Co-operative Group Limited
Interim Report 2015

"Six months into our Rebuild, we are on track and laying some important foundations. However, there is still much to be done."

Group Chair's introduction

Our three-year Rebuild programme for the Group, which we set out at the end of 2014, has put in place a comprehensive strategy for our recovery and long-term success. Our Rebuild plans cover all aspects of our work from our business performance and corporate governance to the way we will restore The Co-operative Group to the heart of communities throughout Britain.

Six months into our Rebuild, we are on track and laying some important foundations. However, there is still much to be done.

Our commercial performance is improving, led by strong like-for-like sales growth in our convenience Food business and a busy start to the year for Funeralcare. Meanwhile, our plans for re-launching our membership proposition in the second half of 2016 are well advanced. We are beginning to test the best of our ideas for how we will work with local communities throughout Britain.

Although our half year profits are higher than 2014, we will significantly ramp up investment in our long term future in the second half of the year, such that we anticipate full year profits being below 2014's performance, which included the benefit of business disposals. Investment in our Rebuild strategy will accelerate in the remainder of the year, following our commitment to increase front-line colleague pay, customer service and price competitiveness within the Food business. We also anticipate that the exceptionally high first half funeral volumes will not continue in the remainder of the year and there will be a further increase in corporate costs as we build the team that will reinvigorate our membership.

A stronger Board with sound governance

Rebuilding our governance to ensure we have the right accountability to our members and the appropriate professional expertise on our Board has been a priority in the first half of the year. The Annual General Meeting (AGM) saw our Members overwhelmingly ratify the Board appointments of myself as Group Board Chair, Sir Christopher Kelly as our Senior Independent Director, and Richard Pennycook as Group Chief Executive. We also announced the appointment of Simon Burke as an independent Non-Executive Director with effect from 15 May. Prior to this Simon had served on the Transitional Group Board.

In addition, our Members voted directly to elect three Member Nominated Directors to the Board, so maintaining the clear democratic link and accountability to our membership. They are Paul Chandler, Ruth Spellman and Hazel Blears and they bring with them excellent and highly relevant experience. At this early stage of establishing our new governance structures, I was delighted to welcome such strong Directors who are willing to serve on our Board.

Since the AGM, we have announced the appointment of two further Independent Non-Executive Directors as we move to complete the Board. Stevie Spring and Peter Plumb are further very strong appointments, and I welcome them to the Board.

It is most unusual for a completely new Board to come together in such a short time. For this reason, we have included a biography of all your Directors within this report on page 8. What all of our Member Nominated and Non-Executive Directors share is outstanding experience relevant to the strategy we are pursuing. But just as important as their experience is their belief that The Co-operative has a purpose and a place in British life that is unique. Only we can give our customers a distinctive, values-led offer in all of the markets in which we trade and share our success directly with them and their communities.

Our new democracy

In May we held our first One Member One Vote (OMOV) AGM under the rules of our new constitution, giving our Members a direct say in the Group's future. We welcomed approximately 800 Members at this meeting, which for the first time in a generation was open to all. Over 90,000 members voted, a figure which we hope will grow significantly as we pursue our strategy of once again making membership meaningful and encouraging more engagement from a wider group of Members.

At the AGM we announced the results of the election to our new National Members' Council which will represent the interests of our millions of customer-members. Of its 100 members, 58 have been elected through the new OMOV arrangements, and a further 34 members hold continuity seats which will be subject to OMOV elections in 2016 and 2017. The Council has co-opted eight new members to ensure it is representative of the wider membership. The Council exists to uphold our Co-operative Values and Principles and provide Member scrutiny of our Group Board. In July the Council elected its new President, Nick Crofts, as well as its two Vice-Presidents and Senate members who together will guide the Council's work.

Our support for other co-operative societies

Another area of our governance reform which has received less public attention, but is important, has been the creation of Federal Retail Trading Services (FRTS). The Group operates a number of support services on behalf of other co-operative societies, the most significant of which is the purchasing of grocery products. Co-operatives of any size (in one case a single store) can benefit from the full buying power of the Group, which in total is purchasing for 4,000 stores. The newly created FRTS Board, independently chaired by John Combes, oversees these arrangements and is considering significant opportunities to deliver efficiency savings through new systems and supply chain initiatives.

I look forward to working with all of our new Board members, with the Council and with the FRTS Board as we continue our Rebuild programme.

There is still a great deal of work to do before we can consider the Group fully fit and healthy but we are certainly back on our feet with a renewed conviction and passion taking us to the next phase of our journey.

Allan Leighton
Group Chair

"Building the team to Rebuild The Co-operative"

Group Chief Executive's statement

We have made a solid start on our three-year journey to Rebuild The Co-operative Group.

The early months have been about fixing the basics – putting in place new leadership teams and addressing the under-investment of the past. Our customers and Members are already beginning to see the difference.

Important work has been done to develop the right leadership team for this new phase of our turnaround. In some cases, existing members of the management team have taken on new roles, and in other cases we have brought in new talent. Of particular importance have been the appointments to the Group Executive of Ian Ellis as Chief Financial Officer, Mike Bracken as Chief Digital Officer and Debbie Adams as Group Secretary. Elsewhere in the leadership team, the appointments of Richard Lancaster as Funeralcare Managing Director, Chris Whitfield as Food Operations Director and Jane McCall as Food Transformation Director were all key hires.

Restoring our commercial performance is fundamental to our Rebuild and we are seeing solid progress in every part of the Group.

Group revenue was stable at £4.6bn (2014: £4.7bn). Group underlying profit before tax was £64m (2014: £1m loss), reflecting robust trading in Food and Funerals and an improved General Insurance performance. Underlying profit before tax represents the profit from core trading performance less underlying interest and is shown in a reconciliation on the Income Statement on page 13. Our statutory profit before tax was £36m (2014: £9m loss).

Meanwhile, net debt reduced significantly to £0.6bn compared to £1.4bn at the same time last year, but will rise again towards the year end as our investment programme accelerates. Net debt is still forecast to remain below our own internal target of £900m during the three years of our Rebuild strategy and we were pleased to receive a credit upgrade from Standard and Poor's reflecting the progress made to date in repairing our finances.

The Co-operative Bank, in which we hold a 20.2% stake, reported a statutory loss before tax of £204.2m at half year which was in line with expectations. As a consequence we have continued to value our investment in the Bank at £224m, the same valuation as at the year end, with no net impact on the overall Group result.

Although we have returned to profit our priority remains re-investment for the long-term. As we said in April, when we announced our 2014 performance, we do not expect to issue a dividend to our Members until our three-year Rebuild programme is accomplished. In the meantime, investments in our infrastructure, our customer proposition and our colleagues will absorb cash. We will earn the money we intend to invest and continue to find savings by running the Group more effectively on behalf of our Members.

In the first half of the year, capital expenditure increased to £144m (2014: £97m) as we continue to grow our convenience food estate, with 35 new food stores and 10 new funeral homes opened.

Our individual business strategies are at different stages of implementation with our Food business most advanced.

The True North programme for Food has delivered strong like-for-like sales increases in our core convenience stores and we remain ahead of our rivals in this highly competitive segment of the market. Our key initiatives in the first half were our price investment in fresh produce, which is now the best value on the high street, and our previously announced pay award of 8.5% for 47,000 front line store colleagues. This pay award, which was announced prior to the Summer Budget, ensures that we will achieve the Government's living wage threshold for the vast majority Group employees, well ahead of schedule.

Our Funerals business had a very busy start to the year but maintained its reputation for outstanding client care. We remain leaders in this market but recognise that we must react to and anticipate changes in how families wish to celebrate the life of loved ones and mark their passing. We are currently reviewing all aspects of our Funerals business to determine how best to respond to changing needs in society.

Our General Insurance business has suffered from years of underinvestment and a long period when its future as part of the Group was uncertain. We have now made it clear that General Insurance is a core business for us with the ability to offer a distinctly Co-operative and commercially competitive offer. Its transformation strategy is focused on providing our Members with excellent products at competitive prices. Achieving this is dependent on building a new IT platform that will radically improve the customer experience. In June we announced a 10 year agreement with IBM that will enable us to build General Insurance into the first rate business it has the clear potential to become.

Among our smaller businesses, of particular note was Co-operative Legal Services' return to profit in the first half of the year as it focused on its core family law practice.

As we came to the end of the first half we announced our new two-year partnership with the British Red Cross to fundraise and campaign on the issue of loneliness and social isolation across Britain. The theme and charity partner were chosen by our Members and colleagues through a national vote and demonstrated that we are returning to being an outward looking and campaigning business that puts the concerns of our Members at the heart of our work.

Building further on this, we have launched over 50 community-based trials to evaluate how best for our Members and colleagues to deliver our Purpose in their local area. The findings from the trials will inform the final design of our new membership proposition when it launches in 2016.

The past six months have been busy and rewarding. We have retuned our focus to the needs of our Members and customers and the communities where they live. We are still in the early stages of our Rebuild but we are encouraged by the progress we are making on all fronts.

Richard Pennycook
Group Chief Executive

Interim results and highlights

Retail

Food

We have continued to invest in price as a core aspect of our True North Rebuild strategy with annualised investment of £125m, of which fresh produce accounts for over £35m.

Against a highly competitive and deflationary market backdrop, we are pleased that we achieved strong like-for-like sales increases (3.3% in our core convenience stores, and 0.8% across the whole food business), whilst underlying profits increased by 20% to £120.4m (2014: £99.7m). Total like-for-like volume rose by 2.8% over the half year.

There is growing recognition of the quality of our own brand products from both industry experts and from our customers. We have continued the awards success that began in 2014, earning recognition this year for our wines, cheeses and sandwiches including a crop of Gold and Silvers from The Grocer Own Label Food and Drink Awards. We were also voted 'Best Overall Convenience Retailer' and 'Best Managed Retailer' at the prestigious CTP awards (awarded by shoppers and store colleagues).

Community is vital for us. We have a store in every postal area of the UK, and we have nearly 600 Community Pioneers supporting projects that are making a difference at a local level in the communities we serve. As our charity partnership with the British Red Cross launches from September, we expect to demonstrate more community activity than ever before.

All of our key activity in the first half has been customer focused. We've introduced over 500 new or redeveloped own-brand products. We relaunched our national produce range, including our exciting Fresh Three offer, delivering quality fruit and veg at discount prices. This initiative is also having a positive effect in terms of increasing the average basket size from those shoppers. We've also maintained our investment in improving the shopping experience for our customers. We've opened 35 new convenience stores so far this year, taking the total convenience estate to just short of 2,100 stores, and completed 116 store refits, which have provided an average 6% sales uplift.

Looking ahead to the second half of the year our priorities will be the roll out of local ranging activity – making it easy for local suppliers to sell local products in our local stores. In Yorkshire, for example, we intend to launch 130 new products from 58 new local suppliers across core category lines including Beer, Grocery and Chilled. We will also launch a new 'food-to-go' range focusing on best in class freshness, quality, breadth of range and value. We plan to open a further 60 new convenience stores, refurbish a further 150 others, whilst recruiting 1,000 new store colleagues to increase customer service during peak shopping times. Our commitment to convenience will also see us become the UK's largest retailer to provide Apple-pay at all our 11,800 till points. This will continue to ensure we meet the changing needs of how our customers want to shop – little and often.

During the second half of 2015, we expect to overcome deflation in the marketplace to generate further like-for-like sales growth but the impact of continued investment in our business and our colleagues means that we expect full year profitability to be broadly in line with the previous year.

Electrical

Our Electrical business made an underlying loss of £0.9m compared to a break even position in the first half of 2014. Whilst total sales fell, our core Co-operative Electrical online business performed well, with sales up 2.6% on last year and with Major Domestic Appliance (MDA) sales up 10%, which was just ahead of the internet MDA market. Over 100,000 customers have reviewed us so far this year and we retain our excellent 98% satisfaction rating.

During the second half of 2015, we will be launching our new Amazon Market Place channel as well as progressing with the building of our new improved website.

Consumer Services

Funeralcare

In Funeralcare we had our busiest start to the year for seven years, with volumes increasing by nearly 12%, due in the main to an unprecedented high death rate but also to an increase in our market share. Subsequently, first half underlying profit rose by 50% to £51.8m (2014: £34.6m) on sales of £216.4m (2014: £187.0m).

Client service remains at the heart of this 'community' business and Funeralcare colleagues continued to deliver fantastic service and customer care in 2015 with satisfaction scores remaining at nearly 99%. Expansion of the branch network continued apace with 10 new funeral homes opening. The business also teamed up with Child Bereavement, Trauma and Emotional Wellbeing Service (CHUMS) to launch a series of short animated films aimed at helping bereaved children to cope with the loss of a loved one.

The appointments of Richard Lancaster as new Managing Director, and Robert Maclachlan as National Operations Director, will strengthen the leadership team, putting the business in a perfect position to drive forward its new purpose-led strategy towards the end of 2015 and into 2016.

Looking ahead to the second half of the year, we expect to see the death rate slow down. However, our commitment to outstanding care, client-focused solutions, and investment in people and processes, sets up a successful second half of 2015. Investment in new branches and IT systems will continue.

General Insurance

Our General Insurance business made an underlying profit of £0.5m (2014 £6.8m loss) on sales of £159.3m (2014: £188.7m). Gross Written Premium fell to £180.3m (2014 £188.8m), and the net loss ratio was 68.2% (2014 70.2%). These results are in line with expectations and reflect a lower volume of claims than in the same period last year.

We defined our new Member-focused strategy, chartered a clear direction for the future and we are currently delivering a programme to improve Member and customer services, building on our brand, distribution, and data advantages. In the first half of 2015 we entered into a 10-year agreement with IBM to replace our legacy IT systems, having successfully raised £70m of capital, and incurred £17.3m of transformation costs.

Looking ahead, although market conditions are predicted to remain challenging for the next 12 months, the IBM deal brings our vision to become 'the go-to insurance provider for Members' a step closer and drives forward our transformation programme. Having invested in our pricing metrics, particularly through data enrichment of Member insight and improvements in our price comparison website presence, this area is a significant opportunity for growth.

Legal Services

Legal Services made a small underlying profit of £0.2m in the first half of 2015 (2014: £5.1m loss) following a year of structural changes which resulted in an operating loss in 2014. We've focused on optimising processes and investing in technology and expect to continue to invest for the foreseeable future.

With a defined plan and a renewed focus, we expect to make a profit for Legal Services in the second half of 2015. Working closely with Funeralcare and General Insurance, the business is driving forward the development of a range of products and services to better support the needs of our Members and customers.

Additional Disclosures

Principal Risks and Uncertainties

2015 has seen the introduction of a new Group Risk Management Framework which provides assurance that strategic decision making is underpinned by an effective and robust risk management methodology. Its implementation will ensure that a comprehensive set of controls and mitigations is assigned to all risks to reduce the probability or impact of risk materialisation. In addition there will be regular reviews of the effectiveness of these controls. Independent third party assurance will be sought where appropriate.

The principal risks and uncertainties faced by the Group remain those set out in the 2014 Annual Report and Financial Statements. These can be summarised as follows:

- Business Strategy and Transformation
- Brand and Reputation
- People Capability
- Financial and Treasury
- Market and Economy
- IT Operations and Data Security
- Ethical Sourcing and Food Fraud
- Assurance and Compliance
- Bank Separation

Risks in relation to the General Insurance business have been identified as Market risk, Conduct risk and Strategic risk.

More information on the principal risks and how the Group mitigates those risks can be found on pages 47-50 of the 2014 Annual Report.

Composition of the New Board

Allan Leighton - Chairman
Roles and responsibilities
- Chair of The Co-operative Group
- Nominations Committee Chair

Biography
Allan has held a series of high profile roles, including Chief Executive of Asda, from 1996 to 2000, Non-Executive Chairman of Royal Mail from 2002 to 2009 and President of Loblaw, the largest food retailer in Canada, from 2008 to 2011. Allan's more recent roles include Chief Executive of Pandora A/S, the jewellery manufacturer and retailer.

Richard Pennycook
Roles and responsibilities
- Chief Executive of The Co-operative Group
- Executive Director of The Co-operative Group

Biography
Joined the Group in 2013 after nearly eight years as Group Finance Director at WM Morrison Supermarkets Plc (Morrisons). At Morrisons he had responsibility for the Group's finance, IT, strategy and multichannel development. Previous roles include Group Finance Director at RAC and JD Wetherspoon. Appointed Interim Group Chief Executive in March 2014 and was appointed Group Chief Executive permanently in September 2014.

Sir Christopher Kelly
Roles and responsibilities
- Independent Non-Executive Director
- Member of the Remuneration Committee
- Member of the Nominations Committee

Biography
Joined the Board in November 2014 as Senior Independent Non-Executive Director. Sir Christopher chaired the independent review which considered the events leading up to the re-capitalisation plan for The Co-operative Bank plc in 2013. Prior to this he was a senior public servant for many years. He currently chairs the King's Fund and the Responsible Gambling Strategy Board and previously chaired the Committee on Standards in Public Life, the Financial Ombudsman Service and the NSPCC. He has also been a senior official in HM Treasury and was permanent secretary of the Department of Health.

Ruth Spellman
Roles and responsibilities
- Member Nominated Director
- Member of the Remuneration Committee
- Member of the Nominations Committee

Biography
In 2012, Ruth was appointed as Chief Executive of the Workers' Educational Association (WEA), an organisation with the same roots to The Co-operative Group. She is the first female to hold this position. Ruth was awarded an OBE in 2007 for services to workplace learning.

Ruth's Non-Executive roles include being a Board Member of the National Institute for Adult and Community Education, Director of the Centre for Talent and Innovation, a Council Member of the Open University and Chair of the Staff Strategy Committee. In her career, Ruth has been a CEO of three membership organisations. She was formerly Chief Executive of the Chartered Management Institute (CMI), and has previously been CEO of the Institution of Mechanical Engineers and Investors in People (IIP) UK. Ruth worked as a senior consultant in HR in the private sector and was HR Director of the NSPCC.

Paul Chandler

Roles and responsibilities

- Member Nominated Director
- Member of the Risk and Audit Committee

Biography

Paul was chief executive of Traidcraft from 2001-13, and President of the European Fair Trade Association from 2005-12. Drawing on his fair trade experience and early career in Barclays Bank, he is now focusing on promoting responsible practices in business and financial services. He is also Chair of the William Leech Foundation and Durham Cathedral Council, a director of Shared Interest, a Fellow of St Chad's College in Durham University and a trustee of the County Durham Community Foundation.

Hazel Blears

Roles and responsibilities

- Member Nominated Director
- Member of the Risk and Audit Committee

Biography

Hazel was a Labour Member of Parliament from 1997 – 2015, representing Salford and Eccles. She has held a number of senior positions in government including Public Health Minister, Home Office Minister and Communities Secretary. She also served on the National Intelligence and Security Committee. Hazel has been a Co-op member for over 20 years, she has shopped and banked with the Co-op throughout that time and cooperative values have shaped her personal and working life. Hazel's other roles include being a Member of the Advisory Board of Big Society Capital and Chairing the Institute for Dementia at Salford University.

Simon Burke

Roles and responsibilities

- Independent Non-Executive Director
- Risk and Audit Committee Chair
- Member of the Nominations Committee

Biography

Simon was appointed to the Group Board on 14 November 2014 as an Independent Non-Executive Director for the transitional period having previously been an Independent Non-Executive Director of the Group's principal subsidiary, Co-operative Food Holdings Ltd. During this time he served on the Transitional Risk and Audit Committee and the Transitional Search Committee. Simon is a Chartered Accountant and is currently a Non-Executive Director for the BBC, a Director of The Light Cinemas (Holdings) Limited and Blue Diamond Limited. Simon was previously Chair of both BathStore and Hobbycraft, and CEO for Virgin Retail, Virgin Cinemas and Virgin Entertainment Group.

Stevie Spring
Roles and responsibilities
- Independent Non-Executive Director
- Remuneration Committee Chair

Biography
Stevie is a respected Board director with executive and non-executive experience across the private, public and not for profit sectors. After a successful career in brand marketing and consumer advertising, she became CEO of Clear Channel, the world's largest out of home company, then of Future PLC, where she led its digital transformation to become the largest seller of digital magazines on the Apple Newsstand. She has Chaired the hugely popular BBC Children in Need appeals since 2008.

Peter Plumb
Roles and responsibilities
- Independent Non-Executive Director

Biography
Peter has been the CEO of Moneysupermarket.com, the leading price comparison service in the UK, since 2009. Peter studied civil engineering at Birmingham University and gained an MBA from IMD in Switzerland. Peter was UK Managing Director of dunnhumby, the engine room of Tesco's Clubcard, and has also held senior leadership roles in top consumer businesses including Disney, Dyson and PepsiCo.

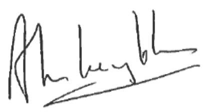
Responsibility statement of the directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

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

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

By order of the board of Co-operative Group Limited



Allan Leighton
Group Chair

3 September 2015

Independent review report by KPMG LLP to Co-operative Group Limited

Introduction

We have been engaged by Co-operative Group Limited ("the Society") to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 4 July 2015 which comprises the condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Society in accordance with the terms of our engagement to assist the Society in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA"). Our review has been undertaken so that we might state to the Society those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in the general accounting policies section of the 2014 Annual Report, the annual financial statements of the Society are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

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

Scope of review

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

Independent review report by KPMG LLP to Co-operative Group Limited
continued

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 week period ended 4 July 2015 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Chris Hearld
for and on behalf of KPMG LLP
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE

3 September 2015

Condensed Consolidated Income Statement
for the 26 weeks ended 4 July 2015

	Notes	**26 weeks ended 4 July 2015 (unaudited) £m**	26 weeks ended 5 July 2014 (unaudited) £m	52 weeks ended 3 January 2015 (audited) £m
Revenue		**4,637**	4,731	9,433
Operating expenses		**(4,566)**	(4,712)	(9,253)
Other income		**23**	24	47
Operating profit	1	**94**	43	227
Finance income	2	**13**	18	69
Finance costs	3	**(71)**	(98)	(169)
Share of profit / (loss) of associates and joint ventures	8	**-**	28	(3)
Profit / (loss) before tax		**36**	(9)	124
Taxation	4	**3**	2	(17)
Profit / (loss) after tax but before profit on discontinued operations		**39**	(7)	107
Profit on discontinued operations, net of tax	5	**-**	19	109
Profit for the period		**39**	12	216
Attributable to:				
Equity holders of the parent		**39**	12	216
Profit for the period		**39**	12	216

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

	Notes	**26 weeks ended 4 July 2015 (unaudited) £m**	26 weeks ended 5 July 2014 (unaudited) £m	52 weeks ended 3 January 2015 (audited) £m
Analysed as:				
Profit / (loss) before tax (as above)		**36**	(9)	124
Add back / (deduct):				
One-off items	1	**27**	39	68
Profits from property and business disposals		**(8)**	(2)	(99)
Change in value of investment properties		**(10)**	(14)	(16)
Finance income	2	**(13)**	(18)	(69)
Non-cash finance costs	3	**32**	31	30
Accelerated interest due to early repayment of debt	3	**-**	-	26
Share of loss / (profit) of associates and joint ventures	8	**-**	(28)	3
Underlying profit / (loss) before tax		**64**	(1)	67

Condensed Consolidated Statement of Comprehensive Income
for the 26 weeks ended 4 July 2015

	26 weeks ended 4 July 2015 (unaudited) £m	26 weeks ended 5 July 2014 (unaudited) £m	52 weeks ended 3 January 2015 (audited) £m
Profit for the period	**39**	12	216
Other comprehensive (losses) / income:			
Items that will never be reclassified to the income statement:			
Remeasurement (losses) / gains on employee pension schemes	**(304)**	126	707
Revaluation of property, plant and equipment	**-**	-	11
Related tax on items	**62**	(26)	(145)
	(242)	100	573
Items that are or may be reclassified to the income statement:			
Changes in available for sale assets	**(10)**	8	26
Share of other comprehensive (losses) / income from associates	**(5)**	(2)	14
Related tax on items	**-**	(2)	-
	(15)	4	40
Other comprehensive (losses) / income for the period net of tax	**(257)**	104	613
Total comprehensive (losses) / income for the period	**(218)**	116	829
Total comprehensive (losses) / income attributable to:			
Equity holders of the parent	**(218)**	116	829
	(218)	116	829

Condensed Consolidated Balance Sheet
as at 4 July 2015

	Notes	As at 4 July 2015 (unaudited) £m	As at 5 July 2014 (unaudited & restated)* £m	As at 3 January 2015 (audited) £m
Non-current assets				
Property, plant and equipment		**1,967**	2,053	1,998
Goodwill and intangible assets		**926**	929	925
Investment properties		**95**	87	99
Investments in associates and joint ventures	8	**319**	335	316
Investments in funeral plans		**698**	584	608
Investments from insurance activities		**672**	746	661
Reinsurance contracts		**59**	59	67
Derivatives		**52**	31	67
Pension assets	6	**961**	555	1,247
Trade and other receivables		**23**	110	24
Deferred tax assets		**263**	258	263
Reclaim fund assets		**70**	67	73
Total non-current assets		**6,105**	5,814	6,348
Current assets				
Inventories and biological assets		**427**	457	434
Trade and other receivables		**591**	705	566
Cash and cash equivalents		**588**	222	380
Assets held for sale	7	**35**	741	85
Investments from insurance activities		**253**	220	260
Reinsurance contracts		**17**	18	5
Reclaim fund assets		**457**	383	407
Total current assets		**2,368**	2,746	2,137
Total assets		**8,473**	8,560	8,485
Non-current liabilities				
Interest-bearing loans and borrowings	9	**1,087**	1,457	993
Trade and other payables		**950**	932	841
Derivatives		**40**	56	48
Provisions		**346**	339	375
Pension liabilities	6	**234**	229	258
Deferred tax liabilities		**279**	197	344
Insurance contracts		**423**	486	334
Reclaim fund liabilities		**453**	375	406
Total non-current liabilities		**3,812**	4,071	3,599
Current liabilities				
Overdrafts		**8**	8	8
Interest-bearing loans and borrowings	9	**23**	23	69
Income tax payable		**12**	105	13
Trade and other payables		**1,545**	1,603	1,381
Provisions		**138**	135	146
Insurance contracts		**288**	321	404
Liabilities held for sale	7	**-**	142	-
Total current liabilities		**2,014**	2,337	2,021
Total liabilities		**5,826**	6,408	5,620
Equity				
Members' share capital		**70**	70	70
Retained earnings		**2,483**	1,914	2,691
Other reserves		**94**	168	104
Total equity		**2,647**	2,152	2,865
Total equity and liabilities		**8,473**	8,560	8,485

* For further details of the restatement, refer to the accounting policies section.

Condensed Consolidated Statement of Changes in Equity
For the 26 weeks ended 4 July 2015 (unaudited)

	Members' share capital £m	Retained earnings £m	Other reserves £m	Total shareholder interest £m	Non-controlling interests £m	Total equity £m
Balance at 3 January 2015	**70**	**2,691**	**104**	**2,865**	**-**	**2,865**
Profit for the period	**-**	**39**	**-**	**39**	**-**	**39**
Other comprehensive income:						
Net changes in available for sale assets	**-**	**-**	**(10)**	**(10)**	**-**	**(10)**
Remeasurement gains on employee pension schemes	**-**	**(304)**	**-**	**(304)**	**-**	**(304)**
Pace pension surplus attributable to non Group entities	**-**	**(171)**	**-**	**(171)**	**-**	**(171)**
Restriction of pension surplus under IFRIC 14	**-**	**171**	**-**	**171**	**-**	**171**
Share of other comprehensive income from associates	**-**	**(5)**	**-**	**(5)**	**-**	**(5)**
Tax on items taken directly to other comprehensive income	**-**	**62**	**-**	**62**	**-**	**62**
Total other comprehensive income	**-**	**(247)**	**(10)**	**(257)**	**-**	**(257)**
Balance at 4 July 2015	**70**	**2,483**	**94**	**2,647**	**-**	**2,647**

For the 26 weeks ended 5 July 2014 (unaudited)

	Members' share capital £m	Retained earnings £m	Other reserves £m	Total shareholder interest £m	Non-controlling interests £m	Total equity £m
Balance at 4 January 2014	70	1,804	162	2,036	1	2,037
Profit for the period	-	12	-	12	-	12
Other comprehensive income:						
Net changes in available for sale assets	-	-	8	8	-	8
Remeasurement gains on employee pension schemes	-	126	-	126	-	126
Pace pension surplus attributable to non Group entities	-	(100)	-	(100)	-	(100)
Restriction of pension surplus under IFRIC 14	-	100	-	100	-	100
Share of other comprehensive income from associates	-	(2)	-	(2)	-	(2)
Tax on items taken directly to other comprehensive income	-	(26)	(2)	(28)	-	(28)
Total other comprehensive expense	-	98	6	104	-	104
Distributions to members:						
Dividend - non-controlling interests	-	-	-	-	(1)	(1)
Distributions to members	-	-	-	-	(1)	(1)
Balance at 5 July 2014	70	1,914	168	2,152	-	2,152

For the 52 weeks ended 3 January 2015 (audited)

	Members' share capital £m	Retained earnings £m	Other reserves £m	Total shareholder interest £m	Non-controlling interests £m	Total equity £m
Balance at 4 January 2014	70	1,804	162	2,036	1	2,037
Profit for the period	-	216	-	216	-	216
Other comprehensive income:						
Gains less losses on available for sale assets	-	-	29	29	-	29
Available for sale cumulative gains transferred to income statement	-	-	(3)	(3)	-	(3)
Remeasurement gains on employee pension schemes	-	707	-	707	-	707
Pace pension surplus attributable to non Group entities	-	(226)	-	(226)	-	(226)
Restriction of pension surplus under IFRIC 14	-	226	-	226	-	226
Revaluation of property, plant and equipment	-	-	11	11	-	11
Revaluation reserve recycled to retained earnings	-	95	(95)	-	-	-
Share of other comprehensive income from associates	-	14	-	14	-	14
Tax on items taken directly to other comprehensive income	-	(145)	-	(145)	-	(145)
Total other comprehensive income / (expense)	-	671	(58)	613	-	613
Distributions to members:						
Dividend - non-controlling interests	-	-	-	-	(1)	(1)
Distributions to members	-	-	-	-	(1)	(1)
Balance at 3 January 2015	70	2,691	104	2,865	-	2,865

Condensed Consolidated Statement of Cash Flows
for the 26 weeks ended 4 July 2015

	Notes	**26 weeks ended 4 July 2015 (unaudited)**	26 weeks ended 5 July 2014 (unaudited)	52 weeks ended 3 January 2015 (audited)
		£m	£m	£m
Net cash from / (used in) operating activities	10	**308**	(1)	(13)
Cash flows from investing activities				
Acquisition of property, plant and equipment		**(144)**	(97)	(279)
Proceeds from sale of property, plant and equipment		**90**	236	341
Purchase of intangible assets		**-**	(10)	(15)
Proceeds from sale of investments		**-**	-	4
Disposal of businesses, net of cash disposed		**13**	(15)	796
Dividends received from investments		**6**	4	5
Net cash (used in) / from investing activities		**(35)**	118	852
Cash flows from financing activities				
Interest paid on borrowings		**(20)**	(46)	(150)
Issue / (repayment) of corporate investor shares		**8**	(13)	(13)
Member payments		**-**	-	-
Additional payments into pension schemes		**(23)**	(23)	(48)
Repayment of borrowings, net of derivatives		**(50)**	(80)	(484)
Issue of borrowings, net of derivatives		**68**	-	-
Dividends paid to non-controlling interests		**-**	-	(1)
Finance leases repaid		**(2)**	(1)	(1)
Net cash used in financing activities		**(19)**	(163)	(697)
Net increase / (decrease) in cash and cash equivalents		**254**	(46)	142
Cash and cash equivalents at beginning of period		**779**	637	637
Cash and cash equivalents at end of period		**1,033**	591	779
Analysis of cash and cash equivalents				
Overdrafts		**(8)**	(8)	(8)
Cash held in Reclaim fund		**453**	377	407
Cash and cash equivalents per balance sheet		**588**	222	380
		1,033	591	779

Included in the above are cash flows from discontinued operations.

Accounting policies and basis of preparation

These condensed consolidated interim financial statements of the Society for the period ended 4 July 2015 ("the interim financial statements") comprise the Society and its subsidiaries (together referred to as the "Group") and the Group's investments and jointly controlled entities.

The audited consolidated financial statements ("the 2014 annual report") of the Group for the year ended 3 January 2015 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 4 July 2015 are unaudited and do not constitute statutory accounts. They have been reviewed by the auditors and their report is set out on pages 10 and 11 of this statement.

Statement of compliance
These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed and adopted for use in the European Union, and the Disclosure and Transparency Rules (DTR) of the Financial Services Authority. They do not include all the statements required for full annual financial statements and should be read in conjunction with the 2014 annual report.

The comparative figures for the financial year ended 3 January 2015 presented within these financial statements are not the Society's statutory financial statements for that financial year. Those financial statements have been reported on by the Society's auditors. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters in which the auditors drew attention by way of emphasis without qualifying their report, and (iii) contained no statement that the Society did not keep appropriate accounting records.

These interim financial statements were approved by the Board of Directors on 2 September 2015.

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 2014 annual report.

Accounting policies
The accounting policies applied in preparing these interim financial statements are consistent with those described in the Group's 2014 annual report. The comparative figures presented within these financial statements for the financial year ended 3 January 2015 and the interim period ended 5 July 2014 are consistent with the 2014 annual report and 2014 interim report respectively, with the exception of the restatements noted below:

- The result from the Group's Estates business has been reported in the segmental analysis within Food (previously reported within in Corporate costs) to align with, and following a change in, the information that is reported to the CODM.

Mixed presentation and definitions of Trading Group and Financial Services
Up to and including the 2013 interim report, a mixed presentation had been applied to the Group's consolidated balance sheet to separately present the Group's Financial Services activities (formerly referred to as the Co-operative Banking Group) from its Trading Group entities (the Trading Group).

Following the disposal of the Co-operative Life and Savings business and 80% of the Group's shareholding in the Co-operative Bank plc, the current and prior year balance sheets of the Financial Services Group only includes CIS General Insurance Limited (CISGIL), other smaller entities (mainly holding, ancillary companies and the Reclaim Fund Limited) and the Group's remaining 20.2% investment in the Co-operative Bank plc.

Therefore, and following this significant change in the nature of the entity's operations, it is now deemed more appropriate that the balance sheet is presented singularly, with both Financial Services and Trading Group balances consolidated into a current and non-current presentation. The balance sheet was prepared on this basis in the 2014 Annual Report.

This treatment is deemed to be more relevant to a user of the financial statements than a presentation in order of liquidity which is mainly used in banking entities. The prior period comparatives (as at 5 July 2014) of the consolidated balance sheet have therefore been restated to reflect the reclassification as shown below:

As at 5 July 2014	Prior period figure reported (£m)	Non-current restated (£m)	Current restated (£m)
Cash and balances at central banks	94	-	94
Investments	966	746	220
Investments in associates and joint ventures	246	246	-
Reinsurance contracts	77	59	18
Intangible assets	44	44	-
Property, plant and equipment	21	21	-
Deferred tax assets	74	74	-
Prepayments and other receivables	425	90	335
Reclaim Fund assets	450	67	383
Amounts owed to credit institutions (overdrafts)	(8)	-	(8)
Insurance contracts	(807)	(486)	(321)
Trade and other payables	(423)	(243)	(180)
Deferred tax liabilities	(5)	(5)	-
Pension liabilities	(8)	(8)	-
Provisions	(21)	-	(21)
Reclaim Fund liabilities	(375)	(375)	-

Going concern

In assessing the appropriateness of the going concern basis of preparation, the Directors have firstly considered the Trading Group, CBG and the General Insurance business separately, as they are independently funded. The Directors have then, taking the individual assessments into account, considered the overall going concern position of the Group.

The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future and, in preparing the condensed consolidated interim financial information, have therefore continued to adopt the going concern basis in preparing the condensed consolidated interim financial statements.

Trading Group
The Trading Group meets its working capital requirements through a number of separate funding facilities. Profitability and cash flow forecasts for the Trading Group, prepared for the period to September 2016, and adjusted for reasonably possible sensitivities in relation to both trading performance and cash flow requirements, indicate that the Trading Group will have sufficient resources available within its current facilities to meet its working capital needs and repay its debts as they fall due.

Co-operative Banking Group (CBG)
Profitability and cash flow forecasts for CBG, prepared for the period to September 2016 (the forecast period), and adjusted for sensitivities considered by the Board to be reasonably possible in relation to both trading performance and cash flow requirements, indicate that CBG will have sufficient resources to meet its working capital needs, and to meet its obligations as they fall due.

General Insurance
The Group's insurance business has to comply with a number of regulatory capital requirements. Current forecasts show that the insurance business will be able to operate within its regulatory capital requirements for the foreseeable future.

Conclusion
After consideration of the factors set out above, and, after making all appropriate enquiries, the Directors have a reasonable expectation that the Group has access to adequate resources to enable it to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group's financial statements

Notes to the interim financial statements

1 Operating segments

The segmental information presented below reflects the key components of the Group, the operating results of which are regularly reviewed by the Chief Operating Decision Maker (CODM), which is considered to be the Group Board.

26 weeks ended 4 July 2015 (unaudited)	**Revenue from external customers (c)**	**Underlying segment operating profit (a)**	**Operating profit**
	£m	**£m**	**£m**
Food	**3,485**	**120**	**140**
Funeralcare	**216**	**52**	**51**
General Insurance	**159**	**-**	**(17)**
Other businesses (f)	**46**	**4**	**4**
Federal (c)	**731**	**-**	**-**
Corporate costs	**-**	**(73)**	**(84)**
Total	**4,637**	**103**	**94**

26 weeks ended 5 July 2014 (unaudited & restated) (b)	Revenue from external customers (c)	Underlying segment operating profit (a)	Operating profit
	£m	£m	£m
Food	3,555	99	97
Funeralcare	187	35	35
General Insurance	189	(7)	(7)
Other businesses (f)	70	1	1
Federal (c)	730	-	-
Corporate costs	-	(62)	(83)
Total	4,731	66	43

52 weeks ended 3 January 2015 (audited & restated) (b)	Revenue from external customers (c)	Underlying segment operating profit (a)	Operating profit
	£m	£m	£m
Food	7,085	244	343
Funeralcare	363	66	66
General Insurance	371	(7)	(7)
Other businesses (f)	135	8	20
Federal (c)	1,479	-	-
Corporate costs	-	(131)	(195)
Total	9,433	180	227

a) Underlying segment operating profit is a non-GAAP measure of segment operating profit before the impact of property and business disposals, change in value of investment properties and one-off items.

b) The operating segments are restated since 3 January 2015 such that the results of the Estates division are now included within Food (previously within Corporate costs). See accounting policies section.

c) 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.

d) Transactions between operating segments excluded in the above analysis are £nil (2014: £12m) sales of Sunwin Services Group, £3m (2014: £4m) sales of Co-op Electrical and £1m (2014: £1m) sales of Co-operative Legal Services.

e) The difference between underlying segment operating profit and operating profit includes one-off items of £27m (2014: £39m) which principally relates to £17m (2014: £nil) of replatforming costs within the General Insurance business, £9m (2014: £14m) of restructuring and rebuild related costs (included in Corporate costs) and £nil (2014: £25m) rationalisation costs relating to the Food supply network.

f) Other businesses comprise Legal Services (part of our Consumer Services Division) and Co-operative Electricals. The 2014 comparatives also include the Sunwin Services business, disposed in 2014.

Notes to the interim financial statements continued

1 Operating segments continued

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

	Note	**26 weeks ended 4 July 2015 (unaudited) £m**	26 weeks ended 5 July 2014 (unaudited) £m	52 weeks ended 3 January 2015 (audited) £m
Underlying segment operating profit		**103**	66	180
Underlying interest payable	3	**(39)**	(67)	(113)
Underlying profit / (loss) before tax		**64**	(1)	67
One-off items (see above)		**(27)**	(39)	(68)
Profits from property and business disposals		**8**	2	99
Change in value of investment properties		**10**	14	16
Finance income	2	**13**	18	69
Non-cash finance costs	3	**(32)**	(31)	(30)
Accelerated interest due to early repayment of debt	3	**-**	-	(26)
Share of (loss) / profit of associates and joint ventures	8	**-**	28	(3)
Profit / (loss) before tax		**36**	(9)	124

2 Finance income

	26 weeks ended 4 July 2015 (unaudited) £m	26 weeks ended 5 July 2014 (unaudited) £m	52 weeks ended 3 January 2015 (audited) £m
Net pension finance income	**19**	5	12
Fair value movement on interest rate swaps	**(6)**	13	57
Total finance income	**13**	18	69

3 Finance costs

	26 weeks ended 4 July 2015 (unaudited) £m	26 weeks ended 5 July 2014 (unaudited) £m	52 weeks ended 3 January 2015 (audited) £m
Loans repayable within five years	**(35)**	(52)	(99)
Loans repayable wholly or in part after five years	**(4)**	(15)	(14)
Underlying interest payable	**(39)**	(67)	(113)
Accelerated interest due to the early repayment of debt	**-**	-	(26)
Accelerated fee amortisation due to the early repayment of debt	**-**	-	(4)
Fair value movement on quoted debt	**(24)**	(24)	(15)
Discount unwind of payables and provisions	**(8)**	(7)	(11)
Non-cash finance costs	**(32)**	(31)	(56)
Total finance costs	**(71)**	(98)	(169)

Fair value movements on forward currency transactions were immaterial in the current and prior period.

4 Taxation

Although the Group reported a profit for the half year, there is a tax credit of £3m. This has arisen because the Group's policy is to use a best estimate of the effective tax rate for the expected full year to establish the half year tax charge. The forecast effective tax rate for the period to 3 January 2016 is negative due to the fact that permanently disallowable costs and depreciation are expected to exceed the expected result for the full year. The forecast effective tax rate is -9.1% (period ended 5 July 2014: 13.7%).

5 Profit on discontinued operations, net of tax

The Group announced on 26 February 2014 that it intended to sell its Pharmacy business. The results for this division were therefore reported as discontinued, as required by IFRS 5, in both the full year and half year comparative periods.

	26 weeks ended 4 July 2015 (unaudited) £m	26 weeks ended 5 July 2014 (unaudited) £m	52 weeks ended 3 January 2015 (audited) £m
Revenue	-	386	578
Expenses	-	(364)	(528)
Other income	-	-	-
Results from operating activities	-	22	50
Profit on sale of discontinued operations	-	-	61
Profit before tax	-	22	111
Tax - relating to operating activities	-	(3)	(2)
Profit for the period	-	19	109

Pharmacy segmental analysis

	Revenue from external customers £m	**Underlying segment operating profit £m**	**Operating profit £m**
26 weeks ended 4 July 2015 (unaudited)	-	-	-
26 weeks ended 5 July 2014 (unaudited)	386	20	20
52 weeks ended 3 January 2015 (audited)	578	30	30

The amounts in the table above do not include the IFRS 5 adjustment to cease depreciation and amortisation from 26 February 2014 when the Pharmacy business became an asset held for sale. This is because the information given to the Chief Operating Decision Maker did not include this adjustment. If this adjustment was made then the operating profit for the half year to 5 July 2014 would have been £11m higher (at £31m) and the operating profit for the year to 3 January 2015 would have been £20m higher (at £50m).

Notes to the interim financial statements continued

6 Pensions

The Group operates a number of defined benefit 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 arrangements.

The main defined benefit pension scheme for the Group is the Pace scheme. The actuarial valuations for the Pace scheme have been updated to 4 July 2015 in accordance with IAS 19. All other schemes have only been adjusted for interest and cash movements. On 30 April 2015, the Lothian, Sheffield and Brixham pension schemes and the majority of the Leeds pension scheme transferred into the Pace scheme.

	4 July 2015 (unaudited)	5 July 2014 (unaudited)	3 January 2015 (audited)
The principal assumptions used to determine the liabilities of the Pace pension scheme were:			
Discount rate	**3.80%**	4.30%	3.70%
Inflation rate	**3.50%**	3.60%	3.30%
Future pension increases where capped at 5.0% pa - Retail Price Index	**3.50%**	3.60%	3.30%
Future pension increases where capped at 5.0% pa - Consumer Price Index	**2.50%**	2.60%	2.30%
Future pension increases where capped at 2.5% pa - Retail Price Index	**2.50%**	2.50%	2.50%
Future pension increases where capped at 2.5% pa - Consumer Price Index	**2.50%**	2.50%	2.30%

	4 July 2015 (unaudited) £m	5 July 2014 (unaudited) £m	3 January 2015 (audited) £m
Pension schemes in surplus	**961**	555	1,247
Pension schemes in deficit	**(234)**	(229)	(258)
Closing net retirement benefit	**727**	326	989

	4 July 2015 (unaudited) £m	5 July 2014 (unaudited) £m	3 January 2015 (audited) £m
Opening net retirement benefit attributable to Group	**763**	29	29
Derecognition of EFRBS liabilities from Pace scheme	**-**	-	4
Current service cost and admin expenses	**(31)**	(37)	(66)
Past service cost	**-**	-	11
Net finance income	**15**	2	7
Contributions by employer	**48**	54	134
Change in Share of Pace attributable to Group from 60% to 80%	**-**	65	65
Remeasurement (losses) / gains	**(239)**	113	579
Closing net retirement benefit attributable to Group	**556**	226	763
IFRIC 14 adjustment	**171**	100	226
Closing net retirement benefit	**727**	326	989

Since December 2013, the Pace scheme has been a multi-employer scheme. The reliable basis for splitting the scheme is estimated based on the Bank's contribution to deficit recovery payments which is 20% (2014: 20%). Pace still shows a balance sheet surplus, however as the Bank is not entitled to a share of any refund of the surplus, the remeasurement (losses) / gains include an adjustment to reduce the Bank's share to zero, which excludes the £171m (£100m as at 5 July 2014) portion of the scheme no longer attributable to the Group, but then adds this back based on the principles of IFRIC 14 because only the Group is entitled to any refund of the surplus of the scheme.

7 Assets and liabilities held for sale

The assets and liabilities held for sale at 4 July 2015 relate to a number of foodstores.

The assets and liabilities held for sale at 5 July 2014 related to both the Pharmacy and Farms divisions of the Group, and £46m of property, plant and equipment in relation to a group of Food stores which were sold in the second half of 2014. The Farms division was not included within discontinued operations, as it was not a major line of business, but was included within assets and liabilities held for sale as the sale of the business was considered to be highly probable within 12 months of the balance sheet date.

The assets and liabilities held for sale at 3 January 2015 related to a number of foodstores.

	4 July 2015 (unaudited) £m	5 July 2014 (unaudited) £m	3 January 2015 (audited) £m
Assets held for sale	**35**	741	85
Liabilities held for sale	-	142	-

Assets classified as held for sale

	4 July 2015 (unaudited) £m	5 July 2014 (unaudited) £m	3 January 2015 (audited)
Property, plant and equipment	**34**	192	85
Intangible assets	**1**	347	-
Investment property	**-**	21	-
Investments in associates and joint ventures	**-**	1	-
Trade and other receivables	**-**	112	-
Inventory and biological assets	**-**	68	-
	35	741	85

Liabilities classified as held for sale

	4 July 2015 (unaudited) £m	5 July 2014 (unaudited) £m	3 January 2015 (audited) £m
Deferred tax	**-**	19	-
Trade and other payables	**-**	119	-
Provisions	**-**	4	-
	-	142	**-**

8 Investments in associates and joint ventures

The Group's share of comprehensive (losses) / income in relation to associates and joint ventures for the period was a £nil profit (26 weeks ended 5 July 2014: £28m profit). A breakdown of the investment and income is disclosed below:

	26 weeks ended 4 July 2015		26 weeks ended 5 July 2014		52 weeks ended 3 January 2015	
	Income	**Investments**	Income	Investments	Income	Investments
	(unaudited)		(unaudited)		(audited)	
	£m	**£m**	£m	£m	£m	£m
The Co-operative Bank plc	**5**	**224**	27	246	(10)	224
TCCT Holdings UK Limited (Travel)	**(7)**	**36**	-	42	6	48
NOMA	**1**	**31**	-	29	1	31
Windfarm joint ventures	**1**	**26**	1	13	-	11
Other investments	**-**	**2**	-	5	-	2
	-	**319**	28	335	(3)	316

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

	26 weeks ended 4 July 2015			26 weeks ended 5 July 2014			52 weeks ended 3 January 2015		
	Associates and joint ventures	**Other investments**	**Total**	Associates and joint ventures	Other investments	Total	Associates and joint ventures	Other investments	Total
	(unaudited)			(unaudited)			(audited)		
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
At beginning of period	**314**	**2**	**316**	280	5	285	280	5	285
Addition of associates	**-**	**-**	**-**	29	-	29	31	-	31
Transfer from investment property	**14**	**-**	**14**	-	-	-	-	-	-
Share of profits / (losses)	**-**	**-**	**-**	30	-	30	(3)	-	(3)
Share of other comprehensive income	**(5)**	**-**	**(5)**	(2)	-	(2)	14	-	14
Dividends received	**(6)**	**-**	**(6)**	(4)	-	(4)	(5)	-	(5)
Transfer to assets held for sale	**-**	**-**	**-**	(1)	-	(1)	-	-	-
Disposals	**-**	**-**	**-**	(2)	-	(2)	(3)	(3)	(6)
At end of period	**317**	**2**	**319**	330	5	335	314	2	316

Twin Rivers Windfarm

On the 8 May 2015, the Group completed an agreement with InfraRed Capital Partners to develop a windfarm on Twin Rivers Farm in Goole which was formerly owned by the Group's former farming business. The partnership will develop a 14 turbine windfarm for the purposes of generating electricity and it is expected that the site will contribute a third of the Group’s ethical plan target of 25% own electricity generation. As decisions about the relevant activities of the windfarm can only take place with unanimous consent of both parties it is considered to be a joint arrangement. As the Group has rights to the net assets of the arrangement it is considered to be a joint venture and the Group therefore equity accounts for its investment in its financial statements. The wind farm was previously held within Investment Properties and was transferred into Investments in Associates on completion of the joint venture. The Group's risk associated with its interest in the windfarm arises if future energy prices were to fall below projections leading to impairments in the joint venture and therefore a potential impairment in the value of the Group's investment. There are no restrictions to transfer funds to the entity in the form of cash dividends or repay loans or advances made by the entity.

Contingent liabilities and commitments of associates and joint ventures

Details of contingent liabilities and commitments in relation to The Co-operative Bank Plc at 3 January 2015 were disclosed in the 2014 annual report. These included the following key areas: Conduct and Consumer Credit Act issues; regulatory and other investigations; legal proceedings; mortgage securitisation representations and warranties; pensions; former Britannia Building Society pension scheme guarantee and tax treatment of Bank separation. The items disclosed remain broadly unchanged.

9 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For a breakdown of IFRS 13 level hierarchies in relation to these borrowings, see note 13.

	As at 4 July 2015 (unaudited) £m	As at 5 July 2014 (unaudited) £m	As at 3 January 2015 (audited) £m
Non-current liabilities:			
Unsecured bank loans	**-**	450	-
5 5⁄8% Eurobond Notes due 2020*	**484**	477	470
6 1⁄4% Eurobond Notes due 2026*	**380**	376	369
7 5⁄8% First Mortgage Debenture Stock 2018*	**21**	21	21
11% final repayment subordinated notes due 2025	**109**	109	109
Instalment repayment notes (final payment 2025)	**18**	19	18
Corporate investor shares	**2**	-	2
Non-current portion of finance lease liabilities	**5**	5	4
Trading Group interest bearing loans and borrowings	**1,019**	1,457	993
12% Financial Services subordinated debt due 2025	**68**	-	-
Total Group interest bearing loans and borrowings	**1,087**	1,457	993

	As at 4 July 2015 (unaudited) £m	As at 5 July 2014 (unaudited) £m	As at 3 January 2015 (audited) £m
Current liabilities:			
Unsecured bank loans	**-**	-	50
Instalment repayment notes (final payment 2025)	**1**	1	1
Corporate investor shares	**19**	13	11
Current portion of finance lease liabilities	**1**	3	5
Other unsecured loans	**2**	6	2
Total Group interest bearing loans and borrowings	**23**	23	69

The 12% Financial Services subordinated debt was issued by CISGIL on 8 May 2015 to raise finance to fund its transformation project.

* These drawn down loan commitments are designated as financial liabilities at fair value through the income statement. All of the other liabilities, except the finance lease liability, are classified as loans and receivables in accordance with IAS 39.

9 Interest-bearing loans and borrowings continued

Reconciliation of movement in net debt

Net debt is a measure that shows the Trading Group's net indebtedness to banks and other external financial institutions and comprises the total of cash and short-term deposits less deposits held in trustee-administered bank accounts and current and non-current interest-bearing loans and borrowings. The analysis below does not include £58m (2014: £86m) of Financial Services cash or £68m (2014: £nil) of Financial Services loan balances.

For 26 weeks ended 4 July 2015 (unaudited)

	Start of period	Non cash movements	Cash flow	Movement in corporate investor shares	Transfers between current and non-current	End of period
	£m	£m	£m	£m	£m	£m
Cash and cash equivalents	**307**	**-**	**215**	**-**	**-**	**522**
Less:						
- Deposits held in trustee-administered bank accounts	**(53)**	**-**	**3**	**-**	**-**	**(50)**
- Interest-bearing loans and borrowings - non-current	**(993)**	**(26)**	**-**	**-**	**-**	**(1,019)**
- Interest-bearing loans and borrowings - current	**(69)**	**4**	**50**	**(8)**	**-**	**(23)**
Net debt	**(808)**	**(22)**	**268**	**(8)**	**-**	**(570)**

For 26 weeks ended 5 July 2014 (unaudited)

	Start of period	Non cash movements	Cash flow	Movement in corporate investor shares	Transfers between current and non-current	End of period
Cash and cash equivalents	200	-	(72)	-	-	128
Less:						
- Deposits held in trustee-administered bank accounts	(50)	-	3	-	-	(47)
- Interest-bearing loans and borrowings - non-current	(6)	(24)	79	-	(1,506)	(1,457)
- Interest-bearing loans and borrowings - current	(1,544)	27	1	(13)	1,506	(23)
Net debt	(1,400)	3	11	(13)	-	(1,399)

For 52 weeks ended 3 January 2015 (audited)

	Start of period	Non cash movements	Cash flow	Movement in corporate investor shares	Transfers between current and non-current	End of period
Cash and cash equivalents	200	-	107	-	-	307
Less:						
- Deposits held in trustee-administered bank accounts	(50)	-	(3)	-	-	(53)
- Interest-bearing loans and borrowings - non-current	(6)	(9)	484	(2)	(1,460)	(993)
- Interest-bearing loans and borrowings - current	(1,544)	-	-	15	1,460	(69)
Net debt	(1,400)	(9)	588	13	-	(808)

Notes to the interim financial statements continued

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

	26 weeks ended 4 July 2015 (unaudited) £m	26 weeks ended 5 July 2014 (unaudited) £m	52 weeks ended 3 January 2015 (audited) £m
Operating profit	**94**	43	227
Profit before tax on discontinued operations	**-**	22	111
Depreciation and amortisation charges (excluding DACs)	**131**	135	279
Non-current asset impairments	**5**	-	22
(Profit) / loss on disposal of non current assets	**(23)**	7	(311)
Change in value of investment properties	**(10)**	(14)	(16)
Effect of non-cash pension costs	**-**	2	-
Decrease in inventories and biological assets	**7**	1	26
(Increase) / decrease in receivables	**(99)**	(70)	106
Increase / (decrease) in payables and provisions*	**250**	(135)	(476)
Tax received	**-**	3	-
Net cash flow used in Trading activities	**355**	(6)	(32)
Fair value through profit and loss movement	**(18)**	86	51
Assets available for sale movement	**4**	(74)	37
Movement in deferred acquisition costs	**(2)**	7	15
Reinsurance assets	**(4)**	(20)	(15)
Loan receivables at amortised cost	**1**	1	3
Insurance and other receivables	**(36)**	63	50
Insurance and participation contract provisions	**(27)**	(59)	(128)
Insurance and other payables	**35**	1	6
Movements in assets and liabilities in financial services	**(47)**	5	19
Net cash flow from / (used in) operating activities	**308**	(1)	(13)

The cash flows above and in the cash flow statement include discontinued operations and Reclaim Fund cash flows.

* The decrease in payables and provisions for the 52 weeks ended 3 January 2015 includes a £313m capital contribution to Co-operative Bank Plc.

11 Commitments and contingent liabilities

a) Capital expenditure committed by the Group at 4 July 2015 was £nil (5 July 2014: £1m). This all related to property, plant and equipment in the prior year.

b) There are no significant changes to the contingent liabilities of the Group as disclosed in the 2014 annual report.

12 Related party transactions and balances

The Group's significant related party transactions are those transactions undertaken with its associate the Co-operative Bank plc, as disclosed in the 2014 annual report. Significant changes to those relationships and transactions since the year end are as follows:

Pensions undertaking

On 4 November 2013, the Group and the Bank entered into an undertaking whereby the Group agreed with the Bank not to require the Bank to cease to participate in Pace in connection with the LME. The parties also agreed at the request of one of the parties to enter into good faith discussions to reach agreement on the separation of Pace and agree the Bank's proportion of employer contributions in Pace (and if not agreed, the matter will be referred to an independent third party). The Group and the Bank have differing views as to the Pace liabilities that are properly attributable to the Bank. As such, good faith discussions have not concluded and no Pace separation terms have been agreed. The Bank has expressed an intention to conclude negotiations over its exposure, the scale of contributions and its role in the longer-term scheme. The aim is to conclude these discussions during 2016.

CFSMS transactions

CFSMS is a subsidiary of The Co-operative Banking Group and continues to undertake the provision of supplies and services on behalf of the Bank. Further details of the CFSMS - Bank Framework agreement are disclosed below.

CFSMS-Bank Framework

On 16 February 2006, CFSMS and the Bank entered into the CFSMS-Bank Services Agreement pursuant to which CFSMS provides assets such as office equipment, materials and office space, and other facilities and services, and consultants who act as secondees to the Bank. The Bank provides CFSMS with an indemnity for all liabilities, losses, damages, costs and expenses of any nature as a result of CFSMS entering into and performing the agreement in respect of the assets, services and personnel provided to the Bank. CFSMS and the Bank commenced unwinding this arrangement during 2014 with the transfer of the employment of most staff to the Bank, the transfer of assets to the Bank, and the Bank entering in to contracts with third party suppliers to replace those services previously provided through CFSMS or the wider Group. These activities continue into 2015, in particular in respect of the Bank's transition of enterprise services to IBM. The Bank will continue to make use of CFSMS assets used by both the Bank and CISGIL until full IT separation takes place, which the IT Separation Costs Agreement envisages will be completed before the end of 2017. In the IT Separation Costs Agreement CFSMS undertakes that any notice given by CFSMS to terminate the CFSMS-Bank Framework Agreement would not take effect prior to 31 December 2017, to give the Bank sufficient time to separate the Bank’s IT infrastructure.

Tax loss share

As part of the negotiations relating to the separation of the Bank from the Group, the Group and the Bank also agreed terms relating to the group relief surrendered from entities in the Bank to entities in the Group prior to separation. The basis of the agreement is set out in a deed that also addresses the terms of the payments to be made by the Group to the Bank in relation the tax losses. The Group makes payment to the Bank when the Group realises the benefit of the losses surrendered and at the corporation tax rate at which the benefit is realised. A payables balance of £160m as at 4 July 2015 (as at 3 January 2015: £181m) in respect of amounts due to the Bank is included within trade and other payables.

Master Services Agreement (MSA) and Shared Finance Services Service Package

In March 2015, CFSMS entered into a Master Services Agreement with the Bank in recognition that there may be additional services (other than IT security) that may be required between the entities following the TUPE transfers from CFSMS to the Bank. The MSA sets out the framework terms and conditions under which the Bank would provide services back to CFSMS. At the time of signature of the MSA, a Service Package for Shared Finance Services was also signed. The MSA applies to 3 categories of services: (i) services identified from time to time in Service Packages, (ii) a list of "undocumented" services (these did not have to be defined to the same level of detail required by a Service Package), and (iii) new services that may from time to time be identified as being provided by the Bank to CFSMS.

The following balances are outstanding with the Bank for the period ends in which it has been an associate:

	4 July 2015 (unaudited) £m	5 July 2014 (unaudited) £m	3 January 2015 (audited) £m
Loans	**(1)**	**(50)**	(51)
Intercompany assets	**113**	**71**	126
Bank balance / (overdraft)	**208**	**(17)**	247
Intercompany liabilities	**(186)**	**(286)**	(163)

Notes to the interim financial statements continued

13 Financial instruments

Fair values of the Trading Group recognised in the balance sheet

The following table provides an analysis of financial instruments that are recognised at fair value. These are grouped in to three levels based on the following valuation techniques:

• Level 1 - quoted market prices in an active market

• Level 2 - valuation techniques using observable inputs

• Level 3 - valuation techniques using unobservable inputs

	4 July 2015 (unaudited)			5 July 2014 (unaudited)			3 January 2015 (audited)		
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	Level 1 £m	Level 2 £m	Level 3 £m	Level 1 £m	Level 2 £m	Level 3 £m
Non-financial assets held at fair value									
Property, plant and equipment	**-**	**-**	**-**	-	-	-	-	-	-
Investment properties	**-**	**-**	**95**	-	-	87	-	-	99
Financial assets									
Trade and other receivables	**-**	**381**	**-**	-	391	-	-	407	-
Cash and cash equivalents	**-**	**522**	**-**	-	128	-	-	307	-
Investments in funeral plans	**-**	**-**	**698**	-	-	584	-	-	608
Derivative financial assets and liabilities									
Interest rate swaps:									
Assets	**-**	**52**	**-**	-	31	-	-	67	-
Liabilities	**-**	**(40)**	**-**	-	(56)	-	-	(48)	-
Non-derivative financial liabilities									
Secured debt:									
- First mortgage debenture 2018	**(21)**	**-**	**-**	(21)	-	-	(21)	-	-
Other secured loans									
Unsecured bond issue:									
- Fixed-rate sterling eurobond	**(864)**	**-**	**-**	(853)	-	-	(839)	-	-
Unsecured subordinated notes:									
- Final Repayment Subordinated Notes	**(109)**	**-**	**-**	(109)	-	-	(109)	-	-
- Instalment Repayment Subordinated Notes	**(18)**	**-**	**-**	(19)	-	-	(19)	-	-
Unsecured bank facilities:									
- Other unsecured loans	**-**	**(2)**	**-**	-	(456)	-	-	(52)	-
Corporate investor shares	**-**	**(21)**	**-**	-	(13)	-	-	(11)	-
Finance lease liabilities	**-**	**-**	**(6)**	-	-	(8)	-	-	(9)
Trade and other payables (excluding accruals, deferred income and funeral bonds)	**-**	**(1,209)**	**-**	-	(1,278)	-	-	(1,171)	-

There were no transfers between Levels 1 and 2 during the period and no transfers into and out of Level 3 fair value measurements.

Basis of valuation of Level 1 financial liabilities:

Interest bearing loans and borrowings - these are shown at amortised cost which presently equate to fair value or are determined in whole by using quoted market prices.

Basis of valuation of Level 2 financial assets and liabilities:

Trade and other receivables/payables - the notional amount is deemed to reflect the fair value.

Derivatives - forward exchange contracts, such as the Group's interest rate swaps, are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate. For interest rate swaps, broker quotes are used. Those quotes are back-tested using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market-related data at the balance sheet date.

Basis of valuation of Level 3 financial assets and liabilities:

Investments in funeral plans - the Group holds investments in respect of funeral plan policies which are invested in either Individual Whole of Life Policies, Trusts or life assurance products. At the point of sale both the initial plan investment and the liability for the funeral delivery are recorded at the plan value less the revenue recognised on sale (in accordance with IAS 18). On future measurement, the plan investment is recorded at fair value as it is designated as available for sale. An analysis of the movement and reconciliation between the opening and closing balance is shown in the table below.

13 Financial instruments (continued)

Funeral Plan Investments	4 July 2015 (unaudited) £m	5 July 2014 (unaudited) £m	3 January 2015 (audited) £m
At start of period	**608**	517	517
New plan purchases	**54**	47	87
Plans redeemed or cancelled	**(28)**	(28)	(43)
Interest and bonus applied	**64**	48	47
At end of period	**698**	584	608

Investment properties - The valuation has been carried out by a number of external chartered surveyors: CBRE and Smiths Gore; as well as in-house valuers, on the basis of open market value in accordance with the RICS Appraisal and Valuation Manual.

Investment properties	4 July 2015 (unaudited) £m	5 July 2014 (unaudited) £m	3 January 2015 (audited) £m
At start of period	**99**	98	98
Additions	**2**	-	2
Disposals	**(3)**	(3)	(14)
Transfers to assets held for sale		(22)	-
Transfers from / (to) property, plant and equipment	**1**	-	(3)
Transfers to investments in joint ventures	**(14)**	-	-
Revaluation gain recognised in income statement	**10**	14	16
At end of period	**95**	87	99

Fair values of General Insurance recognised in the balance sheet

Based upon guidance issued by The Committee of European Securities Regulators (CESR), CISGIL classifies debt securities in Level 1 only if it can be demonstrated on an individual security by security basis that these are quoted in an active market, i.e. that the price quotes obtained are representative of actual trades in the market (through obtaining binding quotes or through corroboration to published market prices).

	4 July 2015 (unaudited)			5 July 2014 (unaudited)			3 January 2015 (audited)		
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	Level 1 £m	Level 2 £m	Level 3 £m	Level 1 £m	Level 2 £m	Level 3 £m
Assets									
Financial assets at fair value through income or expense	**-**	**174**	**-**	-	121	-	-	156	-
Available for sale assets	**-**	**751**	**-**	-	844	-	-	765	-
Liabilities									
Other borrowed funds	**-**	**68**	**-**	-	86	-	-	-	-

There were no transfers between Levels 1 and 2 during the period and no transfers into and out of Level 3 fair value measurements.