supported a motion on chicken welfare standards and I'm delighted we're continuing to extend our commitment to this, as we improve and lower stocking density, to become one of only a few UK retailers to meet the Better Chicken Commitment stocking density requirements, where our Co-op's British chicken already meets Red Tractor or RSPCA assured standards, as well as our own. As this interim report will also show, we have also continued to deliver upon the wider social and sustainability goals and commitments we know our members care about.

When we announced our 2022 annual results in April, we signalled that the next 18 months would see change in our Board as Sir Christopher Kelly, Simon Burke, Stevie Spring, Paul Chandler and I would all reach the maximum nine years of tenure. That process of change is well underway and our ability to plan our succession carefully is ensuring that the strength of our Board is being maintained with the addition of high-calibre new members.

In May, we welcomed Adrian Marsh to our Board. Adrian succeeded Simon Burke, who had been a member of Co-op's Board since the inception of its current form in November 2014 (initially active as a Transitional Director and then subsequently as an Independent Non-Executive Director). Having held senior finance positions at Tesco and AstraZeneca, Adrian has just stood down as Group Finance Director at FTSE 100 packaging company DS Smith, and is a Non-Executive Director and Chair of John Wood PLC's audit committee – he is an asset to our Co-op.

More recently, we were delighted to announce that Debbie White will succeed me as the next Chair. Debbie is the ideal person to take our Co-op forward over the coming years and joins at an exciting time. She has extensive experience across a range of sectors – she has been Group Chief Executive of Interserve, Global CEO for healthcare and government at Sodexho and held a number of non-executive roles, including Senior Independent Director at Spire Healthcare Group PLC, Howden's Joinery Group PLC and PAVmed Inc. Debbie joined the Board in August, first as an Independent Non-Executive Director before taking over the reigns as Chair when my term of office ends in February.

So, we are well placed to grow and develop our Co-op in the years ahead. The discipline and focus we showed last year must be maintained given the strong headwinds which still clearly prevail.

Co-op was, and remains, the original business of purpose and it has been my privilege to lead it back to a place where it can make such a meaningful and sustainable impact once again.

My thanks go to each and every one of you - our member-owners – and our colleagues and customers, who make our Co-op the special place it is.

Allan Leighton

Chair, The Co-op Group

Chief Executive's overview

"We're owned by and run for our members, not a small group of shareholders. The more our members choose us, the more value we create for our 'member-owners' and their communities." This is firmly at the heart of how we run our Co-op.

It is a privilege to introduce this report which celebrates the incredible hard work and achievements of my 57,000 colleagues during the first half of 2023.

Our Co-op is a unique business, one that takes its steer from a humble shop founded in Rochdale almost 180 years ago, and went on to create a movement with its own Values and Principles, which spans the planet and informs the way we run our Co-op today. Our Co-op is owned by individual members and other co-ops, not big investors, and you, our member-owners, get a chance to have a say in how we're run, while we exist to create and return value back to you.

Together, our member-owners, colleagues and communities make very special things happen by working together to deliver our Vision: *'Co-operating for a Fairer World'.*

I would like to welcome Debbie White, our recently appointed Chair Designate. Her passion for and understanding of our Co-op was evident from the moment I met her, and I am delighted she has decided to join us. Our Co-op will be in good hands with someone who is not only a formidable business person, but who will love our Co-op as much as Allan has in his tenure.

Working alongside Debbie, on our Group Board, we also welcome Adrian Marsh, who succeeds Simon Burke and, alongside Board responsibility, will also chair our Co-op's Risk and Audit Committee.

I would also like to welcome Rachel Izzard, our new Chief Financial Officer (CFO). She joined us in June of this year and is already proving to be a tremendous asset to our Co-op's Executive team, as well as a valued friend and peer on our Operating Board. She has hit the ground running thanks to her investment in ensuring a solid handover from Mike Hazell, our interim CFO, and has come to grips with our organisation, including the 'welcome present' of IFRS 17, at speed.

Our results

During the last few years, businesses have been heavily affected by external events – Covid, followed by the global supply chain challenge, and then the ongoing war in Ukraine. These have contributed to economic uncertainty and the ongoing cost of living crisis.

Our Co-op is no different. In H1 alone, we were able to absorb £117m as a result of increased costs to our Co-op and increasing salaries, including aligning them with the Real Living Wage. We have gone from a position of needing to improve on our financial performance and ways of working to running the business more efficiently, securing our balance sheet, reducing debt and setting the business up for growth – all while continuing to invest in supporting you - our member-owners - our communities, colleagues and customers through the cost of living crisis.

We are now significantly stronger, more able to face into ongoing headwinds, more ready to invest and grow, and we are looking into the future with confidence and excitement.

We find ourselves in this much improved position because of our 57,000 colleagues, who have pulled together, co-operated and tackled those challenges as only our Co-op knows how. From our Operating Board, to our broader leadership and support teams, to those behind the scenes and those who are the face of our Co-op on the frontline, I couldn't be more grateful or proud of my colleagues. I have to say to them: thank you so much.

When we shared our 2022 Annual Results, I talked about our strategic plans and priorities to ensure our Co-op remains a commercially successful co-operative business. Our results to date show that we have remained rigorously focused on our key priorities: (1) delivering on our business plans, (2) accelerating growth opportunities, (3) supporting our member-owners, customers, colleagues and communities through the cost of living crisis, and (4) continuing to improve efficiency and reduce our operating expenses.

All of our businesses have traded well. They are executing on their strategies and are competing and succeeding in their markets. The move from IFRS 15 to IFRS 17 accounting standard in our Funeralcare business makes our results more challenging to present, but we have modelled our H1 2023 performance using the old standard further on to help illustrate the underlying positive performance. You can find more detail in the individual business reports from our Managing Directors further in this report.

Some Group level performance highlights are below and Rachel's Financial Overview provides more detail:

- Our revenue at £5.4bn is down on H1 2022 (£5.6bn), reflecting the sale of our petrol forecourt business last year. Excluding those stores, H1 2022 comparative sales would have been £5.1bn.
- Our debt, including leases, stood at £1.4bn by the end of H1 - a significant reduction of £0.2bn on our FY2022 position and more than 32% improved on our position at the same point in 2022. At the end of H1 2023, our net debt, excluding leases, stood at £123m (FY 2022: £333m) an improvement of 83% on our position at the same point in 2022 (H1 2022: £731m).
- Underlying operating profit of £43m (H1 2022: £1m loss) as a result, primarily, of the cost savings we achieved in 2022 and so far in 2023. This includes careful spending, as well as improved efficiencies, including those generated by the software solution in our Food business, which we have worked to optimise, with our partner SAP, since it was implemented.

These results tell us a clear story – while our revenue has decreased owing to a conscious effort to right-size our business and divest of non-strategic and capital diluting assets, we have restructured our business so that profit and cash generation have increased - despite the reduction in revenue - and our balance sheet, including our debt, has significantly improved.

This has given us the ability to significantly reduce our prices for you - our member-owners - and our customers, as well as to invest in what matters most to you, our colleagues and our communities. It has also meant that we have been able to start re-investing in growth, including in new stores where there is clear opportunity for our Co-op.

Our Co-op Difference

As we look back at the first half of this year, there is so much more to be proud of alongside our commercial performance.

In January, we were delighted to welcome Kenyatte Nelson as our Chief Membership and Customer Officer. With his leadership, we have continued to accelerate our membership strategy. In April, we shared our ambition to recruit one million active new members during the next five years. We are delighted to report that we have gained 430,000 new members in the first half of 2023 and that 44% of those who've joined this half-year are under the age of 36. Kenyatte will share more on our exciting plans in his membership update a little later in the report.

Together with you - our member-owners - and our colleagues, we have defined our Co-op Difference: **'**We're owned by and run for our members, not a small group of shareholders. The more our members choose us, the more value we create for our 'member-owners' and their communities.' The clear and collaborative articulation of this difference has enabled us to focus even more clearly on what we deliver and how, and I am personally delighted that it reflects the same focus on membership as our founders in 1844.

As such, we have continued to focus on creating value for you - our member-owners – and our customers where it matters most, particularly as the cost of living crisis shows no sign of receding. In April, we invested £20m in lower pricing across key lines in our Food stores. We also began preparing for significant further price investment in July to reduce our overall price points across 600 products and also introduced member exclusive pricing, encouraging customers to join us as owners of our business.

In our Food stores, we spent much of the first half planning a critical, reinvigorated 'Safer Colleagues, Safer Communities' campaign, after we saw almost 1,000 incidents of crime or anti-social behaviour in our stores every day during H1, putting our hard working colleagues, you – our member-owners - and communities at risk. I'll talk more about this in my 'Looking Ahead' section, but it's remained an important area of focus between myself, our National Members' Council, our Group Board, and our Operating Board.

During the first half of this year, we've also been working with other co-operative societies to explore the opportunities for greater collaboration, more effective ways of working together, and a much more joined up and powerful co-operative movement. It was such a privilege to join our friends and fellow co-operators at Co-op's UK Annual Congress in June to explore this further.

You – our member-owners - and colleagues make our Co-op what it is - without any of you, we'd simply be just another business. Despite the external environment, we remained committed to delivering our Vision for you, our colleagues, our communities and our planet.

For 2023, we again supported our colleagues by honouring the Real Living Wage for our frontline teams and our investment in annual salary reviews for other teams. During H1, we extended 30% colleague discount on own brand products in our Food stores to the end of 2023 and continued to place wellbeing first through a comprehensive support package that includes mental and financial wellbeing, and new and updated policies such as fertility and compassionate leave.

For you - our member-owners - we introduced member-only pricing and continued investment into key lines in our Food stores.

And this is in addition to ongoing community initiatives, aligned to our three missions: fair access to food; fair access to mental wellbeing support and fair access to opportunities for young people. This work generated some amazing highlights for our Co-op in H1:

- The Youth Endowment Fund, Co-op and #iwill Fund announced a further £7.5m investment in the Peer Action Collective – a youth-led initiative developed to give young people a chance to make their communities safer, fairer places to live.
- Our new partnership with charity Barnardo's launched in March and brings together access to food, mental wellbeing support and opportunities for young people, and we're so proud to have pledged to support them, and support 750,000 young people by raising £5m. And we're off to a great start with £500,000 raised already by 1 July.
- Our partnership with charity Hubbub continued - we opened a community fridge at our Co-op Academy in Manchester, bringing people together to eat, connect, learn new skills, share food and reduce food waste.

And our Co-op Academy in Belle Vue, which serves the community of East Manchester, opened the doors of its brand new building. With capacity for 1,200 students, a community hub and state-of-the-art sports facilities, it's a fantastic example of how we're supporting fair access to opportunities for young people, alongside our other 31 academies across the UK. I was very proud to open the Academy and look forward to future co-operators passing through those doors.

We are also really proud of our new partnership with the RSPB to address climate change by restoring and protecting upland peatland, as great carbon stores as well as vital nature habitats. Our investment will support the long term management of two upland peatland sites in Scotland and Wales, one of which I've visited.

And of course, we continue to represent your voice, our communities' voice and colleagues' voice on the issues that really matter, including across climate change and opportunities for young people. I'd like to thank Rebecca Birkbeck, her team and our Member Pioneers for all that they do to drive our community focus.

I have been so proud to continue to represent our Co-op alongside other industry leaders in my role as chair of The British Retail Consortium's Climate Action Roadmap Steering Group, and as a member of the WWF's Retailer's Commitment for Nature Steering Group. And in May, I had the privilege of joining the Government's Net Zero Council as co-chair, working alongside Energy Minister Graham Stuart. The Council, including leaders from other large businesses and organisations, will collaborate and support UK industry in reducing carbon emissions and developing greener practices.

Finally - our young people are our future, so it was also an honour to join Her Royal Highness, The Princess of Wales' new business taskforce for early childhood. The taskforce aims to transform how society prioritises and supports children and the support networks around them in their earliest and most critical years. I am very grateful to Midcounties Co-op in particular for their participation in this work, given their network of nurseries and expertise in this area.

Looking Ahead

I'll talk in more detail about the outlook for the remainder of 2023 and our plans in my Looking Ahead section later in the report. While we have seen inflation start to abate, we do expect the rest of 2023 to continue to be a highly challenging trading environment.

As we look forward to the remainder of the year, you can expect us to continue driving business performance with membership and our Co-op Difference at the heart of everything we do, as our member-owners.

Thank you

As always, I want to thank every single one of our colleagues for their contribution to our performance. I am always amazed at the focus, collaboration and genuine care of our colleagues and feel honoured to work with and serve them.

Many thanks to our 100-strong National Members' Council who continue to work with us as we define the future direction of our Co-op together. Their commitment to making sure your voice and our colleagues' voice are heard, to hold us to account and to make sure we stay true to our co-operative Values is second to none. I'm incredibly grateful to all our Council members for their ongoing commitment, support and constructive challenge.

I am very grateful to our Board for their continued support as we continue to address the longer term issues in our operations while simultaneously looking forward to a new era. Their genuine interest and care for the organisation is exemplary and they spend a great deal of time in the field, visiting colleagues and getting close to business issues, which makes their support, advice and challenge so very valuable to me, our management and our colleagues. I also owe huge thanks to Allan Leighton for his continued leadership, guidance and humour, which has made a challenging first eighteen months in role a pleasure!

Finally, I want to thank our Operating Board. It is an honour to work with such brave and passionate leaders who have taken bold steps to lay solid foundations for our organisation and who are delivering excellent results, while focusing on building an ambitious new future for our Co-op. Thanks to them for their continued focus, care for our colleagues and their challenge as we move forward.

Shirine Khoury-Haq

Chief Executive, The Co-op Group

<u>Financial overview</u> – Rachel Izzard, Chief Financial Officer

This is my first report as CFO after joining the organisation midway through June, and I am already learning more about what it means to be part of our amazing Co-op. I feel incredibly privileged to have this opportunity.

I wanted to join a customer-facing organisation with a meaningful purpose, a strong people culture and an energetic and passionate Executive team. I feel fortunate to have found that our Co-op is an organisation that meets all these criteria. It is well known, well loved and has great opportunities to grow, as a result of the measured and well-managed decisions to move the Group back to profitable growth over the coming years.

I believe the CFO is here to help an organisation and its stakeholders understand the financials and take the right decisions to move forward and, at Co-op, return value to you, our member-owners. Communicating financials is about representing the broader organisation's hard work and the environment we are operating in. This is doubly true for this first half of the year as I joined at the end of the period, so I would like to say thank you upfront to all my Co-op colleagues, to my own Finance team and to Mike Hazell, the incredibly supportive interim CFO, who all played a part in delivering these results.

As Shirine has already mentioned, the first six months of 2023 has been a time where you - our member-owners - our colleagues and our Co-op continued to experience the impacts of challenging economic factors including the effect of inflation and high interest rates. Our Co-op responded well, supporting both customers and colleagues, and adapting the organisation to respond to these challenges.

In terms of cost headwinds, versus the same period last year the Group faced into £39m in increased energy costs and £45m of inflationary supplier cost increases as suppliers needed to pass on some costs affecting their operations and supply chain, despite the close relationships we maintain and their concerted efforts to avoid it wherever possible. We remain grateful to them and everything they do. We also invested significantly in supporting our colleagues, with £33.5m more in salaries compared to the same period last year, and maintained a 30% colleague discount on Co-op branded goods in our Food stores, costing an estimated £5m, as well as continuing to invest in supporting our communities.

We have successfully mitigated these headwinds through the flowthrough of the benefits of the actions taken in 2022 and in to 2023 on cost efficiencies and through the trading agility of the business units, responding to the changing conditions. This meant we were able to achieve a modest yet significant underlying operating profit up on H1 2022. This reflects a lot of hard work and determination on the part of my colleagues over the last 18 months, from leaders at our support centre right through to those on our frontline.

Underlying operating profit for the first half of 2023 was £43m (H1 2022: £1m loss) and our Underlying EBITDA was £226m (H1 2022: £199m). This movement in earnings was inclusive of the impact of the disposal of our petrol forecourts last year.

In terms of top line, our Co-op saw a decrease in revenue, with H1 2023 revenue of £5.4bn down 3.6% on the prior year (H1 2022: £5.6bn). This was materially driven by the petrol forecourts disposal, with underlying revenue performance reflecting a change to members' and customers' shopping habits as the cost of living continued, resulting in more muted volumes.

You can read more in the detailed 'Our financial performance' section further on in the report, but these six months were a continuation and further realisation of everything established in 2022 for the good of our long-term financial position, including greater efficiencies, more prudent investment decisions and working co-operatively with our colleagues on greater discipline to better manage your money, as our member-owners. This includes the SAP software solution which is successfully improving operations across our core logistics and supply chain in our Food business.

The financial results were delivered by all our business units, with Food being the most material in absolute terms with underlying operating profit increased by £27m (H1 2023: £68m; H1 2022: £41m). As importantly, and helping to provide balance across the Group, underlying operating profit was also buoyed by modest profit increases in our Legal Services and Insurance businesses, which continued to focus on their digitalisation and new products.

In Funeralcare, we have implemented the new IFRS 17 insurance contract accounting guidance for our pre-planned funeral products. This changes the timing of when revenue and margin related to each pre-planned funeral is recognised, as well as changing where on the face of our profit-and-loss the profit is recognised, reducing operating profit but also reducing net interest costs with a broadly neutral impact on profit before tax over the life of each plan. This has been a net reduction in H1. The Funeralcare business saw an increase in its underlying profit under the previous IFRS 15 accounting, as well as under the new IFRS 17 guidance. The business' underlying loss was £4m - an improvement on H1 2022, restated at an £8m loss.

More detail on IFRS 17 is available in the Funeralcare business update and the 'Our financial performance' section.

Turning to look at our balance sheet performance, the rigour that gained momentum in 2022 was maintained in H1 2023, shoring up spending, creating efficiencies and reducing costs meant that our Co-op could further improve its cash position and make a £99m payment against borrowings. Our net debt position was £123m as H1 concluded, down from £731m at the same point in 2022. This was helped by the sale of our petrol forecourts business but was also underpinned by underlying cash generation.

This improvement in our cash and net debt meant our Co-op accrued more in interest on the money it held and incurred fewer interest charges on debt, helping us to have a lower net interest charge below operating profit level. The tight control of capital also supported a lower depreciation and amortisation charge. These, combined with the underlying operating profit, led to an underlying loss before tax of £9m, which whilst still a loss is an important improvement of £59m on the prior year.

The volatility in energy prices, foreign exchange (FX) rates and interest rates throughout 2022 and into this year have resulted in movements year-on-year in more complex areas of our balance sheet including the fair value of our FX contracts and commodity derivatives; returns on our funeral plan investments, the value of our pension net assets and asset impairments all of which are explained in more detail in the 'Our financial performance' section.

I'm very proud and grateful to be joining a Group which is reaping the rewards of such discipline and hard work, inheriting a balance sheet that is in a stable and healthy position. What I'm able to share as part of this report is a testimony to that, and I am committed to playing my part in continuing to improve on this solid financial base and deliver for our Co-op – owned by our members and only made possible by its colleagues and partners.

Whilst the outlook remains uncertain in terms of macro-economic conditions for all UK consumer businesses, the solid financial grounding our Co-op has sought sets us up well to move forward with new confidence and momentum to deliver on our Vision for you, our member-owners.

Membership update - Kenyatte Nelson, Chief Membership and Customer Officer

After roughly six months at Co-op, I have been pleased to find that this organisation is exactly what I expected it to be – a collection of brilliant individuals, working passionately to build a successful commercial co-operative, by creating value for you - our member-owners - and your communities.

Over H1, I have been fortunate to work with the team to deliver three critically important pieces of work, each helping to lay the foundations for evolving our co-operative, the way we do business and the way we create value for you.

- Defining our Co-op Difference – a group-wide articulation of what makes our Co-op different in the context of the market, customers and importantly, our member-owners.
- Evolving our member proposition – across three key elements (the monetary, democratic and societal value of being a member-owner of the Co-op Group), making membership irresistible and indispensable.
- Ensuring that we are investing the money of our member-owners in the most effective and efficient way, so that we continue to build a sustainable and successful commercial co-operative.

I am pleased to say that we made fantastic progress across each of the three areas listed in H1. Through the definition of our Co-op Difference, we have firmly re-committed, across the entire organisation, to create tangible value for you and your communities.

This work has been enabled by the evolution of our member-owner proposition. From Member Prices in our Food business, to available discounts in our Life Services business, the ability to support local community causes and access to 'money can't buy' experiences like Co-op Live and Festivals, we are expanding our member-owner value proof points across the entire organisation – making membership irresistible and indispensable.

Of course, as a commercial co-operative, it is important that we deliver this work in a way that is profitable and sustainable, so we have been working hard to ensure that every pound we invest for you, our member-owners, is creating and returning value.

By the end of H1, this work was already starting to bear fruit. 55% more new members joined our Co-op in the first half of this year, compared to the first half of last year (I'll share more detail shortly) and the total active base for Co-op membership also continued to grow. Importantly, we did this while delivering a +77% improvement in our marketing return on investment, in the first half.

Creating sustainable value for you, as our member-owners, continued to be key to our strategy in H1 2023, as did supporting you through the economic pressures that the cost of living crisis brought with it.

Our support of local causes remains through our Local Community Fund and our Community Partnership Fund, enabling us to bring our Vision to life for the communities we serve.

As always, and as referenced by Shirine, our Operating Board continued to work closely with our passionate National Members' Council and Board, developing key initiatives, collaborating on how we best engage you and demonstrate how our Co-op Difference can offer meaningful support, especially during the cost of living crisis.

Recruitment and rewards

We're very clear that you are at the heart of our business, as our member-owners. We're run for you, not a small group of shareholders. The more you choose us, the more value we create for you and your communities.

Indeed, over the first half of the year, we saw an increase in active member-owners to 4.58 million (FY2022: 4.41 million) and announced in April our intention to grow our active membership base by one million over the next five years.

We're making great progress in this already.

At the end of H1, 430,000 new member-owners had joined us (an increase of 55% on H1 2022, when 278,000 new member-owners joined). Having also reactivated 143,000 lapsed member-owners, this means we go into H2 this year with 4.58 million active member-owners (a 5.2% increase on H1 2022, with 4.35 million active member-owners i.e. not including those member-owners who lapsed during H1 2023). And we're continuing to attract more young member-owners, with 44% of those who've joined this half-year being under 36 – this is above the 40% target we set ourselves.

Engaging our member-owners through member-owner participation

In H1, you joined in and participated with Co-op with 788,738 contributions (H1 2022: 590,519 contributions.) This represents you – our member-owners - having volunteered over 69,000 hours of your time to work together with your Co-op.

We continued to deliver opportunities for "Everyday Participation" in our Co-op across four areas: products, community, campaigning and our unique co-operative. In these opportunities, you are able to learn more about Co-op, make choices about the community groups you want to support, shape our work and take part in campaigns and initiatives.

As always, our Member Nominated Directors and elected representatives on our National Members' Council continued to influence our Co-ops leaders and have your voice heard in key conversations on important areas, including our 'Safer Colleagues, Safer Communities' work.

Members Save More

In April, we launched our Member Prices campaign with improved marketing and a refreshed look and feel for our point of sale in stores and online.

In H1, there were almost 2.5 million unique member-owners shopping in Co-op Food in any given month. Our member-owners shop three times more than non-members, spending four times as much per year. So, we know that loyal member-owners are valuable to our Co-op. The more we can encourage our member-owners to spend, the more we can do in our communities to deliver our Vision of *'Co-operating for a Fairer World'*.

Through our Member Prices campaign, we began to target new customers yet to be member-owners, encouraging them to sign up as Co-op member-owners so they start shopping more frequently. We also targeted existing Co-op member-owners by prompting them to shop with us more regularly and put more in their baskets.

All of this is in addition to maintaining a 30% colleague discount of Co-op branded goods in our Food stores, costing our Group an estimated £5m.

App offers

In H1, we tested three games in the Co-op app for you – our member-owners - with prizes ranging from money off, to free flowers for Valentine's Day and tickets to Glastonbury Festival. You also had the chance to win tickets to other summer festivals with exclusive competitions in the app. 100,000 of you have opted-in to be one of the first to hear about upcoming Co-op Live events.

Products

In H1, you helped shape our approach to vegan and vegetarian products, explored what the 'Best of British' means to you and helped us develop our Valentine's offer for 2024. You've also helped us understand more about food provenance including test driving our new QR codes and web pages, to help ensure we give you and our customers the right information for everyone to understand where their food comes from.

Community

There are a number of ways in which you can support our communities and the work we do – including selecting a local cause to support. As you spend on Co-op products and services, you also contribute to your chosen local cause. Member-owners made 308,889 cause selections in H1, which is ahead of our target by 27%.

In late June, we launched our campaign to showcase the role that you play in communities every time they buy Co-op own brand and swipe or scan their membership card. As of June, each week a Co-op member-owner tells their story about their favourite Co-op product which we feature in emails and on www.co-operative.coop before we whisk them to one of the amazing community activities, like community fridges that they are funding to find out more.

We also work to offer you ways to support our three interconnecting community missions – creating fair access to food; fair access to mental wellbeing support and fair access to opportunities for young people.

The Vision update includes more detail around our Co-op's work against these missions, to support communities as part of *'Co-operating for a Fairer World'*. I was especially pleased to see 45,000 of you join in to get involved in our Time to Talk Day campaign in H1, highlighting the importance of tackling mental health together. We provided resources, information and inspiration for you to hold your own chats across the day.

We also supported the Big Help Out call to action across communities, which coincided with the Coronation in May. Over 12,000 of you found out more about how you could make a difference and volunteer your time and skills locally through our Co-operate online community platform.

Other focus areas

Our big focus for H1 was Fairtrade Fortnight over February and March – you, as member-owners, have a long tradition of support for the celebration and this year was no exception. We helped 26,000 of you learn more about the wider positive impact of Fairtrade as well as highlight the hundreds of Fairtrade events being held locally by our fantastic team of Member Pioneers.

June also saw us support Great Big Green Week, mobilising over 17,000 of you to take action online and join local events, also delivered by our local Member Pioneers.

Our unique Co-operative

H1 is always about helping our member-owners connect with our elections and AGM. This year we introduced two successful online events to help you debate and discuss motions before you cast your vote. Alongside this, we delivered a range of blogs and information to help member-owners, including colleague member-owners, understand your role as owners of your Co-op.

At the AGM in May 2023, eligible member-owners of our Co-op voted with an overwhelming majority to grow our membership by engaging young people as a new generation of co-operators (the 'Creating a Fairer World for our Young People' motion); to further celebrate the 'Co-op Difference' in marketing and that we offer more opportunities to participate in the business ('People Power and our Co-op Difference' motion). We also listened to passionate member-owners about the welfare of chickens – more detail is available as part of Matt Hood's update.

Member-owner inspired product development

- More than 117,000 of you joined in over January to help choose the label design for bottles of our Co-op Irresistible Chilean País wine, which landed in Food stores in the first half of the year. You also joined in 100,000 times last year to help us create new member-inspired products that we launched in H1. These included Irresistible sweet chilli pork sausages and our classic crust chicken fajita pizza.
- In June 2023, you began the development of our new barbecue range for 2024 with thousands of contributions, ideas and suggestions.

Vision update

Delivering value for you – our member-owners - and your communities is at the heart of everything we do. Through Co-op membership, you save while making a real difference to local communities across the UK

As UK communities and international communities alike faced new challenges, our partnerships and initiatives continued to do things differently, in support of our Vision of *'Co-operating for a Fairer World'.*

As the cost of living crisis continued to bite in January, Co-op became the first retailer to support 'warm spaces' in local communities, investing £1m in a funding campaign with Crowdfunder. This match-funding initiative supported vital services and kept communities warm throughout winter, with a total of £2m raised for nearly 590 groups and projects in H1.

In February, our Co-op made a £100,000 donation to the Disasters Emergency Committee, in support of those devastated by earthquakes in Turkey and Syria, with a further £76,088 raised by you, our colleagues and our customers during the first half of the year.

Our community plan has three interconnecting missions to support programmes developed for local communities. Each continued to deliver meaningful change in the first half of this year.

<u>Fair access to food</u>

- In partnership with environmental charity Hubbub, we launched a community fridge at Co-op Academy Manchester in January and a further cluster pilot working with Greater Manchester Combined Authority began in March, including a public launch event in Greenacres. In June, we also launched our 100th Your Local Pantry in Aylesham, Kent. These spaces are developed to bring people together to learn new skills, reduce food waste and share food, including surplus from stores like ours.

<u>Fair access to mental wellbeing support</u>

- In February, we partnered with Mind, SAMH (Scottish Association for Mental Wellbeing) and Inspire on Time To Talk Day: the nation's biggest mental health conversation. Together, we achieved three million conversations between people about mental wellbeing (2023: 3m conversations, 2022: 1.94m conversations). #TimeToTalk was so active on Twitter, it was the top trending topic for most of the day, topping Beyonce's world tour announcement.

<u>Fair access to opportunities for young people</u>

- The Youth Endowment Fund, Co-op and #iwill Fund announced a further £7.5m investment in the Peer Action Collective (PAC) – a youth-led initiative developed to help young people make their communities safer and fairer places. At the end of March, 17 young leaders from PAC came together at the House of Commons, campaigning for sustainable change on key issues impacting young people.

Co-op Academy Belle Vue welcomed the community through the doors of its brand new building as part of an opening gala in March. In May, we welcomed Co-op Academy Hillside in Merseyside as our 32nd academy. In June, we delivered Careers Uncovered events in all our secondary academies, showcasing different careers in Co-op and within our suppliers' businesses.

And our charity – the Co-op Foundation – began work to deliver on its new 'Building communities of the future together' strategy in 2023. In February, it opened applications for the second round of its £3.5m Carbon Innovation Fund partnership with Co-op. It also awarded £1.4m from its Future Communities Fund to help 13 organisations develop diverse young leaders and respond to the cost of living crisis by drawing down £1m from its endowment to fund a grant uplift to eligible partners.

Being there for our colleagues

Colleague wellbeing remained of the utmost importance to our Co-op and our leaders in H1 2023, as the cost of living crisis continued.

As well as frequent signposts to relevant benefits and resources, colleagues' 30% discount on Co-op branded products was extended to the end of the year. And In April 2023, we aligned our minimum hourly rates to the Real Living Wage as set by the Living Wage Foundation (www.livingwage.org.uk). For Customer Team Members in our Food stores, this resulted in a 10.1% pay rise. Unlike many organisations, our hourly pay rates apply to all colleagues, including younger colleagues and apprentices.

In May, we also launched an updated compassionate leave policy, doubling the number of days' paid leave on offer to colleagues from five to ten days, irrespective of a colleagues' length of service. It's also based on the close nature of the relationship the colleague had with the person they lost, rather than simply how immediately they are connected on a family tree.

And beyond more immediate support, we established new routes to opportunities and long-term career progression within our Co-op.

- In February, we launched an updated Inclusive Hiring pilot to further support our hiring managers recruiting from diverse talent pools. We also relaunched our Race at Work learning programme in H1, towards a more representative workforce. A new module on disability awareness was also made available from January.
- In June, our Co-op published its first socio-economic background report, campaigning to make socio-economic backgrounds a protected characteristic under the 2010 Equalities Act. The report, prepared with charity Making the Leap, captured the diversity of views and experiences of lower socio-economic background colleagues and prompted our Co-op's nine-point business plan on social mobility.
- We've reviewed our approach and made some changes to regular manager/colleague interactions by introducing 'colleague conversations' and giving colleagues guidance around how to talk about performance, wellbeing, inclusion and career progression. This coupled with a simplification in our performance ratings for colleagues on our bonus plan should make the colleague experience more streamlined and fair.
- In H1, we conducted an audit against the Business Disability Forum's framework which examines ten operational and strategic themes, and the results will support us to improve services for disabled customers and colleagues.

Milestones and landmark moments

H1 2023 saw some significant milestones for our Co-operative Group.

- After ten years of partnership with FareShare, we celebrated donating the equivalent of over ten million meals in April, and a related saving of 8,000 tonnes of CO_2.
- In February, our Co-op received the Queen's Award for Enterprise for Sustainable Development as part of a ceremony at our Manchester support centre, in recognition of our colleagues' outstanding work towards caring for the planet.

We also continued to be involved in landmark events recognised around the UK and beyond. During the first half of the year, our Member Pioneers engaged with more than 59,000 people each month and almost 50,000 hours were spent in support of our community missions and partnerships. In February, our Member Pioneer Co-ordinators organised 100 Fairtrade Live events and this was followed up in June with 100 Great Big Green Week activities, together involving over 12,500 member-owners, colleagues and partners. They also brought you – our member-owners - and customers together to mark the Coronation of His Majesty The King and Her Majesty The Queen Consort by supporting celebratory events and hosting their own get-togethers and viewing parties.

Important new partnerships

Over the first six months of 2023, we established some important co-operative relationships to maximise the impact of our Vision and broaden the scope of those we reach, on issues we know are important to you.

In March, we launched our partnership with the UK's largest children's charity, Barnardo's. Our Co-op has pledged to raise £5m to support 750,000 young people with their immediate and future needs to improve life chances and social mobility. Through this partnership, in May, our Youth Opportunity Tracker launched as one of the largest studies of its kind across 10-25 year-olds. The Tracker revealed that almost half of young people were already concerned about budgeting and 89% aspired simply to have enough money to cover their basic needs. Our colleagues began a fundraising drive that same month, raising £240,000 and, by the end of H1, over £500,000 had been raised for the partnership.

And in June, we began a three-year partnership with the RSPB to restore and protect vital habitats for nature while further addressing climate change. Peatlands are one of the planet's greatest carbon stores – in the UK alone, they store an estimated 3.2 billion tonnes of carbon, according to data from the UCN Peatland Programme. Co-op's investment will enable RSPB's ongoing restoration and long-term management of two sites of upland peatland in Scotland and Wales, equivalent in size to around 400 football pitches.

Business unit updates

Food – Matt Hood, Managing Director, Co-op Food

We've got off to a great start in 2023. We've started to implement our Pure Convenience strategy by investing in prices of our most shopped products and rewarding you - our member-owners - through exclusive prices and promotions. We're clear on our routes to market and growth as we continue to expand our ecommerce proposition at pace and open up owned stores in a way that complements our plans to expand franchise. This demonstrates our ambition to lead the convenience market. The foundations we've laid through investing in technology and becoming more efficient have demonstrated we can become a more profitable growth business that's able to give back to you, our colleagues and communities. Thank you to our colleagues for making this happen.

Our performance

The retail industry continued to face unprecedented grocery inflation in the first half of the year, with cost price pressures resulting in lower volumes, as customers navigated cost of living pressures (according to Kantar's internal cost of living research). Towards the end of H1, we saw green shoots of inflation slowing and deflation coming through from our suppliers, as evidenced by the GfK consumer confidence barometer. Our commercial team's priority is tracking commodity movements, and then working with our suppliers to bring through deflation to our Food store prices for you and our customers as soon as we can.

We saw H1 sales inflation of 9.7% (based on our own data, comparing the 2023 average selling price of all products to that of H1 2022).

We saw extreme weather in H1, with the wettest March in England and Wales in over 40 years, which dampened sales in the convenience channel as a whole. This was later followed by the hottest June on record in Britain, at which point growth of the convenience market accelerated ahead of the main market (as supported by data from Circana.) This has resulted in H1 sales of £3.6bn, which were down on the same period last year (H1 2022: £3.9bn). The 2022 figures include sales from our petrol filling stations, which we disposed of in October – excluding their revenue, H1 year-on-year sales increased in 2023 (H1 2022: £3.4bn).

We have continued to build on the foundation activity that took place in H2 2022 including support centre restructures, the disposal of Co-op-owned petrol filling stations, improvements in stock holding and other efficiencies to improve operating profit and debt. H1 2023 has seen significant improvements in on-shelf availability and waste as a result of the positive impact of the SAP system implementation across the business as well as better than expected sales, which have all contributed to an underlying profit of £68m in H1, up 66% (H1 2022: £41m).

In April, we also chose to invest into aligning minimum hourly rates of pay to the Real Living Wage as set by the Living Wage Foundation. This was a 10.1% pay rise for Customer Team Members in Food stores, including younger colleagues and apprentices - unlike many other organisations.

H1 key highlights

- **Keeping colleagues safe is our number one priority**

In the six months to June 2023, we recorded the highest-ever levels of retail crime – 175,000 incidents of shoplifting and anti-social behaviour, almost 1,000 a day and a 35% year-on-year increase (H1 2022: 129,500 incidents). 'Leakage' costs to our Food business – which include theft and fraud – were around £33m in H1.

We continue to invest significantly in keeping colleagues, stores and our products safe. In H1, we continued to roll out personal and product protection across all stores and we're continuing to test new and innovative ways to deter crime in stores that see a higher number of incidents. This includes secure kiosks, locked doors on high value products, dummy packaging and automated CCTV. We're also re-evaluating our approach to guarding, deploying tactical teams and working closely with local police authorities.

The Safer Colleagues, Safer Communities campaign, which was successful in changing legislation to better protect shopworkers in 2021/22, was reinstated internally in H1 based on the significant increase in incidents. The campaign's next step is to call for an urgent change in police response and for all forces to target repeat and prolific offenders. Following an H2 launch, more detail will be shared in our full year reporting.

- **Investing in value and rewarding loyalty**

Our Pure Convenience strategy, launched in September 2022, is part of keeping Co-op Food firmly in the convenience market and has refined the strategy to target specific customers and shopping missions. These include treats, food on the go, inspiration in meals for tonight and big shop top-ups. It's within these missions where we are focusing attention and targeting our investment to ensure it has the most impact.

In April, the 'Members Save More' campaign launched in store, which included a full refresh of our point-of-sale and marketing. This was backed up by member exclusive pricing and promotions on products that fall within the target shoppers' missions - the programme of deals will continue throughout the year. This initiative seeks to demonstrate value for money, reward member-owners' loyalty and, in turn, encourage you to shop and spend more.

In the background, our extensive data and customer insight was used to identify the driver of value for all categories across the store. 160 products were identified as being the most shopped by target customers and where price investment would have the most impact. In May, the prices of some of these products were matched with the closest convenience competitors based on our own market analysis, with an investment of £20m. As H1 concluded, we are set to continue using these products as a basis for ongoing investment to address overall price perception, investing a further £70m – see Shirine's 'Looking Ahead' section.

The same data has been used to evolve our range and format proposition over H1, including:

- Number of lines stocked reduced by 2,000 lines, improving underlying profit by £7m, through benefits in distribution and store efficiencies.
- Introduction of 'customer favourite' identifiers on shelf, to ensure colleagues focus on the replenishment of these key products and drive overall availability.
- Focused range and format investment in the top 107 performing convenience-size stores.

- **Growing our routes to market**

As well as Retail, we continued to implement our growth plans across our other routes to market; Online, Franchise and Wholesale. Peter Batt's update gives more detail on Nisa Wholesale.

In Online, there was a continued focus on growing our presence in H1, and offering quick, easy and convenient shopping for you – our member-owners - and customers.

During the first half of the year, expansion plans included the roll out of the partnership with Just Eat to 1,000 stores and a further 300 stores were made available on other delivery partner sites. This growth contributed to sales of £133m in H1.

Growing market share remains the priority, targeting 30% of the overall quick convenience market share (i.e. rapid delivery from store to door) within four years.

Embedding this route to market into the broader Food operating model is a big part of our growth plans, with ambitions to simplify the online delivery operation for our colleagues, working with our partners to move all their platforms to our hand-held terminals, so that everything is in one place.

In our Retail and Franchise estate, we spent the first half of the year defining our routes to market.

For our owned stores, we've shifted our approach to disposals and created an internal review forum to drive up the performance in our underperforming stores. We also looked to drive down the cost of refitting stores, focusing investment on where it matters most for our customers and colleagues. Both are creating more affordability to reinvest back into our estate, with more refits and fewer disposals.

Our ambition to grow Franchise has seen us focus H1 on refining our proposition and significantly improving the quality of the portfolio. The plan for H2 includes trials that don't sit within our typical convenience formats, including a new on-the-go format which we are already trialling for petrol stations and will open our first NHS store.

Finally, in January, approval was achieved for Central Co-op to join the Co-op distribution network. This move brings the last of the UK's larger independent societies into our distribution network with shared productivity benefits across supply chains, while supporting our ambition to be more strategically aligned with the movement.

- **A better way of doing business**

As voted by you at our 2023 AGM, commitments were made in H1 to reduce stocking density on chickens to improve welfare and carbon footprint. This will see fresh chickens reared with a reduced maximum stocking density of 30kg/m2 from the second half of 2024 – a 20% cut on the existing industry standard of 38kg/m2. Alongside more space, chickens will also benefit from enrichments such as natural light, perches and pecking objects which allow the birds to thrive and express natural chicken behaviours.

This work will see our business become one of only a few UK retailers to meet the Better Chicken Commitment stocking density requirements, where our Co-op's British chicken already meets Red Tractor or RSPCA assured standards, as well as our own.

Best before dates were also axed from 150 lines of fresh produce in February, a move designed to help you and our customers cut food waste in the home and save money. Dates were removed from all of Co-op's fresh produce including apples, oranges, tomatoes, carrots, potatoes, onions and broccoli - with the exception of a small number of the more perishable products, or ones where it can be harder to use visual cues and judgement on how suitable they are to eat.

We continued to build on existing partnerships to support at home and overseas initiatives, including;

- A partnership with Unilever, co-creating an exclusive Ben & Jerry's ice cream flavour - Sunny Honey Home - with refugee entrepreneurs.
- Reaching the milestone of raising £20 million in March 2023 supporting clean water and sanitation projects with The One Foundation and Water Unite, celebrating the 15th anniversary of the Clean Water Project.
- Celebrating Fairtrade Fortnight over February and March, and 29 years of commitment to supporting farmers, workers and communities as the UK's largest convenience seller of Fairtrade products

After a successful 2022, our supplier incubator programme 'the Apiary' also announced eight new suppliers onto the scheme in H1. The scheme supports diversity and inclusion within the store range and smaller-scale suppliers receive tailored support, mentoring and advice on all aspects of the product journey.

Wholesale – Peter Batt, Managing Director, Nisa

Our Nisa business continued to operate in a challenging economic climate in the first half of 2023, with high inflation rate and the cost of living crisis, in particular, affecting our customer base and their shoppers.

The decisions we have made (and I'll come on to) meant sales in our Nisa business stood at £691m as the first half of the year concluded, with a like-for-like performance 2.3% up year-on-year (H1 2022: £654m).

We prioritised resetting our pricing and promotional strategy to ensure we continued to deliver great value for our retailers on the products that matter most, to allow them to remain competitive.

In the first half of 2023, we invested heavily in lowering the wholesale price of thousands of branded products across all categories, and we're pleased to see that since February and through to the end of H1, indications showed that volumes were increasing into H2. Along with our commitment last year to align our Co-op brand prices to ensure the recommended retail prices (RRPs) are indexed against Co-op base price retail sales price (RSPs), this is all part of our strategy to support retailers and ensure we offer market-leading prices.

With value more important than ever to shoppers, Co-op brand products continued to be a strong proposition to our Nisa partners with 93.14% buying them over H1 (an increase of 2% year-on-year (H1 2022: 91%)). By the end of H1, these lines represented 21% of total sales (excluding tobacco) for the Nisa business, an increase of 11.7% in H1 2023 to £109.2m (H1 2022: £97.8m). The performance of Wholesale demonstrates the underlying strength of the collaboration between Co-op and Nisa and the associated benefits that can be passed on to Nisa customers.

Following feedback from our retailers, we made changes to our Fresh Rewards rebate scheme in April, which now sees the percentage of financial returns previously held within retailers' store development fund given as a cash rebate.

Community giving also remains key and H1 saw almost £370,000 donated through our Making a Difference Locally charity, supporting more than 700 good causes in our retailers' local communities. More recently, in June, we launched a Pride Pot worth £50,000 to donate through Nisa retailers wanting to support LGBTQ+ community groups and charities.

Recruitment throughout H1 2023 remained strong, with 130 new stores added. This has included the recruitment of large multi-site retailers such as MPK Garages and major expansion plans with award-winning Greens Retail, as well as continued growth within our holiday park convenience store portfolio.

Funeralcare – Gillian Stewart, Managing Director, Co-op Funeralcare

I've been so proud to lead our Funeralcare business through the first half of this year and my thanks go out to our hardworking colleagues who continue to help our clients, including you – our member-owners - say their best goodbye. We had a busy first half of the year, delivering even more funerals year-on-year, although we know the cost of living crisis continued to challenge you and our clients, we carried on exploring new and alternative options for everyone.

As the leading provider of funerals in the UK, it's important that we continue to create choice for our clients and celebrate our Co-op Difference, whilst upholding our high standards of care and service.

Our performance in H1

In the first half of 2023, we saw our funeral volumes increase by around 3,450 compared to the same period last year (H1 2022: 48,171, H1 2023: 51,621). This was driven by both an increase in death rate (up from 318,391 in the first half of 2022 to 343,098 in the first half of 2023, according to ONS data) and a slight increase of 0.5% in our market share to 14.7%. Client satisfaction, determined by our own research, remained high at 96.8%.

Our trading performance improved year-on-year, as a result of these increased funerals although the average revenue we receive for each funeral reduced, as more of our clients chose simpler and unattended options. Under our old accounting standard (IFRS 15) this would have led to an increase of around £9m in H1 2023 revenue (H1 2023: £148m, H1 2022: £139m). Inflation has affected Funeralcare, like all businesses, and led to an increase in operational costs of around £8m year-on-year. As a result of operational efficiencies and increased volumes, we have managed to more than offset those cost headwinds and generate (again under the old accounting standard), an improvement of around £2m in our operating profit (H1 2023: £13m, H1 2022: £11m).

Under IFRS 17, our restated operating profit for H1 2022 was a loss of £8m, which has improved to a loss of £4m in H1 2023. The impact of the changes is set out in the 'Our Financial Performance' section.

This year-on-year improvement under IFRS 17 is primarily down to an increase in the Contract Service Margin (funeral plan profit) released in the period, due to a reduction in our long-term expectations for inflation; there being no onerous funeral plan contracts in H1 2023 (which did exist in H1 2022) and higher revenue generated by our at need offering, offset by inflationary cost headwinds.

Our work towards our Vision

We've stayed committed to creating a workplace where everyone feels they belong and has a safe space to work together. Last year, we pioneered the launch of an All Colleague Code, which was positively received by colleagues and has been embedded throughout H1. Following the successful introduction of the code, a group of colleagues came together to shape and develop a new Client Conduct Code during the first half of this year. Its purpose is to encourage all clients to treat our colleagues with respect as, unfortunately, instances do occur where this is not the case. It will be launched in H2 this year.

The impact we have on the environment as a business and as individuals continues to be a key focus for us. In H1, we ran trials to offer clients more sustainable funeral options and invested in having more electric vehicles in our fleet, which will soon be available in our operation. This has involved installing electric charge points at some of our funeral homes and we plan to invest in making further improvements to our funeral home estate and fleet in H2.

In addition, in H1, we continued to develop a new partnership with Kindly Earth: the UK's only provider of resomation services. Resomation is a form of water cremation, also called alkaline hydrolysis, which speeds up the natural process the body goes through at the end of life. We will be conducting a trial of this sustainable and environmentally-friendly alternative to gas cremation later in H2, after preparing throughout H1.

Our partnership with Cruse Bereavement continued to provide meaningful support to those experiencing grief. In March, we launched a new guide to help readers navigate their way through grief and offer support to someone who's recently experienced a bereavement.

Co-op Funeral Services Limited Performance

The part of our Funeralcare business that supports families who have an immediate need of our funeral services started the year with a higher than average death rate in the first quarter (188,931 v pre covid 5 year average of 167,862), which declined during the second quarter to 154,167 v pre covid 5 year average of 141,357.

Throughout the changes in death rate, we maintained our market share performance during the first half of the year at 14.7%, based on data from the Office of National Statistics for England and Wales, and the National Records of Scotland.

The trend we have seen in recent years for clients to opt for a lower-cost, unattended service continued, with Direct Cremation services still proving a popular choice for clients.

Inflation continues to be a challenge for us, from a payroll, energy and cost of materials perspective. We continued to review the price of our products and services based on what's affordable for our clients and what's sustainable for our business, and made adjustments accordingly.

We saw a slight reduction in the proportion of our funerals that are from Funeral Plan redemptions (H1 2023: 23.4%, H1 2022: 24.1%).

Co-op Funeral Plans Limited Performance

The funeral plan part of our business saw subdued plan sales in the first half of this year – we sold 7,743 in H1 2023 compared to 11,253 in H1 2022.

We have also been preparing for the introduction of the Financial Conduct Authority's Consumer Duty for new and existing products and services, which will come into effect on 31 July 2023. With good client outcomes being at the heart of the new Consumer Duty, we joined with other providers in H1 to offer SafeHands' clients, let down by the collapse of the plan provider, the opportunity to purchase one of our plans at a discounted rate.

Due to the anticipated future performance of investments and the latest inflation outlook, we were able to introduce a £250 discount on the price of all our funeral plan services from 1 June to run until 27 October. This helps ensure we align to our Fair Value Commitment to offer our products and services for a fair price. This also aligns to our Vision of *'Co-operating for a Fairer World'* and supporting families facing a higher cost of living to plan for their future.

Insurance – Charles Offord, Managing Director, Co-op Insurance

I'm really proud of our team here in Insurance. We've delivered a strong performance in a very competitive market during the first half of this year, with highlights being our sales of both Pet and Travel insurance which were both significantly up on the same period last year.

Also, and just as importantly, we were recognised for our great customer service by The Institute of Customer Service in January's UK Customer Satisfaction Index survey.

We've achieved all this despite the impact the cost of living crisis continues to have on you - our member-owners - and our customers, as well the inflationary cost impacts on our business.

And, at the end of H1, our primary ambition remains unchanged - to meet more of your insurance needs, more of the time. At the same time, we also introduce Co-op Insurance to non-members and support our Co-op's wider ambition to recruit more member-owners.

We will continue to do this in a capital-light way through leveraging our Co-op brand, establishing strategic partnerships to enable expansion, designing great member-owner and customer journeys and using data to optimise our performance.

Our H1 performance

Despite a very difficult market, our underlying income at the half year is £14m (H1 2022: £11m). Our underlying operating profit of £7m is up year-on-year, due to our continued tight management of costs and targeted acquisition activity (H1 2022: £3m.)

The strength of our product development work came through in our Pet insurance performance in the first half of 2023 - total policy sales were up 88% on the same period last year (H1 2023: 41.6k, H1 2022: 22.1k). This was supported by marketing investment, which included social media campaigns highlighting our adopted pet discount; a key point of difference for us.

In H1, we based some of our marketing comms around the impact the cost of living has made to your choice and customers' choice of product. Our claims data from January 2022 to March 2023 shows us that dental issues are one of the top reasons that 42% of dog and cat owners take their pets to the vets, with many choosing not to. Comprehensive dental cover for accidents and illness is included in all our Pet insurance policies because we know it's important to you - this was one of the focus messages in our PR and social media campaign of H1 2023.

To further support you – our member-owners - during the challenging cost of living crisis, for those fortunate enough to be able to get away, we doubled our member discount on Travel insurance policies from 6 April, which contributed to strong performance in that area of our business (H1 2023: 17.8k policy sales, H1 2022: 12.4k policy sales).

Motor insurance fared less well for our business due to challenges in the market (H1 2023: 48.4k policy sales, down 33% on H1 2022: 72.6k). Our insurer partners are facing very significant claims cost inflation due to the increased cost of labour, replacement parts, energy and personal care provision. As a result, car insurance prices across the market have risen by over 40% in the last 12 months (based on data from the Office of National Statistics, May 2023) and two significant insurers, RSA and Zurich, have announced their intention to pull out of broker distribution of the personal lines car insurance market due to its volatility.

We've also seen a drop in performance for Life insurance sales. This has mainly been due to a contracting market, as customers make tough choices on their household budgets due to the cost of living crisis (based on data from the Swiss Re Term & Health Watch 2023 report).

Following a successfully on-schedule launch, we are now offering our members and customers home insurance on the Amazon Home Store.

In the first half of 2023, we saw an 53% increase on the previous year for the number of Nisa partners we insure. This growth correlates with our increased marketing activity over H1. Our exclusive 10% discount for Nisa remains a key factor in helping Nisa partners save on their existing insurance costs. Looking ahead, our strong commercial offering for Nisa partners will continue to be a major focus into H2, as more of their renewals come up for review.

In January 2023, the UK Customer Service Institute report was published and showed how we're leading the market when it comes to complaint handling. We scored the lowest percentage (2.4%) for customers surveyed who experienced a problem with the way a complaint was handled, compared to 10.7% as the average score. We'll continue working to make that 0%.

In the report, we were also rated in the top four of the 26 insurers surveyed for customer satisfaction (81.7 out of 100 – an improvement of 6 points from last year's report (2022 score: 75.7)). Our net promoter score was also above the average for other insurers at 30.0 (27.9 average) and we scored highly on customers' intention to recommend at 8.1 out of 10 (7.9 average.) We were also really proud to achieve the joint top score of 8.3 for customer trust - the average score was 7.9.

Our top call outs in the report, for member-owners and customers, were that they were 'being kept informed', felt 'ease of dealing with organisation' and recognised 'speed of service'.

During H1, we continued to build on this success, by continuing to focus on enhancing customer communications across our product set including Pet and Travel Insurance. During H1, our improved quote emails saw an uplift in customer engagement, with Pet insurance seeing 44% more customers retrieving their quote compared with last year (H1 2023: 17.7% retrievals; H1 2022: 12.3% retrievals). This meant the percentage of sales we saw generated by these emails had increased by 148% (H1 2023: 9.3%

conversions; H1 2022: 3.8% conversions).

Legal Services – Caoilionn Hurley, Managing Director, Co-op Legal Services

Each year, we continue to grow our Legal Services business thanks to the energy and passion of our colleagues. They are the cornerstone of our business and continue to drive innovation while at the same time providing their expertise with warmth and empathy. I'm really proud to lead them and of the results we're achieving together.

H1 performance

We experienced an exceptional year-on-year growth in revenues in H1 2023 (£31m, H1 2022: £22m) and consequently continued to deliver a strong overall performance with an underlying operating profit of £9m in H1 2023 (H1 2022: £4m). Against a backdrop of tough market conditions, we held our probate and estate planning prices throughout H1 2023 to support you - our member-owners - and clients during these challenging times.

Key highlights

We are very pleased with progress on the delivery of our strategy as we continued to grow our key practice areas, with probate case openings increasing by 22% (H1 2023: 4,738 cases; H1 2022: 3,876 cases) and estate planning case openings increasing by 30% (H1 2023: 12,138 cases; H1 2022: 9,324 cases).

Digital services are an important driver of our success and therefore we continued to invest in our digital platform and intensified our focus on making our services even more accessible, to as many people as possible through a wide variety of channels. We've seen a particularly strong performance through our digital channels, with the number of referrals up 51% on the same period last year (H1 2023: 10,018 referrals; H1 2022: 6,655 referrals).

The strong partnerships we have with other organisations continued to be a key enabler of our success. We are delighted to have begun partnerships with both Central Co-op and Co-op Bank in the first half of 2023. These are great examples of principle six of the co-operative movement: 'co-operation among co-operatives.'

Another key enabler of our success is our colleagues – by combining the qualities of empathy and expertise, they continue to deliver high standards of service daily for our clients. This is reflected in our strong CSAT scores (H1 2023: 85%) and our excellent scores from Trustpilot, 4.9 out of 5 for Co-op Estate Planning and 4.8 out of 5 for Co-op Legal Services.

Our areas of focus

Throughout the first half of 2023, we continued to evolve the services we offered you and our clients by expanding our digital customer-facing services. We launched electronic ID checking, which has been positively received and we have had great feedback from those who have used this service. To make our platform more efficient we have invested in robotic process automation technology and are incredibly pleased with the first deployments. We will expand our deployment in H2 as we have identified additional opportunities to use the technology to support our rapid growth.

As our business grows, we continued to grow our team. We hired 144 candidates in H1 2023, of which 15% are made up of internal promotions. We expect to hire a similar number in H2. 65% of the colleagues hired in the first half of the year identify as female, which was broadly in line with our end-of-year figures for 2022 (FY 2022: 65%) and 30% identify as from ethnic minorities. Within our team, 7% of our colleague population identify as part of the LGBTQ+ community, which is up from the end of 2022 (FY 2022: 5%) and 20% of our current colleague population has a disability or long-term health condition, which is slightly up from the representation we saw at the end of 2022 (FY 2022: 19%).

It's important to us that we are an accessible employer and we continued with our solicitor apprenticeship over H1, after being originally launched in 2021. We completed the selection process for this year's cohort in May and they'll begin in September. We continued to support colleagues who are following other routes to qualification, like the traditional training period, and we anticipate three colleagues will qualify through this route later this year. We also continued to offer funding for some external qualifications designed to develop specific skills and knowledge.

Our two-week training programme for new recruits in our largest practice area, probate, has gone well in H1 and will continue for all new starters through the rest of 2023, drawing upon our expanded training platform and insight from beyond our firm.

<u>Looking ahead</u> – Shirine Khoury-Haq, CEO, The Co-op Group

I'm so proud of everything that our Co-op has achieved in the first half of 2023, especially as external trading and economic conditions remain challenging and show no signs of abating in the short term.

As we consider the remainder of the year, we know you – our member-owners - our colleagues and our communities will continue to be affected by the cost of living crisis.

As mentioned in my overview, you can expect us to continue driving business performance with membership and our Co-op Difference at the heart of everything we do. Our focus will remain tightly on our strategic priorities, our business strategies, trading our businesses well, and doing all of this with tight financial controls, so that we can be there for those who need us the most. You will also see our focus widen from securing the organisation to laying the foundations for accelerated growth along with a continued focus on cash generation and disciplined investment.

We hope to do this in partnership with other co-operatives and like-minded businesses in order to build a modern Co-op for the next generation, driving the co-operative movement forward and delivering our growth in markets that matter to you.

Importantly, we will continue to prioritise and channel support for you, our colleagues and our communities through the cost of living crisis, with a continued focus on colleague safety in our stores, given the increasing crime we sadly see in our society.

This includes using our collective voice, and the power of the co-operative movement to create sustainable change. As I mentioned in my introduction – Co-op, and indeed other retailers, are experiencing heightened levels of retail crime. The statistics are shocking, with almost 1,000 incidents a day recorded in our stores for the first half of the year. That's a 35% increase year-on-year, and of course it is you, our colleagues and our communities that face immediately into this. It's unacceptable and cannot continue.

Our colleagues deserve to feel safe at work, and to go home to their families after their shift; you deserve a safe space to shop and our communities rely on us to be there for them.

This is why we're campaigning for every police force to take organised criminal activity against retail stores more seriously. We're asking that every Police and Crime Commissioner (PCC) sets out clear plans to tackle persistent and prolific offenders, and as we look ahead to elections in May 2024, we're asking that every candidate for a PCC commits to this and to reporting back on progress.

This is so important and will remain top priority for the remainder of 2023 and beyond.

Our Co-op faces the rest of the year from a position of strength. Our balance sheet is strong, our debt reduced, and our cash generation much improved. In taking the action we did in 2022, we have given ourselves the ability to manage the present and plan for the future.

As we now look to the future, and the sustainability of our Co-op, we will complete the final pieces of work that will create our go-forward Group strategy during the next few months. We have already identified our Co-op Difference, thanks to the work of Kenyatte, his team, our colleagues, our member-owners and National Members' Council.

Our new strategy, that places you even more firmly at the heart of our Co-op, is progressing well, especially our ambition to recruit one million new member-owners, including younger member-owners. Our member-only pricing and deals have been well received, along with the introduction of reduced pricing on over 500 lines in our food stores in August. This £70m investment also includes further reductions on key everyday lines. Combined with the extension of the 30% discount for our colleagues on own brand products, it offers much needed support during the second half of the year, particularly as we head into winter, where energy along with rising mortgage costs remain a concern for so many. In September, we announced that this discount will be made permanent for our colleague member-owners.

What is crystal clear, is that for us to succeed as a modern member-owned organisation, our commercial and co-operative goals and ambitions must be clearly aligned, because member-ownership is our point of difference. Our focus will be heavily on you - our member-owners - how we involve you in our business and how we ensure that the value we create and share is in the areas that matter most to you.

This strategy work is well underway. During the second half of this year, we will engage you and our colleagues in this work and shape it together. We'll focus on creating value for you and social value; growing our Co-op, powered by partnerships; and how our businesses can better support each other, to provide you even more.

We will also be developing our Nisa strategy over H2 to set out the future vision for our Wholesale business. We're focused on defining the purpose and objectives of Nisa within our Co-op, to develop an understanding of our markets and the areas where we have opportunity for growth, allowing us to design a proposition aligned to our target customers.

As Matt mentioned in his Food update, we will continue to accelerate growth through partnerships and Franchise. In H2, we will open at least 12 franchise stores, including our first in NHS locations.

Our Life Services businesses are all also focused on growth. In Funeralcare, we will continue trialling ways to offer you and other clients alternative and eco-friendly methods to traditional burial and cremation, including water-based resomation and electrical cremations. We are also planning new advertising and PR campaigns for later this year to encourage more people to talk about death, bereavement and their wishes.

And we will not, at any point, lose sight of our heritage and the power of co-operation. I spoke earlier this year at our AGM on how important Principle six 'co-operation amongst co-operators' is.

Since then, I have spent much time with our fellow friends and co-operators in other societies, including our colleagues in Denmark and Finland and, of course, retail societies in the UK. All of us have common goals, we are committed to being member-owned, passionate about colleague safety and we all support our local communities. There is so much that we can all learn from each other, opportunity for greater collaboration, ways that we can benefit for greater collective efficiency and impact to create greater power in our movement.

We have established a UK cross-society working group to explore this in more detail and this work will continue during the remainder of 2023 and beyond.

In addition to this, we already have a cross-society buying and distribution function that supports all independent societies and we are exploring ways to continuously improve both our proposition and the delivery of it, including systems and better ways of working. These are exciting opportunities for us all.

To summarise, our Co-op enters the second half of the year in a strong position, with a bright future, that's focused on growing our business as a modern co-operative that's fit for the future - with and for the good of you – our member-owners - and society.

We know we need to maintain pace and continue to face the external headwinds that come our way. We know this won't be easy at times, but we also know that we can, and will, do it by pulling together in the same direction in that very special and unique way that only our Co-op knows how to do.

And finally, I end as I began, by thanking each and every one of you, our 4.58 million active member-owners and my 57,000 colleagues and our 100-strong National Members' Council, because it is all of you who make our Co-op what it is today.

Principal risks and uncertainties

We have a structured approach to managing risk. 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. Through our governance processes, we regularly update our risks and responses where required. The Board and Risk and Audit Committee have reviewed the principal risks and uncertainties that could pose a threat to our Co-op.

Our principal risks

The principal risks set out in our 2022 Annual Report and Accounts remain relevant for the first half of 2023. Should these risks materialise, they would have the most impact on our ability to deliver our strategy and meet our commitment to create value for our member-owners and the communities we serve.

Risk	Description
Change	We will make changes to the way we operate through our Three-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.
Competitiveness and External Environment	The competitive and economic landscape in which we operate means that we need to monitor our growth targets, propositions and competitor behaviour to remain viable and innovative.
Brand and Reputation	Our Co-op Purpose of 'Championing a better way of doing business' leads us to consider wider social and ethical impacts within our decision making, so that we can be a commercially successful and sustainable Co-op, whilst reflecting our founding Values and Principles.
Funding and Liquidity	We rely on a combination of external funding and cashflow generation to run our businesses. Any deterioration in economic conditions may require us to take mitigating action to ensure adequate funding and cashflows. Such mitigation could include reducing or delaying capital expenditure, eliminating discretionary costs and/or disposal of non-core assets.
Technology and Cyber Threats	We are reliant on technology to deliver our business operations. We need to ensure that our systems are available consistently, are up-to-date and are not disrupted by cyber threats.
People	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 invest in our colleagues, then it may impact our operations and our ability to deliver on our strategic plans.
Misuse and/or Loss of Personal Data	We hold personal information of our member-owners, colleagues and customers. We need to make sure we protect and manage this responsibly.
Health & Safety and Security	Faced with a rise in violent and abusive crime and busy retail environments, we need processes in place to protect our colleagues, member-owners, customers and visitors to our premises.
Supply Chain and Operational Resilience	If we are unable to prevent, adapt or respond to a major failure or external event to a key part of our business or supply chain, it could significantly affect the availability and quality of products and services delivered to our member-owners, colleagues, customers and partners.
Regulatory Compliance	Our Co-op is subject to laws and regulations across its businesses. Failure to respond to changes in regulations or stay compliant could affect profitability, our reputation and our licence to operate.
Pre-need Funeral Plan Obligations	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 for each funeral, or result in individual contracts becoming onerous.
Environment and Sustainability	The way we choose to run our business operations and the products and services we provide has both social and environmental impacts, affecting 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.

You can find further details of our principal risks of our Annual Report available on www.co-operative.coop

Emerging risks and outlook

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 we consider that they will impact our business.

Macro-economic risks

According to the Office of Budget Responsibility, the UK economy faces significant structural challenges. Whilst the rate of inflation is forecast to fall in the remainder of 2023, it remains at an historically high level. There remains sustained pressure from an increase in the cost of living which continues to impact you - our member-owners - and our customers, in relation to shopping habits and the sectors our businesses operate in.

The continued geopolitical tensions create additional uncertainty which affect our Co-op on the supply side. For Food, our largest business, competition in the convenience market remains strong.

With economic difficulties, we tend to see increases in theft and financial crime. Alongside this, we are experiencing thefts perpetrated by organised crime gangs in our Food stores. We engage with the relevant authorities to minimise the risk to our colleagues and business, as well as supporting community programmes which focus on the rehabilitation of offenders.

Developments in artificial intelligence technologies are likely to change the way consumers interact with our business creating risks, challenges and opportunities for us and society as a whole.

Climate and sustainability

Extreme climate events are becoming more frequent, affecting commodity pricing and availability. There are challenges in the availability, affordability and scale of opportunities to reduce carbon emissions as fast as we need to.

In April, we updated our climate plan and we're working to comply with the Government's mandate to disclose Taskforce for Climate-related Financial Disclosure aligned financial information by 2024.

Our current near-term targets to 2025 have been validated by the Science Based Targets initiative (SBTi). We are now resetting our climate targets for carbon emissions in scopes 1-3, in the near and the long term to ensure that they are in line with keeping global temperature rise to no more than 1.5 degrees above pre-industrial temperatures. We are expecting these updated targets to be released and validated by the SBTi in 2023.

Regulatory landscape

There is an increasing amount of regulation that the businesses within our Co-op are each required to comply with. The divergence of regulatory requirements and legislation between the devolved nations in the UK increases both complexity and cost of implementation.

We undertake horizon scanning to continuously monitor planned changes by our regulators and we adapt and implement changes to meet new requirements they set. We are currently preparing for the implementation of UK Government's requirements to restoring trust in audit and corporate governance.

The Financial Conduct Authority has set out new rules on consumer duty. These apply to our regulated businesses and came into effect at the end of July 2023. We have trained our colleagues to deliver good customer outcomes and avoid foreseeable harm in relation to products and services, price and fair value, customer understanding and post-sale support.

We have adopted IFRS 17 relating to insurance contracts which applies to all pre-paid funeral plans. This will be stated in our next annual report in 2024.

Our financial performance

As expected, the tough trading environment that we saw throughout 2022 continued and the first half of 2023 proved to be another challenging period for you, our member-owners.

The ongoing squeeze from rising prices and interest rates continued to put pressure on tightly stretched household budgets and our Co-op worked hard during this difficult time to deliver for those who depend upon us and give them the support they need.

The impact of the ongoing cost of living crisis and economic outlook further validated the decisive action we took last year to strengthen our balance sheet and significantly reduce our debt. It left us well placed as we entered 2023 to continue to invest in our businesses and operational processes, while keeping our Co-op on a sound financial footing. As part of this, we further embedded the cost disciplines we successfully brought in last year over the first six months of 2023, allowing our Co-op to run more efficiently for your benefit and the benefit of our customers.

Our financial performance is summarised below, in a table, with related commentary, although further insight is also available in our business unit updates, where each managing director shares an overview on how each business found H1.

Throughout our financial statements, you will see reference to the fact that we have restated comparative figures, as a result of new accounting rules around how we report on our funeral plans. The new rules are referred to as IFRS 17 and replace IFRS 15, which we had been using.

IFRS 17 changes the value of the liability that we hold on our balance sheet for funeral plans to be redeemed, as well as how we record sales and profit over time in relation to those plans. We are required to apply the changes retrospectively to our previous year – so we've had to recalculate (restate) the numbers we had already published, at that time.

This is purely an accounting change – there is no cash impact or operational change to the way we run our funeral business. You can find extra disclosures in our Financial Statements, explaining the change and how it has impacted our balance sheet and income statement.

Also, to help, we have prepared a table with how our performance in H1 2023 would have looked under the old IFRS 15 accounting rules, against the original figures that were published for H1 2022, for a greater understanding of like for like performance. The alternative old IFRS 15/pre-IFRS 17 view can be seen further on .

Summary of financial performance – total Group

(£m)	**H1 2023**	H1 2022*
Revenue	**5,430**	5,642
Operating profit / (loss)	**3**	(39)
(Loss) / profit before tax (PBT)	**(33)**	8
Underlying operating profit / (loss)	**43**	(1)
Underlying PBT	**(9)**	(68)
Underlying EBITDA	**226**	199
Net debt	**(123)**	(731)
Member and Community reward	**20**	16

Summary of financial performance – by business unit

£m	**Revenue**		**Underlying op profit**	
	H1 2023	H1 2022	**H1 2023**	H1 2022
Food	**3,563**	3,912	**68**	41
Wholesale	**719**	679	**3**	4
Funeralcare*	**146**	138	**(4)**	(8)
Insurance	**14**	11	**7**	3
Legal Services	**31**	22	**9**	4
Federal	**957**	880	**-**	-
Support centre	**-**	-	**(40)**	(45)
Total Group*	**5,430**	5,642	**43**	(1)

* As noted above; our comparative figures have been restated to reflect a new accounting treatment for funeral plans. See Note 15 of our financial statements for further details and additional commentary at the end of this section.

- **Revenue:** total Group sales of £5.4bn are 3.6% lower than the first-half of 2022. The main driver for this is a reduction in sales in our Food business, which are down by £349m. This reflects the sale of our petrol forecourt sites in the second-half of 2022 (meaning they did not contribute to H1 2023's performance as they did to H1 2022's.) Excluding the revenue from these stores generated in H1 2022, sales are up 5% year-on-year. Furthermore, we experienced lower volumes in the first half of this year as our customers continued to adapt their behaviour and shopping habits in light of the cost of living crisis.

Our Wholesale, Funeralcare, Legal Services and Insurance businesses have all performed well in their markets, with sales up in each area.

- **Underlying operating profit –** our main measure of trading performance is at £43m and is significantly higher than the prior year (H1 2022: £1m loss). Despite our sales being down, we have continued to reap the benefits of the cost saving culture we have embedded throughout our Co-op to help us run and serve our members more efficiently. Furthermore, the significant investment we made over the last couple of years in our core logistic and supply chain infrastructure and IT systems in our retail business, as well as streamlining our operational processes, is paying back and delivering through overall lower costs to serve.

  Modest profit increases have also been achieved in our Legal Services and Insurance businesses with Wholesale slightly down on prior year. Underlying profitability in our Funeralcare business has fallen comparatively as we now record our funeral plans under a new accounting standard (IFRS 17 Insurance Contracts). This sees profit move from the operating profit line to a reduced finance cost charge (recorded outside of our underlying profit metric). Under the old accounting methodology (IFRS 15) sales and underlying profits are up slightly on H1 2022 – more details are available towards the end of this section.

- **Operating profit:** at £3m, our operating profit is £42m better than the comparative period and in line with the increase of £44m in our underlying profitability metric. Impairments of Food stores and other parts of the estate were lower than last year but this was largely offset by reduced profits on disposal of assets resulting in a net £2m increase in the charge from non-underlying items.

- **PBT:** the £42m increase in operating profit flows through to our PBT line, but this is offset by a significant comparative increase in net finance costs of £83m, including an adverse swing in returns from Funeralcare assets. This results in an overall reduction in PBT of £41m at £33m loss. See the Financing section coming up for further detail on the comparative increase in net finance cost.

- **Underlying PBT** – at a loss of £9m, underlying PBT is favourable to last year by £59m (H1 2022: £68m loss). As noted above our underlying operating profit is up by £44m and net underlying interest is also down by £15m.

- **Underlying EBITDA:** again, this is broadly in line with 2022 at £226m (H1 2022: £199m) and consistent with the uptick in underlying trading performance. Underlying EBITDA is our operating profit but excludes interest, tax, depreciation and amortisation charges.

- **Net debt:** at £123m, we further reduced our net debt from the 2022 year-end position of £333m. This includes the repayment of £99m of our borrowings in March 2023 as well as closing the first half of the year with an enhanced cash position at £579m (FY 2022: £447m). This improvement in net debt represents a significant reduction on the H1 2022 position of £731m and follows the decisive action we took in the second half of 2022 to reduce the Group's overall debt and strengthen our balance sheet.

- **Member-owner reward:** our profits are reported after deducting the amount you - our member-owners - have earned through the 2% community and member-owner rewards, which totalled £20m in the year (H1 2022: £16m). Co-op colleague member-owners have also continued to receive the benefit of our 30% colleague discount on own brand products throughout the first half of 2023.

Further details on the performance of our individual businesses are available in the business unit updates.

Other Group Items

Financing costs/income

£m	**HY 2023**	HY 2022
Underlying bank / loan interest	**(28)**	(28)
Interest received	**9**	-
Net underlying lease interest	**(33)**	(39)

Total underlying interest (net)	**(52)**	(67)
Net pension finance income	**35**	20
Net finance cost (funerals)	**(1)**	41
Movement on FX contacts	**(9)**	27
Movement on quoted debt	**(6)**	29
Movement on Interest rate swaps	**(2)**	(5)
Other non-underlying interest (net)	**(1)**	2
Total non-underlying interest	**16**	114

- **Underlying interest:** at £52m, our net underlying financing costs decreased markedly in comparison to the first half of 2022. This is mainly because our improved cash position meant that we earned more interest in the first half of 2023 in comparison to 2022. The amount of interest we pay on leases also fell as our overall lease liabilities reduced after the disposal of our petrol forecourts in the second half of 2022. We'll also be paying less interest going forward, following the £100m buy-back of some of our borrowings at the start of March 2023.

- **Non-underlying interest:** the net finance income recorded from non-underlying items reduced by £98m. The significant movements are:

  - The fair value of the Group's quoted debt increased in the first half of 2023 driving a finance charge of £6m. In the first half of 2022, the fair value of our debt decreased by £29m in line with market expectations on the interest rate outlook and the Group's credit rating at the time (generating a £29m gain to finance income). The partial recovery from that low valuation in 2022 has driven the £6m charge in H1 2023. The comparative adverse swing between H1 2023 and H1 2022 is £35m.

  - The fair value of our FX contracts and commodity derivatives (mainly diesel fuel contracts) moved adversely in the period, generating a £9m finance charge. The equivalent movement in the first half of 2022 was favorable, at £27m (generating a £27m gain in finance income). Relative market price movements and a spike in fuel prices were the biggest drivers of the upside in H1 2022. The comparative adverse swing between H1 2023 and H1 2022 is £36m.

  - The returns achieved on our funeral plan investments in H1 2023 were £10m which is £38m lower than in H1 2022. The returns on the investments were driven by market conditions and H1 2023 performance reflects a much lower return than we would normally see (with H1 2022 being more typical). The finance charge on funeral plans was £4m higher in the first six months of this year, compared to the same six months of last year. The overall comparative adverse swing in net interest on funeral plans between HY23 and HY22 is £42m.

  - The adverse positions noted above have been offset to some degree by relative favorable gains on net pension finance income of £15m.

Our balance sheet

The total net assets of the Group decreased by £0.2bn from the start of the year. The main movement driving this is the decrease in the net pension surplus of £0.2bn. The actuarial surplus on our pensions scheme has decreased by £215m as the scheme's assets underperformed the movement in liabilities. Although the corporate bond yield has risen over the period, which has reduced liabilities, gilt yields have risen by more, and hence the valuation of the scheme assets has fallen by a greater degree.

Our payables balances also increased by over £100m from year-end 2022, as we continued to carefully manage our cash and working capital position.

As noted, we have adopted the new accounting standard (IFRS 17 Insurance contracts) for the first time at the half year, when accounting for our funeral plan liabilities. This required us to restate our comparative numbers including the closing balance sheet position for 2021 which saw a reduction in the Group's net assets of £80m on transition to IFRS 17.

Summary of Group and Funeralcare segment financial performance on a IFRS 15 basis and impact of transition to IFRS 17 for funeral plans

For comparative purposes only, the tables here show the Group's performance under the new accounting methodology for funeral plans (on an IFRS 17 basis) as well as under the previous accounting methodology (IFRS 15).

These figures have been provided to further help you assess the performance of the Group and the Funeralcare segment during the year of transition:

Total Group (£m)	**HY23 IFRS 17**	**HY23 IFRS 15**	**Var**	**HY22 IFRS 17**	**HY22 IFRS 15**	**Var**
Revenue	**5,430**	5,432	(2)	5,642	5,643	(1)
Operating profit / (loss)	**3**	20	(17)	(39)	(20)	(19)
Finance income	**56**	56	-	128	128	-
Finance cost	**(92)**	(108)	16	(81)	(101)	20
(Loss) / profit before tax	**(33)**	(32)	(1)	8	7	1
Underlying operating profit	**43**	60	(17)	(1)	18	(19)
Underlying PBT	**(9)**	8	(17)	(68)	(49)	(19)
Underlying EBITDA	**226**	243	(17)	199	218	(19)
EBITDA	**186**	203	(17)	161	180	(19)
Net debt	**(123)**	(123)	-	(731)	(731)	-
Member reward	**20**	20	-	16	16	-

Funerals segment (£m)	**HY23 IFRS 17**	**HY23 IFRS 15**	**Var**	**HY22 IFRS 17**	**HY22 IFRS 15**	**Var**
Revenue	**146**	148	(2)	138	139	(1)
Operating profit / (loss)	**(4)**	13	(17)	(8)	11	(19)
Finance income**	**10**	10	-	48	48	-
Finance cost**	**(11)**	(27)	16	(7)	(27)	20
(Loss) / profit before tax*	**(5)**	(4)	(1)	33	32	1
Underlying operating profit	**(4)**	13	(17)	(8)	11	(19)
Underlying PBT	**(5)**	(4)	(1)	33	32	1
Underlying EBITDA	**9**	26	(17)	5	24	(19)
EBITDA	**9**	26	(17)	5	24	(19)

** (Loss) / profit before tax is not reported on a segmental basis but is shown here for illustrative purposes and is derived as operating profit less net finance costs / income on funeral plans. **Finance income and costs relating to funeral plans only.*

Transition to IFRS 17

IFRS 17 is a very detailed and technical insurance accounting-based model and, as such, represents a fundamentally different approach to the way that we previously accounted for our funeral plans under IFRS 15. Insurance accounting also requires wide-ranging assumptions to be made (such as expectations of future rates of inflation, mortality and interest rates) as well as extensive actuarial data modelling to be undertaken. This means the impact on transition to the new standard is complicated to understand and difficult to explain in simple terms. However a few basic trends can be expected and can be seen in these numbers.

In general we expect to see similar levels of profitability under IFRS 17 as we did under IFRS 15 across our plans over time - but the phasing and recognition of those sales and profits will be different. We also expect to see a reduction in operating profit under the new standard in comparison to the old methodology, but this will be substantively offset by a reduced finance charge (which sits below Operating profit in our Income statement) – so, where our profits are shown in our accounts has changed.

- *Revenue* – this is likely to be lower under IFRS 17 as revenue is accelerated under the new standard as it is spread over the life of the funeral plan (the period of insurance coverage) rather than only being recognised at the point of redemption of the plan, as was the case under IFRS 15. However, the revenue recognition model is complicated and is based on three items which, in combination, will ultimately determine how revenue is recognised over time: (i) the actuarial expectation of claims in the period (ii) an element of the expected profit margin of the plan and (iii) release of a risk adjustment for non-financial risk.

- *Operating profit* – this is likely to be lower under IFRS 17. As noted, revenue is likely to be lower but operating costs will be higher. Under IFRS 17, the costs of fulfilment of the funeral are likely to be higher as they are calculated on a cashflow basis and as such include the cost of the disbursements associated with delivering the funeral. These were previously netted off within Revenue under IFRS 15.

- *Finance income* – this represents the investment returns on the funeral plan asset we hold and is not impacted by IFRS 17. There is no change on transition to IFRS 17.

- *Finance costs* – under IFRS 15, this represented accrued interest on plan liabilities (as if the customer had lent Co-op money when they took out the plan) and was calculated using a borrowing rate. Under IFRS 17, finance costs represent the discount unwind on the insurance contract liabilities and is calculated on a near risk-free rate using UK gilts which will likely be significantly lower than under IFRS 15. This shows in the table as a reduced finance cost.

- *Other comprehensive income (OCI)* – to reduce potential volatility in our results, we have elected under IFRS 17 to recognise the impact to the Income statement of changes in the discount rate within OCI rather than in finance income or expense.

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

We confirm that to the best of our knowledge:

- The condensed set of financial statements has been prepared in accordance with UK adopted IAS 34 Interim Financial Reporting.
- The interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year.

A list of current directors is maintained on www.co-operative.coop

By order of the Board of Co-operative Group Limited

Allan Leighton

Chair, The Co-op Group

20 September 2023

Condensed Consolidated Income Statement

for the 26 weeks ended 1 July 2023

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 1 July 2023 (unaudited) £m**	26 weeks ended 2 July 2022 (unaudited & restated*) £m	52 weeks ended 31 December 2022 (restated*) £m
Revenue	1	**5,430**	5,642	11,477
Operating expenses		**(5,432)**	(5,686)	(11,507)
Other income		**5**	5	9
Operating profit / (loss)	1	**3**	(39)	(21)
Profit on sale of petrol forecourt stores		**-**	-	319
Finance income	3	**56**	128	125
Finance costs	4	**(92)**	(81)	(164)
(Loss) / profit before tax		**(33)**	8	259
Taxation	5	**(6)**	(25)	(7)
(Loss) / profit from continuing operations		**(39)**	(17)	252
Discontinued Operation				
Profit on discontinued operation (net of tax)	6	**-**	60	67
(Loss) / profit for the period		**(39)**	43	319

* The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 15 for details of the restatement. **On a like-for-like basis (as if IFRS 17 had not been applied) our PBT would have been £32m (loss) compared to £7m profit (HY22) and £247m profit (FY22).** To further help the reader we've also included additional tables in Note 15 showing our HY23 results on both a reported basis (prepared under IFRS 17) and under the previous methodology (IFRS 15) to allow a like-for-like comparison with prior periods before restatement.

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

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 1 July 2023 (unaudited) £m**	26 weeks ended 2 July 2022 (unaudited & restated*) £m	52 weeks ended 31 December 2022 (restated*) £m
Operating loss (as above)		**3**	(39)	(21)
Add back / (deduct):				
One-off items	1	**4**	1	39
Property disposals and closures	1	**-**	(22)	(64)
Impairment of non-current assets		**36**	56	105
Change in value of investment properties		**-**	3	15
Underlying operating profit / (loss)		**43**	(1)	74
Less net underlying interest payable	4	**(19)**	(28)	(55)
Less net underlying interest expense on leases	3, 4	**(33)**	(39)	(76)
Underlying loss before tax		**(9)**	(68)	(57)

On a like-for-like basis (as if IFRS 17 had not been applied) our underlying profit / (loss) before tax would have been £8m (profit) compared to £49m loss (HY22) and £31m loss (FY22). Our underlying operating profit would have been £60m compared to £18m (HY22) and £100m (FY22).

** Refer to note 1 for a definition of underlying (loss) / profit before tax. Further details on the Group's alternative performance measures (APMs) can be found in the Jargon Buster section of the Group's 2022 Annual Report & Accounts (page 242).

Condensed Consolidated Statement of Comprehensive Income

for the 26 weeks ended 1 July 2023

What does this show? Our statement of comprehensive income includes other income and costs that are not included in the consolidated income statement on the previous page. These are usually revaluations in relation to our pension schemes and funeral plan liabilities.

	Notes	**26 weeks ended 1 July 2023 (unaudited) £m**	26 weeks ended 2 July 2022 (unaudited & restated*) £m	52 weeks ended 31 December 2022 (restated*) £m
(Loss) / profit for the period		**(39)**	43	319
Items that will never be reclassified to the income statement:				
Remeasurement (losses) / gains on employee pension schemes	7	**(255)**	175	(732)
Related tax on items above	5	**64**	(44)	183
Insurance finance income (funeral plans)	14	**6**	287	502
Other comprehensive (losses) / income for the period net of tax		**(185)**	418	(47)
Total comprehensive (loss) / income for the period		**(224)**	461	272

* The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 15 for details of the restatement.

Condensed Consolidated Balance Sheet

as at 1 July 2023

What does this show? Our balance sheet is a snapshot of our financial position as at 1 July 2023. It shows the assets we have and the liabilities that we owe.

	Notes	**As at 1 July 2023 (unaudited) £m**	As at 2 July 2022 (unaudited & restated*) £m	As at 31 December 2022 (restated*) £m
Non-current assets				
Property, plant and equipment		**1,549**	1,721	1,631
Right-of-use assets		**853**	920	882
Goodwill and intangible assets		**911**	1,067	934
Investment properties		**39**	52	40
Investments in associates and joint ventures		**5**	4	5
Funeral plan investments	12	**1,349**	1,399	1,369
Derivatives		**-**	4	1
Pension assets	7	**1,369**	2,464	1,584
Trade and other receivables		**5**	14	3
Finance lease receivables		**23**	28	34
Total non-current assets		**6,103**	7,673	6,483

	Notes			
Current assets				
Inventories		**430**	447	433
Trade and other receivables		**572**	516	609
Finance lease receivables		**11**	12	9
Derivatives		**1**	20	7
Cash and cash equivalents		**579**	108	447
Assets held for sale	8	**-**	276	-
Total current assets		**1,593**	1,379	1,505
Total assets		**7,696**	9,052	7,988
Non-current liabilities				
Interest-bearing loans and borrowings	9	**668**	765	763
Lease liabilities	9	**1,096**	1,158	1,124
Trade and other payables		**23**	38	31
Insurance contract liabilities (funeral plans)	14	**948**	1,157	957
Re-insurance contract liabilities (funeral plans)		**7**	10	7
Provisions		**54**	82	59
Derivatives		**15**	9	14
Pension liabilities	7	**3**	4	3
Deferred tax liabilities	5	**95**	402	153
Total non-current liabilities		**2,909**	3,625	3,111
Current liabilities				
Interest-bearing loans and borrowings	9	**34**	74	17
Lease liabilities	9	**181**	180	182
Trade and other payables		**1,530**	1,420	1,403
Insurance contract liabilities (funeral plans)	14	**105**	129	106
Re-insurance contract liabilities (funeral plans)		**1**	1	1
Derivatives		**5**	1	2
Provisions		**23**	34	34
Liabilities held for sale	8	**-**	268	-
Total current liabilities		**1,879**	2,107	1,745
Total liabilities		**4,788**	5,732	4,856
Equity				
Members' share capital		**75**	74	75
Retained earnings		**2,827**	3,240	3,051
Other reserves		**6**	6	6
Total equity		**2,908**	3,320	3,132
Total equity and liabilities		**7,696**	9,052	7,988

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

* The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 15 for details of the restatement. As the restatement applies to all previous years including the closing 2021 balance sheet (as at 1 January 2022) then for comparative purposes we have also included an adjusted opening 2022 balance sheet (as at 2 January 2022) in Note 15.

Condensed Consolidated Statement of Changes in Equity

for the 26 weeks ended 1 July 2023

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 1 July 2023 (unaudited)	Notes	**Members' share capital £m**	**Retained earnings £m**	**Other reserves £m**	**Total equity £m**
Balance at 31 December 2022 (as originally reported)		**75**	**2,637**	**6**	**2,718**
Impact of adoption of IFRS 17	15	**-**	**414**	**-**	**414**
Balance at 31 December 2022 (restated for IFRS 17)		**75**	**3,051**	**6**	**3,132**
Loss for the period		**-**	**(39)**	**-**	**(39)**
Other comprehensive income / (losses):					
Remeasurement losses on employee pension schemes	7	**-**	**(255)**	**-**	**(255)**

Tax on items taken directly to other comprehensive income	5	**-**	**64**	**-**	**64**
Insurance finance income (funeral plans)	14	**-**	**6**	**-**	**6**
Total other comprehensive loss		**-**	**(185)**	**-**	**(185)**
Balance at 1 July 2023		**75**	**2,827**	**6**	**2,908**

For the 26 weeks ended 2 July 2022 (unaudited & restated*)	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 1 January 2022 (as originally reported)		74	2,859	6	2,939
Impact of adoption of IFRS 17	15	-	(80)	-	(80)
Balance at 1 January 2022 (restated for IFRS 17)		74	2,779	6	2,859
Profit for the period (restated for IFRS 17)		-	43	-	43
Other comprehensive income / (losses):					
Remeasurement gains on employee pension schemes	7	-	175	-	175
Tax on items taken directly to other comprehensive income		-	(44)		(44)
Insurance finance income (funeral plans)	14	-	287		287
Total other comprehensive income:		-	418	-	418
Balance at 2 July 2022		74	3,240	6	3,320

* The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 15 for details of the restatement.

For the 52 weeks ended 31 December 2022 (restated*)	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 1 January 2022 (as originally reported)		74	2,859	6	2,939
Impact of adoption of IFRS 17	15	-	(80)	-	(80)
Balance at 2 January 2022 (restated for IFRS 17)		74	2,779	6	2,859
Profit for the period (restated for IFRS 17)		-	319	-	319
Other comprehensive income / (losses):					
Remeasurement losses on employee pension schemes	7	-	(732)	-	(732)
Tax on items taken directly to other comprehensive income		-	183	-	183
Insurance finance income (funeral plans)	14	-	502	-	502
Total other comprehensive loss			(47)	-	(47)
Items taken directly to Retained earnings:					
Shares issued less shares withdrawn		1	-	-	1
Total of items taken directly to Retained earnings		1	-	-	1
Balance at 31 December 2022 (restated for IFRS 17)		75	3,051	6	3,132

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

Condensed Consolidated Statement of Cash Flows

for the 26 weeks ended 1 July 2023

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 As at 1 July 2023 (unaudited) £m**	26 weeks ended As at 2 July 2022 (unaudited) £m	52 weeks ended As at 31 December 2022 (audited) £m
Net cash from operating activities	10	**350**	315	455
Cash flows from investing activities				
Purchase of property, plant and equipment		**(61)**	(62)	(132)

Purchase of intangible assets		**(7)**	(7)	(15)
Proceeds from sale of property, plant and equipment		**11**	19	47
Acquisition of businesses, net of cash acquired		**-**	(2)	(4)
Disposal of business		**-**	-	10
Disposal of petrol forecourts		**4**	-	408
Payments to funds for pre-paid funeral plans		**(34)**	(36)	(76)
Receipts from funds for pre-paid funeral plans performed and cancelled		**64**	57	108
Net cash (used in) / generated from investing activities		**(23)**	(31)	346
Cash flows from financing activities				
Interest paid on borrowings		**(9)**	(10)	(59)
Interest paid on lease liabilities		**(35)**	(39)	(78)
Payments and interest received on subleases		**1**	1	2
Interest received on deposits		**9**	-	2
Repayment of corporate investor shares	9	**-**	(1)	(1)
Repayment of borrowings	9	**(99)**	-	(1)
Increase in other borrowings	9	**1**	-	-
RCF repayment		**-**	(123)	(163)
Payment of lease liabilities		**(64)**	(66)	(128)
Derivative settlements		**1**	6	16
Net cash used in financing activities		**(195)**	(232)	(410)
Net increase in cash and cash equivalents		**132**	52	391
Cash and cash equivalents at beginning of period		**447**	56	56
Cash and cash equivalents at end of period		**579**	108	447
Analysis of cash and cash equivalents				
Cash and cash equivalents (per balance sheet)		**579**	108	447
		579	108	447

The balances above include cashflows from Discontinued operations.

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

Group Net Debt	Notes	**As at 1 July 2023 (unaudited) £m**	As at 2 July 2022 (unaudited) £m	As at 31 December 2022 (audited) £m
Interest-bearing loans and borrowings:				
- current		**(34)**	(74)	(17)
- non-current		**(668)**	(765)	(763)
Total Interest-bearing loans and borrowings		**(702)**	(839)	(780)
Lease liabilities:				
- current		**(181)**	(180)	(182)
- non-current		**(1,096)**	(1,158)	(1,124)
Total lease liabilities		**(1,277)**	(1,338)	(1,306)
Total Debt		**(1,979)**	(2,177)	(2,086)
- Group cash		**579**	108	447
Group Net Debt	9	**(1,400)**	(2,069)	(1,639)
Group Net Debt (excluding lease liabilities)	9	**(123)**	(731)	(333)

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 1 July 2023 (unaudited)	**Food**	**Wholesale**	**Funeral***	**Insurance**	**Legal**	**Federal (b)**	**Costs from supporting functions**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Revenue from external customers	**3,563**	**719**	**146**	**14**	**31**	**957**	**-**	**5,430**
Underlying segment operating profit / (loss) (a)	**68**	**3**	**(4)**	**7**	**9**	**-**	**(40)**	**43**
One-off items (a) (i)	**(3)**	**-**	**-**	**-**	**-**	**-**	**(1)**	**(4)**
Property disposals and closures (a) (ii)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Impairments of non-current assets (a) (ii)	**(32)**	**-**	**-**	**-**	**-**	**-**	**(4)**	**(36)**
Change in value of investment properties	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Operating profit / (loss)	**33**	**3**	**(4)**	**7**	**9**	**-**	**(45)**	**3**
Depreciation and amortisation	**156**	**4**	**13**	**-**	**-**	**-**	**10**	**183**
EBITDA (c)	**189**	**7**	**9**	**7**	**9**	**-**	**(35)**	**186**
Underlying EBITDA (c)	**224**	**7**	**9**	**7**	**9**	**-**	**(30)**	**226**

* The Funeral segment includes the results of our pre-need funeral plan business recorded under the newly adopted accounting standard IFRS 17 (Insurance Contracts) which were previously recorded under IFRS 15. Overall profitability recorded under IFRS 17 and IFRS 15 is broadly comparable however under IFRS 17 our operating profit (as noted in the table above) is lower but this is offset by a reduction in net finance charge (which is recorded below operating profit and does not feature in the table above). Further detail on the impact of the transition to IFRS 17 is given in Note 15. Underlying operating profit remains our primary alternative performance measure and basis of our segmental reporting, however for the Funerals segment we do not consider it the most useful metric to understand underlying performance of the business as a result of the impact of IFRS 17.

26 weeks ended 2 July 2022 (unaudited & restated**)	Food	Wholesale	Funeral	Insurance	Legal	Federal (b)	Costs from supporting functions	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Revenue from external customers	3,912	679	138	11	22	880	-	5,642
Underlying segment operating profit / (loss) (a)	41	4	(8)	3	4	-	(45)	(1)
One-off items (a) (i)	1	-	-	(1)	-	-	(1)	(1)
Property disposals and closures (a) (ii)	5	-	-	-	-	-	17	22
Impairments of non-current assets (a) (ii)	(24)	-	-	-	-	-	(32)	(56)
Change in value of investment properties	-	-	-	-	-	-	(3)	(3)
Operating profit / (loss)	23	4	(8)	2	4	-	(64)	(39)
Depreciation and amortisation	169	4	13	-	-	-	14	200
EBITDA (c)	192	8	5	2	4	-	(50)	161
Underlying EBITDA (c)	210	8	5	3	4	-	(31)	199

** The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 15 for details of the restatement. Comparatives in Food also include the revenue and profit from petrol forecourt stores sold in October 2022.

52 weeks ended 31 December 2022 (restated**)	Food	Wholesale	Funeral	Insurance	Legal	Federal (b)	Costs from supporting functions	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Revenue from external customers	7,805	1,439	268	24	46	1,895	-	11,477
Underlying segment operating profit / (loss) (a)	139	22	(10)	8	8	-	(93)	74
One-off items (a) (i)	(21)	(2)	(2)	-	-	-	(14)	(39)
Property disposals and closures (a) (ii)	7	(1)	(1)	-	-	-	59	64
Impairments of non-current assets (a) (ii)	(71)	-	(3)	-	-	-	(31)	(105)
Change in value of investment properties	-	-	-	-	-	-	(15)	(15)
Operating profit / (loss)	54	19	(16)	8	8	-	(94)	(21)
Depreciation and amortisation	331	8	27	-	1	-	23	390
EBITDA (c)	385	27	11	8	9	-	(71)	369
Underlying EBITDA (c)	470	30	17	8	9	-	(70)	464

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 £4m (2022: £1m) of discretionary costs (membership spend added to colleagues membership cards) helping to support them through the Winter cost-of-living crisis.

ii) Losses from property and business disposals and impairments of £36m (2022: £34m loss). This comprises a net loss on disposal and closure of properties of £nil (2022: £22m gain) less impairment charges of £36m (2022: £56m). See table below.

b) 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.

c) 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. Further details on the Group's alternative performance measures (APMs) is given in the Jargon Buster section of the Group's 2022 Annual Report & Accounts (page 242).

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

Reconciliation between underlying operating profit / (loss) and (loss) / profit before tax	Notes	**26 weeks ended 1 July 2023 (unaudited) £m**	26 weeks ended 2 July 2022 (unaudited & restated*) £m	52 weeks ended 31 December 2022 (restated*) £m
Underlying operating profit / (loss)	1	**43**	(1)	74
Underlying loan interest payable	4	**(19)**	(28)	(55)
Underlying net interest expense on lease liabilities	3, 4	**(33)**	(39)	(76)
Underlying loss before tax		**(9)**	(68)	(57)
One-off items	1	**(4)**	(1)	(39)
Gain on property, business disposals and closures (see below)	1	**-**	22	64
Impairments of non-current assets	1	**(36)**	(56)	(105)
Profit on disposal of petrol forecourt stores	1	**-**	-	319
Decrease in value of investment properties	1	**-**	(3)	(15)
Finance income (net pension income)	3	**35**	20	43
Fair value movement on derivatives (net)	3	**(11)**	22	9
Fair value movement on Group debt	3	**(6)**	29	28
Finance income (funeral plans)	3	**10**	48	28
Finance costs (funeral plans)	4	**(11)**	(7)	(16)
Net other non-cash finance (cost) / income	3, 4	**(1)**	2	-
(Loss) / profit before tax		**(33)**	8	259

* The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 15 for details of the restatement.

Losses from property and business disposals and closures and impairment of non-current assets	**26 weeks ended 1 July 2023 (unaudited)**		26 weeks ended 2 July 2022 (unaudited)		52 weeks ended 31 December 2022 (audited)	
	£m	**£m**	£m	£m	£m	£m
Disposals, closures and onerous contracts						
- proceeds	**11**		19		47	
- less net book value written off	**(15)**		(2)		(15)	
- provisions released	**4**		5		32	
		-		22		64
Impairment of non-current assets		**(36)**		(56)		(105)
Total		**(36)**		(34)		(41)

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 1 July 2023, the Group has considered whether general uncertainty in the wider macro-economic environment including the cost-of-living crisis, rising inflation, energy price increases, and the on-going conflict in Ukraine has the potential to represent a significant impairment indicator as at 1 July 2023. 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 31 December 2022.

The methodology for our impairment reviews is consistent with the methodology disclosed in the 2022 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	Future cash flows derived from latest Board approved four-year plan cash flow assumptions, actualised for H1 2023 results. These forecasts are based on budget for FY23, four-year plan for FY24 and then subject to a long term growth rate of 1.9% (FY22: 1.9%) 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 (FY22: 0%) where stores are expected to be operated beyond their current lease term. Cash flows include estimated store capital maintenance costs based on the square footage of the store. 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.	Future cash flows derived from Board approved four-year plan cash flow projections, actualised for H1 2023 results. 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% (FY22: 1.9%) is applied beyond Board approved four-year plan horizon (reflecting the UK's long-term post war growth rate which is in-line with industry norms). 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.
Discount rate and Sensitivity analysis	A post tax discount rate has been calculated for impairment purposes, with the Food segment's weighted average cost of capital (WACC) deemed to be an appropriate rate, subsequently grossed up to a pre-tax rate of 10.8% (FY22: 10.1%). The post tax discount rate has been calculated using the capital asset pricing model. 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. In each of the current and comparative years, sensitivity analysis has been performed in relation to our store impairment testing, testing for a 2% increase in discount rate and a decrease in growth to minus 2%; 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.	A post tax discount rate has been calculate for impairment purposes, with the Funeralcare segment's weighted average cost of capital (WACC) deemed to be an appropriate rate, subsequently grossed up to a pre-tax rate of 13.3% (FY22: 10.9%). The post tax discount rate has been calculated using the capital asset pricing model. 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. 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.

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 1 July 2023 (unaudited)**	26 weeks ended 2 July 2022 (unaudited)	52 weeks ended 31 December 2022 (audited)
	£m	£m	£m
Food - Long-term agreements	**81**	75	156
Food - Bonus income	**18**	22	66
Food - Promotional income	**126**	147	281
Total Food supplier income	**225**	244	503
Wholesale - Long-term agreements	**12**	12	27
Wholesale - Bonus income	**5**	4	15
Wholesale - Promotional income	**34**	40	81
Total Wholesale Supplier income	**51**	56	123
Total Supplier income	**276**	300	626

Percentage of Cost of Sales (before deducting Supplier Income)	**%**	%	%
Food - Long-term agreements	**3.0%**	2.5%	2.6%
Food - Bonus income	**0.7%**	0.7%	1.1%
Food - Promotional income	**4.7%**	4.8%	4.7%
Total Food supplier income %	**8.4%**	8.0%	8.4%
Wholesale - Long-term agreements	**1.8%**	1.9%	2.0%
Wholesale - Bonus income	**0.7%**	0.7%	1.1%
Wholesale - Promotional income	**5.2%**	6.2%	6.1%
Total Wholesale supplier income %	**7.7%**	8.8%	9.2%

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, any bank interest we receive on the cash balances we hold as well as 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 1 July 2023 (unaudited)	26 weeks ended 2 July 2022 (unaudited)	52 weeks ended 31 December 2022 (audited)
	£m	£m	£m
Net pension finance income	**35**	20	43
Underlying interest income from finance lease receivables	**1**	1	2
Interest received on deposits	**9**	-	3
Fair value movement on foreign exchange contracts and commodity derivatives	**-**	27	20
Fair value movement on quoted Group debt	**-**	29	28
Other non-underlying finance income	**1**	3	1
Non-underlying unrealised fair value movement on funeral plan investments	**10**	48	28

Total finance income	**56**	128	125

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 insurance finance interest expense (from the unwind of the discounting applied to our funeral plan liabilities).

	26 weeks ended 1 July 2023 (unaudited)	26 weeks ended 2 July 2022 (unaudited & restated*)	52 weeks ended 31 December 2022 (restated*)
	£m	£m	£m
Loans repayable within five years	**(28)**	(28)	(58)
Loans repayable wholly or in part after five years	**-**	-	-
Underlying loan interest payable	**(28)**	(28)	(58)
Underlying interest expense on lease liabilities	**(34)**	(40)	(78)
Total underlying interest expense	**(62)**	(68)	(136)
Fair value movement on interest rate swaps	**(2)**	(5)	(11)
Fair value movement on foreign exchange contracts and commodity derivatives	**(9)**	-	-
Fair value movement on quoted Group debt	**(6)**	-	-
Other non-underlying finance interest	**(2)**	(1)	(1)
Non-underlying insurance finance expenses (funeral plans)*	**(11)**	(7)	(16)
Total finance costs	**(92)**	(81)	(164)

* The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 15 for details of the restatement.

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 £6m (26 weeks ended 2 July 2022: charge of £25m; and 52 weeks ended 31 December 2022: charge of £7m) and effective negative tax rate of (18)% (26 weeks ended 2 July 2022: 311%; and 52 weeks ended 31 December 2022: 3%) 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 £1m.

2. A review of material transactions reflected in the 26 week period ended 1 July 2023 gave rise to a net tax charge of £5m. The tax impact of these material transactions mainly relate to property disposals (tax charge of £2m) and net pension credits (tax charge £8m) offset by tax credits of £5m on fair value movements and movements in insurance contract liabilities. See Note 1 for more detail of non-underlying profit movements.

3. There has been no material change in the status of any HMRC enquiries in the first half of the year, as such the uncertain tax risk provision for existing enquiries remains unchanged from as at 31 December 2022, being £nil.

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 in 2021, 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 23.5% weighted average corporation tax rate for 2023. The impact of this rate change through the Income Statement is negligible.

A credit of £60m has been posted to other comprehensive income in respect of the actuarial movement arising on the Group's pension schemes. In addition, a credit of £4m 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 £95m (restated as at 2 July 2022: £402m; and 31 December 2022: £153m) 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 restated opening deferred tax balance to the closing balance is set out below:

Movements in deferred tax in period to 1 July 2023	**26 weeks ended 1 July 2023 (unaudited)**
	£m
At beginning of the year (net liability) - restated*	**(153)**
Charged to the Income Statement:	
- Current period movement	**(6)**
Credit to equity:	
- Employee pension schemes	**60**
- Impact of change to deferred tax rate	**4**
At end of period (net liability)	**(95)**

*The brought forward balance has been restated following the adoption of IFRS 17 (Insurance Contracts). See Note 15 for details of the restatement.

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. Operating expenses in 2022 includes the release of any remaining provisions associated with the disposal. Other income includes income recognised following payments received in respect of a legal claim.

Results of discontinued operation - Insurance (underwriting business)	**26 weeks ended 1 July 2023 (unaudited)**	26 weeks ended 2 July 2022 (unaudited)	52 weeks ended 31 December 2022 (audited)
	£m	£m	£m
Operating expenses (net)	**-**	-	3
Other income	**-**	78	78
Profit before tax	**-**	78	81
Tax	**-**	(18)	(14)
Profit for the period from discontinued operation	**-**	60	67

Segmental analysis - Insurance (underwriting business)	**26 weeks ended 1 July 2023 (unaudited)**	26 weeks ended 2 July 2022 (unaudited)	52 weeks ended 31 December

			2022 (audited)
	£m	£m	£m
Underlying segment operating profit / (loss)	**-**	-	-
Operating profit	**-**	78	81

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

Cash flows used in discontinued operations:	**26 weeks ended 1 July 2023 (unaudited)**	26 weeks ended 2 July 2022 (unaudited)	52 weeks ended 31 December 2022 (audited)
	£m	£m	£m
Net cash from discontinued operations	**-**	72	72

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.

Net retirement benefit asset (per balance sheet)	**1 July 2023 (unaudited)**	2 July 2022 (unaudited)	31 December 2022 (audited)
	£m	£m	£m
Pension schemes in surplus	**1,369**	2,464	1,584
Pension schemes in deficit	**(3)**	(4)	(3)
Closing net retirement benefit	**1,366**	2,460	1,581

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 latest 2022 actuarial valuation for the Pace scheme has been updated to 1 July 2023 in accordance with IAS 19. Valuations for the Somerfield and United schemes have also been updated for the 2023 interim financial statements.

The principal assumptions used to determine the liabilities of the Pace pension scheme were:

Assumptions	**1 July 2023 (unaudited)**	2 July 2022 (unaudited)	31 December 2022 (audited)
Discount rate	**5.09%**	3.75%	4.76%
RPI Inflation rate	**3.52%**	3.38%	3.50%
Pension increases in payment (RPI capped at 5.0% p.a.)	**3.26%**	3.27%	3.25%
Future salary increases	**3.77%**	3.63%	3.75%

Net Retirement benefit asset	**1 July 2023 (unaudited)**	2 July 2022 (unaudited)	31 December 2022 (audited)
	£m	£m	£m
Opening net retirement benefit attributable to Group	**1,581**	2,258	2,258
Admin expenses paid from plan assets	**(3)**	(2)	(6)
Net finance income	**35**	20	43
Employer contributions	**8**	9	18
Remeasurement (losses) / gains	**(255)**	175	(732)
Closing net retirement benefit asset	**1,366**	2,460	1,581

Amounts recognised in the balance sheet:	1 July 2023 (unaudited) £m	2 July 2022 (unaudited) £m	31 December 2022 (audited) £m
Fair value of plan assets:			
- Pace	**5,709**	7,396	5,975
- Somerfield scheme	**667**	1,128	677
- United scheme	**480**	822	472
Total assets	**6,856**	9,346	7,124
Present value of liabilities:			
- Pace	**(4,409)**	(5,117)	(4,451)
- Somerfield scheme	**(635)**	(1,019)	(645)
- United scheme	**(443)**	(746)	(444)
- Unfunded liabilities	**(3)**	(4)	(3)
Total liabilities	**(5,490)**	(6,886)	(5,543)
Net retirement benefit asset per balance sheet:			
Pace	**1,300**	2,279	1,524
Somerfield scheme	**32**	109	32
United scheme	**37**	76	28
Total assets	**1,369**	2,464	1,584
Unfunded liabilities	**(3)**	(4)	(3)
Total Liabilities	**(3)**	(4)	(3)
Net Assets	**1,366**	2,460	1,581

Scheme assets have underperformed movements in liabilities over the period. Whilst pension assets are linked to movements in gilts, under IAS 19 accounting the liabilities are linked to corporate bond yields. The corporate bond yield has risen over the period, which has reduced liabilities, but gilt yields have risen by more, and hence the valuation of the scheme assets has fallen by a greater degree.

8 Assets and liabilities held for sale

What does this show? This shows the value of any assets or liabilities that we held for sale at the half-year (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	1 July 2023 (unaudited) £m	2 July 2022 (unaudited) £m	31 December 2022 (audited) £m
Property, plant and equipment	**-**	91	-
Right-of-use assets (leases)	**-**	130	-
Goodwill and intangible assets	**-**	3	-
Inventories	**-**	21	-
Trade and other receivables	**-**	29	-
Deferred tax assets	**-**	2	-
Total assets	**-**	276	-
Lease liabilities	**-**	(167)	-
Trade and other payables	**-**	(101)	-
Total liabilities	**-**	(268)	-

Balances classified as held for sale as at 2 July 2022 represent the 129 petrol forecourt stores which we sold in the second-half of 2022. Further details on the disposal can be found in Note 35 of the Group's 2022 Annual Report and Accounts.

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:	1 July 2023 (unaudited) £m	2 July 2022 (unaudited) £m	31 December 2022 (audited) £m
£105m 7.5% Bond Notes due 2026 (fair value)	**101**	94	95
£245m 7.5% Bond Notes due 2026 (amortised cost)	**253**	256	255
£300m 5.125% Sustainability Bond due 2024 (amortised cost)	**200**	299	299
£109m 11% Final repayment subordinated Notes due 2025	**109**	109	109
£20m 11% Instalment repayment Notes (final payment 2025)	**5**	7	5
Total (excluding lease liabilities)	**668**	765	763
Lease liabilities	**1,096**	1,158	1,124
Total Group non-current interest-bearing loans and borrowings	**1,764**	1,923	1,887

Current liabilities:	1 July 2023 (unaudited) £m	2 July 2022 (unaudited) £m	31 December 2022 (audited) £m
£245m 7.5% Bond Notes due 2026 (amortised cost) - interest accrued	**19**	19	9
£300m 5.125% Sustainability Bond due 2024 (amortised cost) - interest accrued	**1**	2	2
£20m 11% Instalment repayment Notes (final payment 2025)	**2**	3	2
£109m 11% Final repayment subordinated Notes due 2025 - interest accrued	**7**	7	-
Revolving credit facility (RCF)	**-**	40	-
Other borrowings	**2**	-	1
Corporate investor shares	**3**	3	3
Total (excluding lease liabilities)	**34**	74	17
Lease liabilities	**181**	180	182
Total Group current interest-bearing loans and borrowings	**215**	254	199

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 1 July 2023 (unaudited)	**Start of period £m**	**Non-cash movements New leases £m**	**Non-cash movements Other £m**	**Cash flow £m**	**End of period £m**
Interest-bearing loans and borrowings:					
- current	**(17)**	**-**	**(16)**	**(1)**	**(34)**
- non-current	**(763)**	**-**	**(4)**	**99**	**(668)**
Lease liabilities					
- current	**(182)**	**(8)**	**(90)**	**99**	**(181)**
- non-current	**(1,124)**	**(45)**	**73**	**-**	**(1,096)**
Total Debt	**(2,086)**	**(53)**	**(37)**	**197**	**(1,979)**
Group cash:					
- cash & overdrafts	**447**	**-**	**-**	**132**	**579**
Group Net Debt	**(1,639)**	**(53)**	**(37)**	**329**	**(1,400)**

For the 26 weeks ended 2 July 2022 (unaudited)	Start of period	Non-cash movements New leases	 Other	Cash flow	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 and overdrafts	56	-	-	52	108
Group Net Debt	(2,436)	(77)	163	281	(2,069)

For the 52 weeks ended 31 December 2022 (audited)	Start of period	Non-cash movements New leases	 Other	Cash flow	End of period
	£m	£m	£m	£m	£m
Interest-bearing loans and borrowings:					
- current	(180)	-	-	163	(17)
- non-current	(796)	-	31	2	(763)
Lease liabilities					
- current	(210)	(17)	(161)	206	(182)
- non-current	(1,306)	(103)	285	-	(1,124)
Total Debt	(2,492)	(120)	155	371	(2,086)
Group cash:					
- cash and overdrafts	56	-	-	391	447
Group Net Debt	(2,436)	(120)	155	762	(1,639)

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 as are cash items that have not gone through operating profit to show how much cash is generated from our operating activities.

	26 weeks ended 1 July 2023 (unaudited)	26 weeks ended 2 July 2022 (unaudited & restated*)	52 weeks ended 31 December 2022 (restated*)
	£m	£m	£m
Operating profit / (loss) from continuing operations (Note 1)	**3**	(39)	(21)
Depreciation and amortisation charges	**183**	200	390
Non-current asset impairments	**36**	56	105
Profit on closure or disposal of businesses and non-current assets	**-**	(24)	(66)
Change in value of investment properties	**-**	3	15
Retirement benefit obligations	**(6)**	(6)	(12)
Decrease in inventories	**3**	20	36
Decrease / (increase) in receivables	**32**	(21)	(121)

Decrease in insurance contract liabilities (funeral plans)	**(15)**	(7)	(25)
Increase in payables and provisions	**114**	61	80
Tax received	**-**	-	2
Net cash flow from operating activities (continuing operations)	**350**	243	383
Net cash flow from operating activities (discontinued operations)	**-**	72	72
Net cash flow from operating activities	**350**	315	455

* The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 15 for details of the restatement.

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 2022 annual report.

Capital commitments - Capital expenditure which the Group is committed to at 1 July 2023 (but which has not been accrued for at that date as it has not yet been incurred) was £7m (2 July 2022: £8m).

Contingent liabilities:
i) 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 currently circa 4,300 claims and it is anticipated that this number will rise, though it is not possible to predict the point to which this may increase or the rate of increase.

These equal pay claims are initiated in the Employment Tribunal and claimants will need to succeed in three stages to succeed. The first stage concerns whether the roles of store colleagues can be compared with those of warehouse colleagues. In light of European and Supreme Court decisions, Co-op Group has conceded that it will not contest this point. The second and third stages are concerned with an equal value assessment between comparator roles and if this is shown to be the case, a subsequent consideration of Co-op Group's material factor defences (which are the non-discriminatory reasons for any pay differential). It is expected this litigation will take a number of years to final resolution.

The claims are still 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.

ii) In early February 2023 a claim was issued against Co-operative Group Limited and certain of its subsidiaries (Co-operative Group Food Limited, Co-operative Foodstores Limited and Rochpion Properties (4) LLP) by the liquidators of The Food Retailer Operations Limited in connection with transactions which took place in 2015 and 2016 relating to the Somerfield supermarket business acquired by Co-op in 2009.

The amount claimed is approximately £450m plus further unquantified amounts of interest and costs. Co-op strongly disputes both liability and quantum of the claim and the claim will be vigorously defended.

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:	**1 July 2023 (unaudited) £m**	2 July 2022 (unaudited) £m	31 December 2022 (audited) £m
Current	**-**	-	-
Non-current	**1,349**	1,399	1,369
Funeral plan investments	**1,349**	1,399	1,369

Fair value through the income statement:	**1 July 2023 (unaudited) £m**	2 July 2022 (unaudited) £m	31 December 2022 (audited) £m
Funeral plan investments	**1,349**	1,399	1,369
Total Funeral plan investments	**1,349**	1,399	1,369

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).

1 July 2023 (unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Assets				
Financial assets at fair value through income or expense				
- Derivative financial instruments	**-**	**1**	**-**	**1**
- Funeral plan investments	**-**	**-**	**1,349**	**1,349**
Total financial assets held at fair value	**-**	**1**	**1,349**	**1,350**
Liabilities				
Financial liabilities at fair value through income or expense				
- Fixed-rate sterling bond	**-**	**101**	**-**	**101**
- Derivative financial instruments	**-**	**20**	**-**	**20**
Total financial liabilities held at fair value	**-**	**121**	**-**	**121**

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 net within the insurance contract liability balance. 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 that we have headroom of over 60% on a pre-tax wholesale basis.

2 July 2022 (unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£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 bond	-	94	-	94
- Derivative financial instruments	-	10	-	10
Total financial liabilities held at fair value	-	104	-	104

31 December 2022 (audited)	**Level 1**	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Assets				
Financial assets at fair value through income or expense				
- Derivative financial instruments	-	8	-	8
- Funeral plan investments	-	-	1,369	1,369
Total financial assets held at fair value	-	8	-	1,377
Liabilities				
Financial liabilities at fair value through income or expense				

- Fixed-rate sterling bond	-	95	-	95
- Derivative financial instruments	-	16	-	16
Total financial liabilities held at fair value	-	111	-	111

Level 2 - Basis of valuation of 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.

Bonds - 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 bonds are held at amortised cost using an effective interest rate.

Level 3 - Basis of valuation of 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 liability to perform the funeral service that is covered by each of the funeral plans in the future. 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 obligation to deliver the funeral is treated as an insurance contract liability under the new accounting standard IFRS 17 (Insurance contracts) and held separately on our balance sheet. The new standard applies to all of the Group's funeral plans (including re-insurance of the payment waiver on instalment plans) and is effective from 1 January 2023. IFRS 17 is applied retrospectively and requires restatement of comparative figures. See Note 15 for details of the restatements and approach on transition and Note 14 for details of the Group's Insurance contract and Re-insurance contract liabilities and associated accounting policies.

Funeral plan investments	**1 July 2023 (unaudited)**	2 July 2022 (unaudited)	31 December 2022 (audited)
	£m	£m	£m
At start of period	**1,369**	1,372	1,372
New plan investments (including on-going instalments)	**34**	36	76
Plans redeemed	**(54)**	- (50)	(91)
Plans cancelled	**(10)**	(7)	(17)
Unrealised fair value movement on funeral plan investments (see Note 3)	**10**	48	29
At end of period	**1,349**	1,399	1,369

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 2022 and reported headroom on a wholesale basis (pre-tax) of £471m (2021: £295m).

Funeral Plan Investments Actuarial Valuation (pre-tax)	**30 September 2022**	30 September 2021
	£m	£m
Total Assets	**1,258**	1,397
Liabilities:		
Present value (wholesale basis)	**787**	1,102
Total Liabilities (pre-tax)	**787**	1,102
Headroom (pre-tax)	**471**	295
Headroom as a % of liabilities (pre-tax)	**60%**	27%

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	1 July 2023 (unaudited)	2 July 2022 (unaudited)	31 December 2022 (unaudited)
	m	m	m
Active Members	**4.6**	4.3	4.4
Membership and community rewards (within the income statement)	**£m**	£m	£m
Member reward earned	**11**	10	20
Community reward earned	**9**	6	18
Total reward	**20**	16	38

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

14 Insurance and Re-insurance contracts (funeral plan liabilities)

What does this show? The disclosures in this note cover the insurance and re-insurance contracts that the Group holds (where they are material for Group reporting). These exclusively relate to the liabilities that we have on funeral plans. The extensive disclosures that are given are required under the new accounting standard for Insurance contracts (IFRS 17). The various tables show how the balance sheet liability has moved during the period as well as showing the movements in the Income statement and in Other Comprehensive Income. We also give details of the key accounting estimates that we make in relation to the accounting for insurance contracts, how sensitive our numbers are to some of those assumptions and estimates as well as outlining the key accounting policy choices we have made.

Insurance contract liabilities - by nature (H1 2023)	**Liabilities for remaining coverage**		**Liabilities for claims incurred**	**Total**
	Excluding loss component	**Loss component**		
	£m	**£m**	**£m**	**£m**
Insurance contract liability as at 1 January 2023	**1,063**	**-**	**-**	**1,063**
Insurance revenue	**(43)**	**-**	**-**	**(43)**
Insurance service expenses:				
- Incurred claims and other expenses	**-**	**-**	**40**	**40**
- Amortisation of insurance acquisition cashflows	**1**	**-**	**-**	**1**
- Loss on onerous contracts and reversals of those losses	**-**	**-**	**-**	**-**
Insurance service result	**(42)**	**-**	**40**	**(2)**
Insurance finance expenses - Income statement	**11**	**-**	**-**	**11**
Insurance finance income - Other comprehensive income	**(6)**	**-**	**-**	**(6)**
Total changes in Statement of Comprehensive income	**(37)**	**-**	**40**	**3**
Cashflows:				
- Premiums received less premiums refunded	**30**	**-**	**-**	**30**
- Claims and other expenses paid (including investment components)	**-**	**-**	**(40)**	**(40)**
- Insurance acquisition flows	**(3)**	**-**	**-**	**(3)**
Total cashflows	**27**	**-**	**(40)**	**(13)**
Insurance contract liability as at 1 July 2023	**1,053**	**-**	**-**	**1,053**

Insurance contract liabilities - by nature (H1 2022)	**Liabilities for remaining coverage**		**Liabilities for claims incurred**	**Total**
	Excluding loss component	**Loss component**		
	£m	**£m**	**£m**	**£m**
Insurance contract liability as at 2 January 2022	1,569	-	-	1,569
Insurance revenue	(41)	-	-	(41)
Insurance service expenses:				

- Incurred claims and other expenses	-	-	41	41
- Amortisation of insurance acquisition cashflows	1	-	-	1
- Loss on onerous contracts and reversals of those losses	-	5	-	5
Insurance service result	(40)	5	41	6
Insurance finance expenses - Income statement	7	-	-	7
Insurance finance income - Other comprehensive income	(287)	-	-	(287)
Total changes in Statement of Comprehensive income	(320)	5	41	(274)
Investment component				
Cashflows:				
- Premiums received less premiums refunded	35	-	-	35
- Claims and other expenses paid (including investment components)	-	-	(41)	(41)
- Insurance acquisition flows	(3)	-	-	(3)
Total cashflows	32	-	(41)	(9)
Insurance contract liability as at 2 July 2022	1,281	5	-	1,286

Insurance contract liabilities - by nature (FY 2022)	**Liabilities for remaining coverage**		**Liabilities for claims incurred**	**Total**
	Excluding loss component	**Loss component**		
	£m	**£m**	**£m**	**£m**
Insurance contract liability as at 2 January 2022	1,569	-	-	1,569
Insurance revenue	(79)	-	-	(79)
Insurance service expenses:				
- Incurred claims and other expenses	-	-	79	79
- Amortisation of insurance acquisition cashflows	2	-	-	2
Insurance service result	(77)	-	79	2
Insurance finance expenses - Income statement	16	-	-	16
Insurance finance income - Other comprehensive income	(500)	-	-	(500)
Total changes in Statement of Comprehensive income	(561)	-	79	(482)
Cashflows:				
- Premiums received less premiums refunded	61	-	-	61
- Claims and other expenses paid (including investment components)	-	-	(79)	(79)
- Insurance acquisition flows	(6)	-	-	(6)
Total cashflows	55	-	(79)	(24)
Insurance contract liability as at 31 December 2022	1,063	-	-	1,063

Insurance contract liabilities - by component (H1 2023)	**Estimates of present value of future cashflows £m**	**Risk adjustment £m**	**Contractual service margin £m**	**Total £m**
Insurance contract liability as at 1 January 2023	**892**	**57**	**114**	**1,063**
Changes that relate to current services:				
- Contractual service margin recognised for service provided	**-**	**-**	**(4)**	**(4)**
- Risk adjustment for the risk expired	**-**	**(2)**	**-**	**(2)**
- Experience adjustments	**4**	**-**	**-**	**4**
Changes that relate to future services:				
- Contracts initially recognised in the period	**(4)**	**-**	**4**	**-**
- Changes in estimates that adjust the contractual service margin	**(65)**	**-**	**65**	**-**
Insurance service result	**(65)**	**(2)**	**65**	**(2)**
Insurance finance expenses - Income statement	**9**	**-**	**2**	**11**
Insurance finance expenses - Other comprehensive income	**(5)**	**(1)**	**-**	**(6)**
Total changes in Statement of Comprehensive income	**(61)**	**(3)**	**67**	**3**
Cashflows:				
- Premiums received less premiums refunded	**30**	**-**	**-**	**30**

- Claims and other expenses paid (including investment components)	**(40)**	**-**	**-**	**(40)**
- Insurance acquisition flows	**(3)**	**-**	**-**	**(3)**
Total cashflows	**(13)**	**-**	**-**	**(13)**
Insurance contract liability as at 1 July 2023	**818**	**54**	**181**	**1,053**

Insurance contract liabilities - by component (H1 2022)	**Estimates of present value of future cashflows £m**	**Risk adjustment £m**	**Contractual service margin £m**	**Total £m**
Insurance contract liability as at 2 January 2022	1,429	102	38	1,569
Changes that relate to current services:				
- Contractual service margin recognised for service provided	-	-	-	-
- Risk adjustment for the risk expired	-	(3)	-	(3)
- Experience adjustments	4	-	-	4
Changes that relate to future services:				
- Contracts initially recognised in the period	3	-	-	3
- Changes in estimates that adjust the contractual service margin	(12)	(8)	20	-
- Changes in estimates that do not adjust the contractual service margin	1	1	-	2
Insurance service result	(4)	(10)	20	6
Insurance finance expenses - Income statement	7		-	7
Insurance finance expenses - Other comprehensive income	(279)	(8)		(287)
Total changes in Statement of Comprehensive income	(276)	(18)	20	(274)
Cashflows:				
- Premiums received less premiums refunded	35	-	-	35
- Claims and other expenses paid (including investment components)	(41)	-	-	(41)
- Insurance acquisition flows	(3)	-	-	(3)
Total cashflows	(9)	-	-	(9)
Insurance contract liability as at 2 July 2022	1,144	84	58	1,286

Insurance contract liabilities - by component (FY 2022)	**Estimates of present value of future cashflows £m**	**Risk adjustment £m**	**Contractual service margin £m**	**Total £m**
Insurance contract liability as at 2 January 2022	1,429	102	38	1,569
Changes that relate to current services:				
- Contractual service margin recognised for service provided	-	-	(4)	(4)
- Risk adjustment for the risk expired	-	(4)	-	(4)
- Experience adjustments	10	-	-	10
Changes that relate to future services:				
- Contracts initially recognised in the period	(3)	-	2	(1)
- Changes in estimates that adjust the contractual service margin	(76)	(1)	78	1
Insurance service result	(69)	(5)	76	2
Insurance finance expenses - Income statement	16	-	-	16
Insurance finance expenses - Other comprehensive income	(460)	(40)	-	(500)
Total changes in Statement of Comprehensive income	(513)	(45)	76	(482)
Cashflows:				
- Premiums received less premiums refunded	61	-	-	61
- Claims and other expenses paid (including investment components)	(79)	-	-	(79)
- Insurance acquisition flows	(6)	-	-	(6)
Total cashflows	(24)	-	-	(24)
Insurance contract liability as at 31 December 2022	892	57	114	1,063

Contractual service margin (H1 2023)	Contracts using the modified retrospective approach £m	Contracts using the fair value approach £m	All other contracts £m	Total £m
Contractual service margin as at 1 January 2023	-	93	21	114
Changes that relate to current services:				
- Contractual service margin recognised for service provided	-	(3)	(1)	(4)
Changes that relate to future services:				
- Contracts initially recognised in the period	-	-	4	4
- Changes in estimates that adjust the contractual service margin	-	54	11	65
Sub-total	-	51	14	65
Insurance finance expenses	-	2	-	2
Contractual service margin as at 1 July 2023	-	146	35	181

Contractual service margin (H2 2022)	Contracts using the modified retrospective approach £m	Contracts using the fair value approach £m	All other contracts £m	Total £m
Contractual service margin as at 2 January 2022	-	32	6	38
Changes that relate to current services:				
- Contractual service margin recognised for service provided	-	-	-	-
Changes that relate to future services:				
- Contracts initially recognised in the period	-	-	-	-
- Changes in estimates that adjust the contractual service margin	-	17	3	20
Sub-total	-	17	3	20
Insurance finance expenses	-	-	-	-
Contractual service margin as at 2 July 2022	-	49	9	58

Contractual service margin (FY 2022)	Contracts using the modified retrospective approach £m	Contracts using the fair value approach £m	All other contracts £m	Total £m
Contractual service margin as at 2 January 2022	-	32	6	38
Changes that relate to current services:				
- Contractual service margin recognised for service provided	-	(3)	(1)	(4)
Changes that relate to future services:				
- Contracts initially recognised in the period	-	-	2	2
- Changes in estimates that adjust the contractual service margin	-	65	13	78
Sub-total	-	62	14	76
Insurance finance expenses	-	-	-	-
Contractual service margin as at 31 December 2022	-	94	20	114

New Business (1 January 2023 to 1 July 2023)	Profitable contracts issued £m	Onerous contracts issued £m	Total £m
Insurance contracts:			
- Estimate of present value of future cashflows, excluding insurance acquisition costs	46	-	46
- Estimate of insurance acquisition cashflows	6	-	6
Estimate of present value of future cash outflows	52	-	52
Estimate of present value of future cash inflows	(56)	-	(56)

- Risk adjustment	**-**	-	**-**
- Contractual service margin	**-**	-	**-**
Profit on contracts at initial recognition	**(4)**	**-**	**(4)**

New Business (2 January 2022 to 2 July 2022)	**Profitable contracts issued**	**Onerous contracts issued**	**Total**
	£m	**£m**	**£m**
Insurance contracts:			
- Estimate of present value of future cashflows, excluding insurance acquisition costs	-	38	38
- Estimate of insurance acquisition cashflows	-	4	4
Estimate of present value of future cash outflows	-	42	42
Estimate of present value of future cash inflows	-	(37)	(37)
- Risk adjustment	-	-	-
- Contractual service margin	-	-	-
Loss on onerous contracts at initial recognition	-	5	5

New Business (2 January 2022 to 31 December 2022)	**Profitable contracts issued**	**Onerous contracts issued**	**Total**
	£m	**£m**	**£m**
Insurance contracts:			
- Estimate of present value of future cashflows, excluding insurance acquisition costs	46	-	46
- Estimate of insurance acquisition cashflows	6	-	6
Estimate of present value of future cash outflows	52	-	52
Estimate of present value of future cash inflows	(54)	-	(54)
- Risk adjustment	-	-	-
- Contractual service margin	-	-	-
Profit on contracts at initial recognition	(2)	-	(2)

Insurance Revenue	**26 weeks ended 1 July 2023 (unaudited)**	26 weeks ended 2 July 2022 (unaudited)	52 weeks ended 31 December 2022 (audited)
	£m	**£m**	**£m**
Amounts relating to changes in liabilities for remaining coverage:			
- Contractual service margin recognised for services provided	**4**	-	4
- Change in risk adjustment for non financial risk for risk expired	**2**	3	4
- Expected incurred claims and other insurance service	**36**	37	69
- Other amounts including experience adjustments for premium receipts	**-**	-	-
- Recovery of insurance acquisition cash flows	**1**	1	2
Total insurance revenue	**43**	41	79

Insurance Contract Maturity	**26 weeks ended 1 July 2023 (unaudited)**	26 weeks ended 2 July 2022 (unaudited)	52 weeks ended 31 December 2022 (audited)
	£m	**£m**	**£m**
- Less than 1 year	**9**	3	6
- 1 to 2 years	**9**	3	6
- 2 to 3 years	**8**	3	5
- 3 to 4 years	**8**	3	5
- More than 4 years	**147**	46	92
Total	**181**	58	114

Critical accounting estimates

Under IFRS 17 (*Insurance contracts*) the Group's funeral plan liabilities reflect the current estimate of the present value of the future cashflows to provide the funeral. These are calculated using actuarial advice and are based on a range of assumptions and estimates. The assumptions used are management's best estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice.

The main actuarial assumptions include estimates in relation to discount rates, future costs to deliver a funeral including inflation and expense assumptions, mortality rates, risk adjustments and plan cancellation rates. The insurance contract liability calculation is most sensitive to changes in the discount rate and inflation assumptions and further detail on these items is noted below.

Discount rates - the Group applies a bottom-up approach to derive the discount rate such that our insurance contract liabilities (funeral plans) are calculated by discounting expected future cash flows at a risk free rate, plus an illiquidity premium (credit spread). The risk free rate has been derived by reference to market yields on sterling-denominated high quality corporate bonds of appropriate duration consistent with the funeral plans at that date (UK Gilt curve at the valuation date converted from continuous to annual rates). The illiquidity premium is determined by reference to observable market rates (assessed as the average credit spread on 10-15 A rated and 10-15 year AA rated bonds at the valuation date).

Inflation - the rate of inflation is set based on the Bank of England Forward Inflation Curve at the valuation date converted from continuous to annual. From 2022 onwards a reduction of 25 basis points has been applied to allow for high levels of demand for inflation linked gilts increasing inflation expectations. Years 2023 to 2026 have been adjusted to reflect managements' view based on experience of funeral cost inflation.

Financial assumptions			**HY 2023**	**HY 2022**	**YE 2022**	**YE 2021** (On transition)
Discount rate	Risk free rate - UK Gilt curve	Year 1	6.29%	2.35	4.60%	1.56%
		Year 2	6.10%	2.74	4.42%	1.56%
		Year 3	5.54%	2.62	4.37%	1.56%
		Year 4	5.05%	2.66	4.37%	1.59%
		Year 5	4.73%	2.78	4.39%	1.66%
		Year 10	4.99%	3.85	5.09%	2.17%
		Year 15	5.64%	4.05	5.39%	2.23%
	Illiquidity premium (credit spread)		0.60%	0.60%	0.61%	0.40%
Inflation rate	Bank of England curve less 25 bps plus management view	Year 1	4.25%	5.58%	4.75%	5.18%
		Year 2	2.50%	3.09%	3.50%	4.09%
		Year 3	2.00%	2.90%	2.00%	3.81%
		Year 4	3.24%	3.02%	2.25%	3.71%
		Year 5	3.67%	3.18%	3.26%	3.68%
		Year 10	3.33%	3.99%	3.52%	3.87%
		Year 15	3.36%	3.71%	3.64%	3.64%
Fair value on transition	Discount rate plus premium to reflect buyer's risk / cost of capital	Year 1	6.29%	2.35%	4.60%	1.56%
		Year 2	6.10%	2.74%	4.42%	1.56%
		Year 3	5.54%	2.62%	4.37%	1.56%
		Year 4	5.05%	2.66%	4.37%	1.59%
		Year 5	4.73%	2.78%	4.39%	1.66%
		Year 10	4.99%	3.85%	5.09%	2.17%
		Year 15	5.64%	4.05%	5.39%	2.23%
	Premium: % margin		N/a	N/a	N/a	10.00%

Sensitivities

The following sensitivity analysis shows the impact on insurance contract liabilities and profit before tax for reasonably possible movements in the key financial assumptions noted on the previous page with all other assumptions held constant.

The correlation of assumptions will have a significant effect in determining the ultimate impacts, but to demonstrate the impact due to changes in each assumption, assumptions have been changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

Change in Insurance contract liability - £m	**HY23**	**HY22**	**YE22**
Discount rate - decrease of 0.5%	**81**	118	89
Inflation rate - increase of 0.5%	**-**	116	6

Inflation - the increase in inflation as modelled under the sensitivity scenario is covered by the contractual service margin in HY23 and consequently doesn't require the recognition of a loss component and subsequent increase in contract liability (as is the case for HY22 and YE22).

Change in Profit before Tax - £m	HY23	HY22	YE22
Discount rate - decrease of 0.5%	**-**	-	-
Inflation rate - increase of 0.5%	**(2)**	(116)	(6)

Discount rate - the impact of a change in discount rate flows through Other comprehensive income (OCI) rather than the Income statement and so doesn't impact Profit before tax (PBT).

Accounting Policies

Background to IFRS 17 (Insurance Contracts)
In May 2017, the International Accounting Standards Board (IASB) issued IFRS 17 (Insurance Contracts). IFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition, measurement, presentation and disclosure, and replaces Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (such as life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects and requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. The new standard applies to all of the Group's funeral plans including the re-insurance of the payment waiver risk on LCIPs and is effective from 1 January 2023.

The Group has transitioned to IFRS 17 from 1 January 2023 but we are required to restate our results from 2 January 2022, adjusting opening reserves as at that date. Consequently we are required to restate the numbers that we presented previously in our financial statements to reflect the adoption of the new standard. See Note 15 for details of the approach on transition to restatement.

Summary of significant accounting policies:
In applying the new insurance standard and the requirements of IFRS 17 the Group has adopted a variety of new accounting policies in relation to the accounting for funeral plans and the waiver insurance on instalment plans. The Group has elected to use the General Measurement Model (GMM) under IFRS 17 to measure the liability for remaining coverage. A summary of the significant accounting policies is noted below:

Initial recognition - an insurance contract is defined as a contract under which the Group accepts significant insurance risk from another party by agreeing to compensate that party if it is adversely affected by a specified uncertain future event. The new standard applies to all of the Group's funeral plans and also covers the re-insurance of the payment waiver risk on instalment plans.

Level of aggregation and onerous contracts - the aggregation of insurance contracts determines the 'unit of account' to be used when applying IFRS 17 which affects the allocation of the contractual service margin (CSM) to insurance revenue and the level at which onerous contracts are identified. IFRS 17 specifically requires that portfolios of re-insurance contracts are separately held from portfolios of insurance contracts issued. The aggregation requirements of IFRS 17 arrange insurance and re-insurance contract cash flows into buckets based on two stages or levels:

- *Portfolio level:* (1) by primary risk type and (2) whether contracts are managed together.
- *Group level:* (1) by time of issuance (one-year issuing period); and (2) by degree of expected profitability at initial recognition.

Application by Co-op:

<u>Portfolio level:</u>
The following IFRS 17 portfolios were identified for the Group's consolidated financial statements:
- Pre-need funeral plans - (insurance contracts issued)
- Premium waiver on underlying Instalment plans – (re-insurance contracts held)

<u>Group level:</u> Time of issuance - Cohort year. IFRS 17 requires a portfolio of contracts to be divided into annual 'cohorts' or shorter time buckets. A group of contracts may not include contracts issued more than one year apart. Co-op allocates cohorts by annual periods based on the financial year of issue.

<u>Group level:</u> Degree of profitability at initial recognition. IFRS 17 requires portfolios of contracts issued in a given cohort year to be assessed by 'sets' for the purpose of determining whether contracts are onerous or have no significant possibility of becoming onerous. The Group determines the sets based on assessed similarities in pricing and margin and expected sensitivity to future changes in financial and non-financial assumptions over the coverage period. Losses on onerous contracts are taken to the Income statement as incurred.

Fulfilment Cashflows:

IFRS 17 requires insurance liabilities to be measured at a current fulfilment value. Fulfilment cashflows cover:

(A) best estimates of future cashflows;
(B) an adjustment for the time value of money (i.e. discounting) and financial risks associated with the future cash flows; and
(C) a risk adjustment for non-financial risk.

(A) Best estimate of future cashflows - IFRS 17 requires an explicit, unbiased and probability weighted estimate (i.e. expected value) of the present value of the future cash outflows less the present value of the future cash inflows that will arise as the entity fulfils insurance contracts, including a risk adjustment for non-financial risk.

For the Group these cashflows mainly comprise; premiums received from customers for pre-paid plans and LCIPs, premiums paid or repayable to re-insurers, internal and external direct fulfilment costs of delivering funerals on behalf of the policy holder, amounts recoverable from re-insurers and insurance acquisition cash flows attributable to the portfolio of contracts.

(B) An adjustment for the time value of money (i.e. discounting) and financial risks associated with the future cash flows; - a key component of IFRS 17 is the need to reflect the time value of money when estimating insurance cash flows, and the financial risks related to those cash flows. The Group applies a bottom-up approach to derive the discount rate based on a risk free rate plus an illiquidity premium. Risk free rates are determined by reference to the yields of highly liquid AAA-rated sovereign securities (UK Gilts). The illiquidity premium is determined by reference to observable market rates.

(C) A risk adjustment (RA) for non-financial risk - this reflects the compensation Co-op requires for bearing the uncertainty about the amount and timing of the cash flows that arise from non-financial risk as the Group fulfils insurance contracts. The risk adjustment reflects an amount that Co-op would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount. IFRS 17 does not prescribe any methodologies for calculating the RA but instead outlines principles that the technique used to quantify the RA will need to adhere to. The RA is important because it is a component of the fulfilment cash flows and therefore impacts the profitability classification of funeral plans. The release of the RA over time is a key component of revenue, along with the contractual service margin. Co-op estimate the RA using a confidence level (probability of sufficiency) approach at 70%.

Insurance acquisition cashflows - IFRS 17 requires expenses that are “directly attributable” to issuing and fulfilling insurance contracts to be included in the measurement of insurance contracts. This includes insurance acquisition cash flows, which are defined as cash flows arising from the costs of selling, underwriting, and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs. The classification and reporting of expenses under IFRS 17 involves the following 3 steps:

1) Classification of all expenses into one of the following categories:
- Directly attributable acquisition (direct costs of acquiring new funeral plans such as internal salaries or external commission paid);
- Directly attributable maintenance (direct costs of servicing already acquired funeral plans such as costs of handling claims or policy changes);
- Non-directly attributable expenses.

2) Allocation of directly attributable expenses into IFRS 17 Portfolios and then to current and future cohort groups of contracts.

3) Amortisation of each group of directly attributable acquisition costs in a manner consistent with the revenue earning pattern of the related contracts in the group. Directly attributable maintenance and non-directly attributable expenses are fully expensed when incurred.

When estimating fulfilment cash flows, the Group allocates fixed and variable overheads directly attributable to the fulfilment of insurance contracts. This requires management judgement and is undertaken in-line with our normal internal processes for allocating central overheads to cost centres. We also make an assessment as to the amount of maintenance costs such as claims handling, policy administration and associated overheads.

Contractual Service Margin (CSM) **and Coverage units** - the CSM for a group of insurance contracts at the end of each reporting period represents the unearned profit relating to future service to be provided under the contracts in the group and is calculated using a roll-forward approach. The five items that are included in the CSM roll forward are:

- the effect of new contracts added to the group;
- interest accretion on the carrying amount of the CSM;
- the change in fulfilment cash flows relating to future service (limited by the amount of CSM);
- the effect of any currency exchange differences on the CSM; and
- the amounts recognized as insurance revenue because of the transfer of services in the period (“amortization of CSM”).

The concept of "coverage units" was introduced in IFRS 17 as a means of reflecting the pattern of services provided under a group of contracts and recognizing revenue from CSM (effectively "amortization" of CSM) according to that pattern. The number of coverage units in a group is based on the quantity of service provided by the contracts in the group. For each group of contracts, an entity is required to consider the quantity of service and its expected coverage period.

Co-op have determined that it is appropriate to measure coverage units based on the maximum expected funeral benefit per period of all the contracts in the IFRS 17 group. The maximum expected pay-out represents the total funeral benefit per period of all contracts expected to be in force in the group for that period. For portfolios of Premium waiver reinsurance contracts, the coverage units will be based on the maximum expected recoverable per period.

Experience adjustments:
Experience variances represents the expected expenses, claims and amortisation of acquisition cash flows which are reported as part of the insurance service revenue. This is offset with the actual expenses and claims incurred in the period and recovery of acquisition cash flows.

Presentation and Disclosures:
The Group has elected to apply certain disclosure policies as permitted under IFRS 17:
1) The change in the risk adjustment for non-financial risk is disaggregated between insurance service result and insurance finance expense in the Income statement;
2) Income and expenses from a group of reinsurance contracts is presented as a single amount;
3) Insurance finance expense is disaggregated from finance income and shown in Other comprehensive income:
4) Changes to our inflation assumptions are deemed to be non-financial and to the extent that they can be covered are first charged to the CSM buffer rather than direct to the Income Statement.

15 Prior year restatement

What does this show? Occasionally we need to revise or restate the numbers that we have previously recorded in our published accounts. This may arise due to the introduction of a new accounting standard which may require us to treat certain balances differently than we have previously done. If the new standard requires us to apply the new approach retrospectively then we will change the numbers we have published previously. In such circumstances then this note explains what the change in accounting practice is and how it has affected our numbers in previous years.

IFRS 17 Insurance Contracts

In May 2017, the International Accounting Standards Board (IASB) issued IFRS 17 (Insurance Contracts). IFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition, measurement, presentation and disclosure, replacing Insurance Contracts (IFRS 4) that was issued in 2005.The new standard applies to all of the Group's pre-need funeral plans and is effective from 1 January 2023. IFRS 17 applies to all types of insurance contracts (such as life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects and requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. As noted the new standard is applicable to all of the Group's pre-need funeral plans including the reinsurance of the payment waiver risk (where Group waives the remaining payments if a customer dies during the payment term subject to conditions).

Key Accounting Changes:
The adoption of IFRS 17 in 2023 represents a fundamental change to the way that we currently account for all of our funeral plans and waiver insurance policies under IFRS 15 (Revenue from Contracts with Customers). The main accounting policies the Group will apply under IFRS 17 are shown in Note 14. The main areas of change will include:

• **Revenue recognition** – under IFRS 15 revenue from funeral plans was only recognised at the point the funeral was arranged (at redemption of the plan). IFRS 17 requires revenue to be recognised over the contract coverage period (being the duration of the funeral plan).

• **Liability measurement** - the Group uses the General Measurement Model (GMM) under IFRS 17 to measure the liability for remaining coverage. IFRS 17 requires actuarial modelling of the liability, updated each reporting period for current estimates of expected cash flows. IFRS 15 did not remeasure the liability to reflect a current estimate of the future cash flows to provide the funeral.

• **Reinsurance** - under IFRS 15 waiver insurance costs were expensed as incurred. IFRS 17 requires the cash flows to be modelled and the expense to be recognised over the contract coverage period.

• **Opening equity** - at 2 January 2022 opening reserves have been restated consistently with IFRS 17.

• **Level of aggregation** - under IFRS 17 we now separate our insurance contracts into portfolios consisting of contracts that are subject to similar risks and that are managed together. Portfolios are further sub-categorised into groups and cohorts. This disaggregation is a new concept to Group and important for determining if a set of contracts is onerous, how contracts are presented and how profit or loss is recognised. If contracts are onerous we'll need to recognise a loss component and allocate that over time.

Key Presentational changes:

Under IFRS 17 we are required to present certain items differently or to have new line items entirely for certain balances in comparison to IFRS 15. These requirements see changes to our primary statements and notes to the accounts:

Consolidated Income Statement:
• *Revenue*
The result of our insurance activities in relation to funeral plans will be shown within the Funerals operating segment. IFRS 17 is based upon a fulfilment cashflow model and as such revenue and expenses includes the cost of funeral disbursements gross (whereas previously they were shown net under IFRS 15). The disclosure notes will be required to separately show:
- Insurance revenue, Insurance service expenses, and Insurance service result

• *Insurance finance expense* - Finance expense will include:
- Net finance expense from insurance contracts and net finance income from reinsurance contracts

Comprehensive Statement of Income:
Under IFRS 17 the Group has elected to disaggregate certain elements of finance income / expense that arise due to changes in assumptions (such as the discount rate) and record the impact of those changes in Other Comprehensive Income (OCI) rather than in the Income statement.

Consolidated Balance Sheet:
• *Assets* - Contract assets, which includes fulfilment costs (acquisition costs) of funeral plans, will be included in the measurement of insurance contract liabilities and no longer recognised as an asset (as was the case under IFRS 15). A new line item called Reinsurance Contract Assets will be included in our balance sheet if material. Instalment plan debtors are also netted off the insurance contract liability under IFRS 17.
• *Liabilities* - Contract liabilities in the balance sheet (as held under IFRS 15) will be replaced with insurance contract liabilities.

Approach on transition:
The Group has transitioned to IFRS 17 from 1 January 2023 but we are required to restate our results from 2 January 2022, adjusting opening reserves as at that date. Under IFRS 17, a fully retrospective approach should be taken to applying the standard on transition (as if all plans had been accounted for under IFRS 17 since inception) unless this approach is impractical. The alternative approach is to fair value the plan liabilities as at the date of transition. IFRS 17 does not define 'impractical' however, we have concluded that it would not be practical to fully apply the standard retrospectively over the full back book. As such, the Group has applied the fair value approach on transition to plans up to 2020, after which we have applied the fully retrospective approach as it is deemed practical to do so.

Using the fair value approach, the CSM is determined as the difference between the fair value of the group of insurance contracts (i.e. what Co-op would have to pay a third party to take on the liability) and its fulfilment cash flows at the transition date. The fair value of the insurance contracts has been measured by applying IFRS 13 Fair Value Measurement and we have taken the following steps to calculate the fair value:
• Measured the undiscounted IFRS 17 fulfilment cashflows at 1st January 2022;
• Discounted the above cash flows based on the expected market return less tax and expenses (at a rate consistent with the wider IFRS 17 calculation);
• Applied a margin for a required profit, which was assessed at 10%.

A summary of the adjustments that are required to restate our prior half year and full year figures to reflect the new basis of accounting are shown on the following pages. The restatements impact the consolidated income statement, the consolidated statement of comprehensive income and the consolidated balance sheet. There is no impact or change to the consolidated cashflow statement.

Consolidated income statement for the 26 week period ended 2 July 2022	As previously reported	IFRS 17	As restated
	£m	£m	£m
Revenue	5,643	(1)	**5,642**
Operating expenses	(5,668)	(18)	**(5,686)**
Other income	5	-	**5**
Operating loss	(20)	(19)	**(39)**
Finance income	128	-	**128**
Finance costs	(101)	20	**(81)**
Profit before tax	7	1	**8**
Taxation	(19)	(6)	**(25)**
Loss from continuing operations	(12)	(5)	**(17)**
Profit on discontinued operation (net of tax)	60	-	**60**
Profit for the period	48	(5)	**43**
Non-GAAP measure			
Underlying operating profit / (loss)	18	(19)	**(1)**
Underlying loss before tax	(49)	(19)	**(68)**

Consolidated income statement for the 52 week period ended 31 December 2022	As previously reported	IFRS 17	As restated
	£m	£m	£m
Revenue	11,480	(3)	**11,477**
Operating expenses	(11,484)	(23)	**(11,507)**
Other income	9	-	**9**
Operating profit / (loss)	5	(26)	**(21)**
Profit on sale of petrol forecourts	319	-	**319**
Finance income	125	-	**125**
Finance costs	(202)	38	**(164)**
Profit before tax	247	12	**259**
Taxation	(4)	(3)	**(7)**
Profit from continuing operations	243	9	**252**
Profit on discontinued operation (net of tax)	67	-	**67**
Profit for the period	310	9	**319**
Non-GAAP measure			
Underlying operating profit	100	(26)	**74**
Underlying loss before tax	(31)	(26)	**(57)**

Consolidated statement of comprehensive income (for the 26 week period ended 2 July 2022)	As previously reported	IFRS 17	As restated
	£m	£m	£m
Profit for the period	48	(5)	**43**
Items that will never be classified to the income statement			
Remeasurement gains on employee pension schemes	175	-	**175**
Related tax on items above	(44)	-	**(44)**
Insurance finance income (funeral plans)	-	287	**287**
	131	287	**418**
Other comprehensive income for the period net of tax	131	287	**418**
Total comprehensive income for the period	179	282	**461**

Consolidated statement of comprehensive income (for the 52 week period ended 31 December 2022)	As previously reported	IFRS 17	As restated
	£m	£m	£m
Profit for the period	310	9	**319**
Items that will never be classified to the income statement			
Remeasurement losses on employee pension schemes	(732)	-	**(732)**
Related tax on items above	183	-	**183**
Insurance finance income (funeral plans)	-	502	**502**
	(549)	502	**(47)**
Other comprehensive loss for the period net of tax	(549)	502	**(47)**
Total comprehensive (loss) / income for the period	(239)	511	**272**

Funeral - segmental reporting (for the 26 week period ended 2 July 2022)	As previously reported	IFRS 17	As restated
	£m	£m	£m
Revenue	139	(1)	**138**
Underlying operating profit / (loss)	11	(19)	**(8)**
Operating profit / (loss)	11	(19)	**(8)**
Underlying EBITDA	24	(19)	**5**
EBITDA	24	(19)	**5**

Funeral - segmental reporting (for the 52 week period ended 31 December 2022)	As previously reported	IFRS 17	As restated
	£m	£m	£m
Revenue	271	(3)	**268**
Underlying operating profit / (loss)	16	(26)	**(10)**
Operating profit / (loss)	10	(26)	**(16)**
Underlying EBITDA	43	(26)	**17**
EBITDA	37	(26)	**11**

Pre IFRS 17 basis (i.e. under IFRS 15)

To aid the readers understanding as to the impact of the adoption of IFRS 17 the tables below show our half-year 2023 financial performance on a pre IFRS 17 basis (i.e. under IFRS 15 methodology for funeral plans). This allows comparison to the half-year 2022 and full-year 2022 numbers as previously reported (before they have been restated for IFRS 17 and as they were under IFRS 15).

Consolidated income statement (pre IFRS 17 basis)	HY23 (unaudited)	HY22 (unaudited & as previously reported)	FY22 (as previously reported)
	£m	£m	£m
Revenue	5,432	5,643	11,480
Operating expenses	(5,417)	(5,668)	(11,484)
Other income	5	5	9
Operating profit / (loss)	20	(20)	5
Profit on sale of petrol forecourts	-	-	319
Finance income	56	128	125
Finance costs	(108)	(101)	(202)
(Loss) / profit before tax	(32)	7	247
Taxation	(26)	(19)	(4)
(Loss) / profit from continuing operations	(58)	(12)	243
Profit on discontinued operation (net of tax)	-	60	67

(Loss) / profit for the period	(58)	48	310

Non-GAAP measures			
Underlying operating profit	60	18	100
Underlying profit / (loss) before tax	8	(49)	(31)
Underlying EBITDA	243	218	490
EBITDA	203	180	395

Funeral - segmental reporting (pre IFRS 17 basis)	HY23 (unaudited) £m	HY22 (unaudited & as previously reported) £m	FY22 (as previously reported) £m
Revenue	148	139	271
Operating profit	13	11	10
Finance income	10	48	28
Finance costs	(27)	(27)	(54)
(Loss) / profit before tax*	(4)	32	(16)

* (Loss) / profit before tax is not reported on a segmental basis but is shown here for illustrative purposes and is derived as operating profit less net finance costs / income on funeral plans.

Non-GAAP measures			
Underlying operating profit	13	11	16
Underlying (loss) / profit before tax*	(4)	32	(10)
Underlying EBITDA	26	24	43
EBITDA	26	24	37

* Underlying profit / (loss) before tax is not reported on a segmental basis but is shown here for illustrative purposes and is derived as underlying operating profit less net finance costs / income on funeral plans.

Impact of transition to IFRS 17 (performance under IFRS 17 versus IFRS 15)

To further aid the readers understanding as to the impact of adoption of IFRS 17 the tables below show the impact on our performance on transition to IFRS 17 being the difference between our reported numbers under IFRS 17 and those we did (HY22 and FY22) or would have (HY23) reported under an IFRS 15 basis for funeral plans.

Consolidated income statement	HY23 IFRS 17 £m	HY23 IFRS 15 £m	Variance £m	HY22 IFRS 17 £m	HY22 IFRS 15 £m	Variance £m
Revenue	5,430	5,432	(2)	5,642	5,643	(1)
Operating expenses	(5,432)	(5,417)	(15)	(5,686)	(5,668)	(18)
Other income	5	5	-	5	5	-
Operating profit / (loss)	3	20	(17)	(39)	(20)	(19)
Finance income	56	56	-	128	128	-
Finance costs	(92)	(108)	16	(81)	(101)	20
(Loss) / profit before tax	(33)	(32)	(1)	8	7	1
Taxation	(6)	(26)	20	(25)	(19)	(6)
(Loss) / profit from continuing operations	(39)	(58)	19	(17)	(12)	(5)
Profit on discontinued operation (net of tax)	-	-	-	60	60	-
(Loss) / profit for the period	(39)	(58)	19	43	48	(5)

Non-GAAP measures						
Underlying operating profit / (loss)	43	60	(17)	(1)	18	(19)
Underlying (loss) / profit before tax	(9)	8	(17)	(68)	(49)	(19)

Underlying EBITDA	226	243	(17)	199	218	(19)
EBITDA	186	203	(17)	161	180	(19)

Funeral - segmental reporting	HY23 IFRS 17 £m	HY23 IFRS 15 £m	Variance £m	HY22 IFRS 17 £m	HY22 IFRS 15 £m	Variance £m
Revenue	146	148	(2)	138	139	(1)
Operating profit	(4)	13	(17)	(8)	11	(19)
Finance income	10	10	-	48	48	-
Finance costs	(11)	(27)	16	(7)	(27)	20
(Loss) / profit before tax*	(5)	(4)	(1)	33	32	1

* (Loss) / profit before tax is not reported on a segmental basis but is shown here for illustrative purposes and is derived as operating profit less net finance costs / income on funeral plans.

Non-GAAP measures						
Underlying operating (loss) / profit	(4)	13	(17)	(8)	11	(19)
Underlying (loss) / profit before tax*	(5)	(4)	(1)	33	32	1
Underlying EBITDA	9	26	(17)	5	24	(19)
EBITDA	9	26	(17)	5	24	(19)

* Underlying profit / (loss) before tax not reported on a segmental basis but is shown here for illustrative purposes and is derived as underlying operating profit less net finance costs / income on funeral plans.

Consolidated income statement	FY22 IFRS 17 £m	FY22 IFRS 15 £m	Variance £m
Revenue	11,477	11,480	(3)
Operating expenses	(11,507)	(11,484)	(23)
Other income	9	9	-
Operating (loss) / profit	(21)	5	(26)
Profit on disposal of petrol forecourts	319	319	
Finance income	125	125	-
Finance costs	(164)	(202)	38
Profit before tax	259	247	12
Taxation	(7)	(4)	(3)
Profit from continuing operations	252	243	9
Profit on discontinued operation (net of tax)	67	67	-
Profit for the period	319	310	9
Non-GAAP measures			
Underlying operating profit	74	100	(26)
Underlying loss before tax	(57)	(31)	(26)
Underlying EBITDA	464	490	(26)
EBITDA	369	395	(26)

Funeral - segmental reporting	FY22 IFRS 17 £m	FY22 IFRS 15 £m	Variance £m
Revenue	268	271	(3)
Operating (loss) / profit	(16)	10	(26)
Finance income	28	28	-

Finance costs	(16)	(54)	38
(Loss) / profit before tax	(4)	(16)	12

* (Loss) / profit before tax is not reported on a segmental basis but is shown here for illustrative purposes and is derived as operating profit less net finance costs / income on funeral plans.

Non-GAAP measures			
Underlying operating (loss) / profit	(10)	16	(26)
Underlying profit / (loss) before tax*	2	(10)	12
Underlying EBITDA	17	33	(16)
EBITDA	11	27	(16)

* Underlying profit / (loss) before tax not reported on a segmental basis but is shown here for illustrative purposes and is derived as underlying operating profit less net finance costs / income on funeral plans.

Consolidated balance sheet as at 2 July 2022	**As previously reported**	**IFRS 17**	**As restated**
	£m	**£m**	**£m**
Non-current assets			
Funeral plan investments	1,399	**-**	**1,399**
Contract assets (funeral plans)	42	(42)	-
Funeral plan debtors	176	(176)	-
Other non-current assets	6,274	-	**6,274**
Total non-current assets	7,891	(218)	**7,673**
Current assets			
Contract assets (funeral plans)	5	(5)	-
Funeral plan debtors	31	(31)	-
Other current assets	1,379	-	**1,379**
Total current assets	1,415	(36)	**1,379**
Non-current liabilities			
Contract liabilities (funeral plans)	1,575	(1,575)	-
Deferred tax liabilities	397	5	**402**
Other non-current liabilities	2,056	-	**2,056**
Insurance contract liabilities (funeral plans)	**-**	1,157	**1,157**
Reinsurance contract liabilities (funeral plans)	**-**	10	**10**
Total non-current liabilities	4,028	(403)	**3,625**
Current liabilities			
Contract liabilities (funeral plans)	183	(183)	**-**
Other current liabilities	1,977	-	**1,977**
Insurance contract liabilities (funeral plans)	**-**	129	**129**
Reinsurance contract liabilities (funeral plans)	**-**	1	**1**
Total current liabilities	2,160	(53)	**2,107**
Equity			
Share Capital and Other Reserves	80	**-**	**80**
Retained earnings	3,038	202	**3,240**
Total equity	3,118	202	**3,320**

Consolidated balance sheet as at 31 December 2022	**As previously reported**	**IFRS 17**	**As restated**
	£m	**£m**	**£m**
Non-current assets			
Funeral plan investments	1,369	**-**	**1,369**
Contract assets (funeral plans)	40	(40)	-
Funeral plan debtors	168	(168)	-
Other non-current assets	5,114	-	**5,114**
Total non-current assets	6,691	(208)	**6,483**
Current assets			
Contract assets (funeral plans)	5	(5)	**-**
Funeral plan debtors	28	(28)	**-**
Other current assets	1,505		**1,505**

Total current assets	1,538	(33)	**1,505**
Non-current liabilities			
Contract liabilities (funeral plans)	1,540	(1,540)	-
Deferred tax liabilities	156	(3)	**153**
Other non-current liabilities	1,994	-	**1,994**
Insurance contract liabilities (funeral plans)	**-**	957	**957**
Reinsurance contract liabilities (funeral plans)	**-**	7	**7**
Total non-current liabilities	3,690	(579)	**3,111**
Current liabilities			
Contract liabilities (funeral plans)	183	(183)	**-**
Other current liabilities	1,638	-	**1,638**
Insurance contract liabilities (funeral plans)	**-**	106	**106**
Reinsurance contract liabilities (funeral plans)	**-**	1	**1**
Total current liabilities	1,821	(76)	**1,745**
Equity			
Share Capital and Other Reserves	81	**-**	**81**
Retained earnings	2,637	414	**3,051**
Total equity	2,718	414	**3,132**

As the restatement for IFRS 17 applies to all previous years including the closing 2021 balance sheet (as at 1 January 2022) then for comparative purposes we have also included an adjusted opening 2022 balance sheet (as at 2 January 2022).

Consolidated balance sheet (as at 1 January 2022)	**Closing position as previously reported (1 January 2022) £m**	**IFRS 17 £m**	**Opening position restated (2 January 2022) £m**
Non-current assets			
Funeral plan investments	1,372	**-**	**1,372**
Contract assets (funeral plans)	43	(43)	-
Funeral plan debtors	199	(199)	-
Other non-current assets	6,439		**6,439**
Total non-current assets	8,053	(242)	**7,811**
Current assets			
Contract assets (funeral plans)	5	(5)	-
Funeral plan debtors	29	(29)	-
Other current assets	1,093		**1,093**
Total current assets	1,127	(34)	**1,093**
Non-current liabilities			
Contract liabilities (funeral plans)	1,614	(1,614)	-
Deferred tax liabilities	314	-	**314**
Other non-current liabilities	2,226	-	**2,226**
Insurance contract liabilities (funeral plans)	**-**	1,412	**1,412**
Reinsurance contract liabilities (funeral plans)	**-**	12	**12**
Total non-current liabilities	4,154	(190)	**3,964**
Current liabilities			
Contract liabilities (funeral plans)	164	(164)	**-**
Other current liabilities	1,923	-	**1,923**
Insurance contract liabilities (funeral plans)	**-**	157	**157**
Reinsurance contract liabilities (funeral plans)	**-**	1	**1**
Total current liabilities	2,087	(6)	**2,081**
Equity			
Share Capital and Other Reserves	80	**-**	**80**
Retained earnings	2,859	(80)	**2,779**
Total equity	2,939	(80)	**2,859**

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 1 July 2023 ('the interim financial statements') include the Society and its subsidiaries (together referred to as 'the Group').

The audited consolidated financial statements ('the 2022 annual report') of the Group for the year ended 31 December 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 1 July 2023 are unaudited and do not constitute statutory accounts.

Statement of compliance

These interim financial statements have been prepared in accordance with UK adopted International Accounting Standard 34 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules (DTR) of the UK's Financial Conduct Authority. They do not include all the statements required for full annual financial statements and should be read in conjunction with the 2022 annual report.

The comparative figures for the financial year ended 31 December 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 19 September 2023.

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 2022 annual report except where stated within the notes to these accounts. See Note 14 (*Insurance and Reinsurance Contracts)* and Note 15 (Prior year restatement) on for further details of the specific accounting estimates and judgements in relation to IFRS 17 Insurance contracts which the Group has adopted for the first time in this Interim report.

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 2022 annual report.

(A) New standards:

IFRS 17 (Insurance Contracts) - the Group has adopted the new standard from 1 January 2023 which has a material impact on how the Group accounts for its funeral plan liabilities. The adoption of IFRS 17 is retrospective and has required the restatement of our prior period numbers (both half-year and fully-year comparatives). Further detail of the approach on transition, the application of the new standard and the impact of the restatement is given in Note 15.

The Group has considered the following standards and amendments that are effective for the Group for the period commencing 1 January 2023 and concluded that they are either not relevant to the Group or do not have a significant impact on the financial statements:

• Amendments to IAS 8 - Definition of Accounting Estimates
• Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies
• Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction
• Amendments to IAS 12 - International Tax Reform Pillar Two Model Rules *

* *On 23 May 2023, the International Accounting Standards Board (the IASB or Board) issued International Tax Reform - Pillar Two Model Rules –*

Amendments to IAS 12 (the Amendments) to clarify the application of IAS 12 Income Taxes to income taxes arising from tax law enacted or substantively enacted to implement the Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) Pillar Two model rules (Pillar Two income taxes). The Amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date. The Group has applied the mandatory temporary exception. The remaining disclosure requirements do not apply for interim periods ending on or before 31 December 2023.

(B) Standards, amendments and interpretations issued but not yet effective:

Certain new accounting standards and interpretations have been published that are not mandatory for 1 January 2023 reporting periods and the Group has not early adopted the following standards and statements. The adoption of these standards is not expected to have a material impact on the Group's accounts:

• Amendments to IAS 1 - Non-current liabilities with covenants *
• Amendments to IAS 16 - Lease liability in sale and leaseback *
• Amendments to IFRS 10 and IAS 8 - Sale or contribution of assets between an investor and its associate or joint venture **

** Effective for annual periods beginning on or after 1 January 2024. ** In December 2015, the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.*

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 2024.

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. Liquidity available to the Group is more than sufficient to meet upcoming maturities within the going concern period.

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.

At the 2022 year-end date, we had cash and cash equivalents of £447m plus a total £1,079m of bank and debt facilities available to us, of which we were £780m drawn down. Subsequently, on the 1st March 2023 the Group repurchased £100m of the £300m 5.125% Sustainability Bond (due May 2024) from bond holders following an over-subscribed tender exercise. Furthermore, on the 20th of March 2023 we concluded an amendment and extension exercise to our Revolving Credit Facility. As a result our original £400m RCF increased in size to £442.5m until September 2024 when it will fall to £360m. The £360m facility will mature in March 2026.

As at 1 July 2023 Group Net Debt (excluding lease liabilities) was £123m (HY 2022: £731m and FY 2022: £333m). Facilities available to the Group were £1,109m and cash and cash equivalents were £579m. Liquidity available to the Group is more than sufficient to meet upcoming maturities within the going concern period.

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 1.50:1.00 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.

We have reviewed our actual results in the first half of 2023 against those that were used in the going concern forecast and assessment for our 2022 financial statements; actual results have been positive versus forecasts used and therefore we have concluded there is no change in 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 1 July 2023.