News release

21 September 2017

Interim results for The Co-op Group for the 26 weeks ended 1 July 2017

CO-OP DIFFERENCE IN ACTION AS IT INVESTS £35 MILLION IN REWARDS FOR MEMBERS AND LOCAL CAUSES

- **Significant Co-op member value generated as Group invests £29m in member rewards and £6m goes to support over 4,000 local causes.**

- **Pre-tax profits rise 47% due to strong performance from core businesses, as well as one-off and non-trading items. Group revenues stable at £4.6bn, with Co-op Food reporting 14th consecutive quarter of like-for-like sales growth.**

- **Over half a million new members recruited in first half of year, taking active membership to 4.5 million people across the UK; 1.1 million members have joined since the launch of the new membership scheme in Sept 2016.**

Co-op difference highlights:

- Members and their local communities benefit through member rewards scheme; £29m to members and £6m to 4,000 good causes.
- 333 apprentices recruited in the first half of 2017, taking total number of apprentices hired in last two years to 1,400. Plans to recruit 1,000 apprentices in total in 2017.
- 60 new member pioneers recruited in to dedicated job roles to better connect Co-op with local communities, with an ambition to have 200 in place by the end of the year.
- Co-op Food becomes the only supermarket to use British meat in all sandwiches and pork pies, driving a 6% increase in like-for-like sales of British meat in the first half. Further commitment in May to source only 100% British bacon and lamb.
- Position as the number one convenience retailer for Fairtrade strengthened; sales up 5%, boosted by decision to use only Fairtrade sourced cocoa in own brand products.
- Over 11,000 customers take out ground-breaking Co-op Young Drivers Insurance, a 30% increase, taking total number of policies to over 25,000.
- Co-op takes lead on reducing modern day slavery through Bright Future programme, with a target this year of 30 people moving from slavery to paid work at the Co-op.
- Total raised to tackle loneliness and isolation in partnership with British Red Cross tops £6m, with 39 community connectors now in place across the UK.
- Funeralcare increases the age it will provide free funerals for children from 16 to up to 18, as over 5,000 families are impacted by the devastating loss of a child each year.
- Co-op strengthens position as the UK's largest corporate supporter of Academy schools, with the addition of two more schools in Failsworth and Priesthorpe, bringing total number of Co-op Academies to 10.
- The Co-op Foundation, with support from the #Iwillgrant, establishes a £2m fund to support young people affected directly by loneliness and isolation.
- Co-op becomes first retailer in the world to sign up to the Global Investment Fund for Water - giving 1p for every litre of branded bottled water sold to help end global water poverty by 2030.

Group financial and operational highlights:

- Group makes significant financial and operational progress, as continued investment in brand, businesses and people helps deliver on Co-op promise to champion a better way of doing business for members and their communities.
- Revenues remain stable at £4.6bn (2016: £4.7bn), in line with plan:
  - Food like-for-like sales *** up by 3.5%, reflecting 14 consecutive quarters of like-for-like sales growth; core convenience like-for-like sales up by 4.5%. Reported Food sales down 1.2% at £3.48bn but 0.7% higher year-on-year when excluding the sales from the 298 stores sold to McColl's during the first half of the year.
  - Funeralcare revenues up 1.2% to £166m with market share increasing to 16.4%, supported by growth of Simple Funeral offer. Pre-need market share increases year-on-year from 19% to 28%.
  - Insurance Net Earned Premiums down 21% to £164m, in line with plans and due to the purchase of additional re-insurance to support our claims position during business transformation. Gross Written Premiums up 4%.
  - Legal Services sales up 9.1% to £12m due to strong growth in probate and estate planning sales.
- Profits in line with strategy of continued investment in all businesses and return of value back to members:
  - Profit before tax up 47% to £25m (2016: £17m), reflecting a number of one-off and non-trading items.
  - Underlying profit before tax of £14m**(2016: £27m), down 48%, as members and their communities benefit from member reward scheme (£35m) and insurance profits fall, primarily as a result of the claims experience, year on year.
  - Operating profit of £51m (2016: £72m), reflecting continuing rebuild of businesses, whilst rewarding members with £29m.
- Debt maintained well below the £900m guidance level at £680m.
- Co-op invests to improve member offer and get closer to communities:
  - Opened 34 new Food stores and 27 new funeral homes in the first half.
  - Enhanced use of digital technology for member interactions.
  - Members now account for 33.4% of Food sales at the half year, up from 20.6% in June 2016.
- Group plays a full role in the successful recapitalisation of The Co-operative Bank, providing certainty for the Group, members of the pension scheme and on future liabilities. Group subsequently sells remaining 1% holding in Bank.
- A focus on hiring and promoting the best talent has seen the number of women exceed men on the Executive team for the first time:
  - Pippa Wicks remains Deputy Group CEO.
  - Jo Whitfield appointed as CEO, Co-op Food.
  - Helen Webb appointed as Chief HR Officer.
  - Helen Grantham appointed as permanent Group Secretary and General Counsel.

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

"Championing a better way of doing business for our members and their communities is what the Co-op is all about and I'm delighted that we are really starting to deliver on that purpose.

"Since we launched our member reward scheme in September 2016 more than 1.1 million people have signed up to join the Co-op. As a result we've been able to give £35 million back to our members and their communities over the first half of this year, a conscious decision to share our success with our members and the 4,000 good causes which mean so much to them.

"We can do all this because our businesses have continued to perform in the face of challenging markets. Food has posted a 14th consecutive quarter of like-for-like sales growth, Funeralcare continues to lead the market on the back of the launch of our Simple Funeral offer and our Insurance business continues to lead on making driving safer for the young. Across our business we are also maintaining our commitment of re-investing for the future success of our Co-op."

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

"It's been an important six months for The Co-op Group, in which we have been able to give back to our members and their communities far more than we have for many years. We have also continued to lead the way in ethical commerce and campaigning on the issues that matter to our members, from championing Fairtrade to tackling loneliness and modern-day slavery.

"We can be proud of what's been achieved, but we want to remain ambitious. The goal now is to spread the word further, while also deepening the relationship with our members and their communities."

Summary of performance of largest business areas

Co-op Food

Sales	Food like-for-like sales up by 3.5%, reflecting 14 consecutive quarters of like-for-like sales growth; core convenience like-for-like sales up by 4.5%. Reported Food sales down 1.2% at £3.48bn but 0.7% higher year-on-year when excluding the sales from the 298 stores sold to McColl's during the first half.
Operating Profit	Up 22% to £77m (2016: £63m)
Underlying Operating Profit *	Up 3% to £65m (2016: £63m)

We continued to make progress on our ambition to be the UK's leading convenience food retailer. Our Food business has led the way in the launch of our new membership rewards, with the vast majority of those who have joined us this year doing so through our Food stores.

In the first six months Co-op Food has reported sales of £3,476m (2016: £3,518m). The year-on-year decrease is due to the impact of stores being sold which are not part of our core strategy moving forwards. Excluding these disposals, total sales were up 0.7%.

Like-for-like store sales continued to increase ahead of the market at 3.5%. Underlying profit was broadly in line with last year at £65m (2016: £63m), while operating profits rose to £77m (2016: £63m), principally due to gains on property and business disposals and increases in investment property values.

As we passed the half year we were pleased to confirm Jo Whitfield as our new permanent Food CEO, another strong internal appointment and the first woman in the UK to lead a national Food retailer.

In May we agreed with independent petrol service station operator MRH to pilot seven new franchise convenience stores. The principle of franchises is not new to the Co-op movement and the model provides a low-cost way to rapidly increase our Co-op presence across the UK. Early trials with MRH have performed strongly with sales in those stores up by over 50%.

We opened 34 new Food stores in the first half of the year and we are on track to hit our target of 100 new stores by the end of 2017.

We have continued to invest in our products and further strengthened our focus on quality as part of our retail strategy, with our newly re-launched Irresistible range seeing a 22% rise in like-for-like sales in the first half.

In May we became the only supermarket to use British meat in all sandwiches and pork pies, driving a 6% increase in like-for-like sales of British meat in the first half. This was followed by a further commitment in May to source only 100% British bacon and lamb. The move, which meant we became the first national retailer to commit to 100% own brand British meat in fresh, frozen and ready meals was welcomed by our members and by the farming community and we hope other retailers will follow our lead wherever they can. In line with our commitment to support the communities in which we trade, we are increasing our local sourcing, promoting local businesses and growing their markets.

In a retailer first, we moved to a position of sourcing only Fairtrade cocoa across our entire own brand range. This landmark move increased the Fairtrade cocoa sourced by Co-op five times and includes 200 Co-op own brand products. In addition, we have already launched new producer support projects in Cote d'Ivoire, Argentina and Colombia and we will continue to drive Fairtrade forward. Across our estate, Fairtrade sales were up 5% in the first half.

We also committed to ensuring 100% of all our packaging is recyclable in the future. We are the only retailer that has signed up with Global Investment Fund for Water (GIFFW) to tackle water poverty. We will be giving an additional 1p per litre from sales of other water brands to support the new Global Fund. That will bring our total annual commitment to water poverty to more than £2m a year.

Co-op Funeralcare

Sales	Total sales up 1.2% to £166m (2016: £164m)
Operating Profit	Down 33.9% to £41m (2016: £62m)
Underlying Operating Profit *	Stable at £41m (2016: £42m)

Sales and underlying profit were broadly in line with last year in our funerals business. Sales were £166m (2016: £164m), with underlying profit of £41m (2016: £42m). Operating profit was down on last year at £41m (2016: £62m) but last year included £20m profit on the crematoria sale. Our market share for at-need funerals increased to 16.4%, supported by the growth of our Simple Funeral offer as we continue to lead the way on affordable funerals. Sales of our funeral plans have also remained strong this year with an increase of 20.5% compared to last year, taking our market share in the pre-need market up year-on-year from 19% to 28%.

In June, Robert MacLachlan took up the leadership of our funerals business having previously been National Operations Director. Our strategy remains to grow Funeralcare and we opened 27 new funeral homes in the first half, with plans to open a further 53 by the end of the year. We have also continued our programme of refits and rebrands, with a further 117 planned for the year.

As we passed the half year we recruited our 2,000th Funeralcare apprentice since we launched the programme in 2013. Our apprenticeship scheme has attracted a diverse range of applicants over the past four years, drawing in people of all ages and from all walks of life.

We remain the country's largest provider of funerals and as such we have a responsibility to lead the way on the provision of funerals in the UK. We continue to encourage a much needed cultural shift in our attitude towards dying and bereavement. As part of that work we increased the age at which we provide free funerals for children from 16 to up to 18, as over 5,000 families are impacted by the devastating loss of a child each year.

We have been making important operational changes across our Funeral homes by introducing new technology and new colleague roles so that we can give even more time to supporting families through their bereavement.

Legal Services

Sales	Total sales up 9.1% to £12m (2016: £11m)
Operating Profit	£0.2m (2016: £0.6m)

Our Legal Services business continues to develop new products to help our members' long term needs, with the aim of developing our Funeralcare branch network as a way to introduce some of our legal services (will writing and probate in particular) to our members and their families. Growth in probate and estate planning sales helped drive overall sales in the business up 8.3% to £12m.

Working with our Group Digital function, we have been championing the need to make will writing more accessible by promoting our online will service – over a third of our Wills are now written online. This allows people to start making their will online 24 hours a day, 7 days a week. We then provide a follow up telephone call with a wills specialist to discuss individual circumstances before the will is put in place.

A further enhancement of our will writing and probate services has been a new partnership with Cancer Research UK, which aims to raise more than £750,000 to support the charity's pioneering work into the prevention, diagnosis and treatment of cancer.

Co-op Insurance

Sales	Total sales down 21% to £164m (2016: £208m)
Operating Loss	£11m (2016: loss of £4m)
Underlying Operating Loss	£1m, down from a profit of £11m in 2016

Our net revenues were £164m (2016: £208m) but Gross Written Premiums were up 4%. The fall in net revenue was in line with our plans and due to the decision to increase how much business we are choosing to reinsure through third parties. This strategy has strengthened our capital position while we focus on investing in the business.

The business reported an underlying loss of £1m (2016: profit of £11m). The operating loss, which is after adjusting for one-off costs associated with the Transformation programme, was £11m (2016: loss of £4m).

Our focus has been on making sure we remain competitive within a highly competitive market, without sacrificing customer service or our leadership position on insurance ethics.

We have been working to help communities respond to the devastating effects of flooding after seeing the destruction caused by the storms of Christmas 2015. We have been putting in place measures to ensure we respond more quickly and effectively, constantly ensuring our insurance assessors have a presence 'on the ground' and are able to offer practical help when it is needed.

We extended our carbon offset programme, which now offsets a proportion of our motor and home insurance customers' carbon emissions, as standard. This is a first for the industry in the UK with funds going to carbon reduction projects in Ghana and Kenya.

A further example of providing value has been our Co-op Young Drivers Insurance which saw its sixth anniversary in March. This ground breaking product, now imitated by others, has rewarded our policyholders by nearly £12m since it launched in 2011. Our latest data has found that on average our Young Driver policyholders receive £140 back in their pockets over the average policy lifetime. 11,000 further drivers took our product in the first-half of 2017, a 30% year-on-year increase, taking the total number of policies to over 25,000.

We continue to innovate as we celebrate our 150th anniversary in the autumn and are looking to expand our business to business offering, especially across the Co-operative sector in the UK.

Membership, Communities and Campaigns

- We are connecting communities through our member pioneers – a dedicated role looking at connecting the Co-op with the communities it serves and tackling issues that matter to them. We will have 200 member pioneers in place by the end of 2017 and our ambition is to have 1,500 by 2020.
- In April, we celebrated the first round payouts from our 1% community reward scheme, with over 4,000 local causes benefitting.
- Our commitment to improving education standards and outcomes through our Co-op Academy Trust has continued, with the announcement of two new academies in Failsworth and Priesthorpe, joining our existing eight schools within the Trust.
- In May, we announced that our partnership with The British Red Cross to help tackle loneliness and social isolation had raised over £6m, almost double the original target.
- Following agreement from members at this year's AGM we are pioneering business support for victims of modern day slavery. We launched a pilot to offer paid work to people recovering from slavery and so far nine people have been in the programme, with an ambition to take 30 in by the end of the year.

Colleagues

- Over 330 apprentices have joined the Co-op so far this year and this will rise to 1,000 by the end of 2017.
- Continued commitment to paying apprentices at standard rate for each role led to £4m being paid over and above the government's recommended apprentice level.
- Moved more than 40 places up The Stonewall Workplace Equality Index – now in 31st position.
- Co-op's Aspire Network, set up to encourage women in their careers, increased in size by 30%.

- Currently trialling a new Parent2Parent scheme, buddying up parents returning from parental leave with those in the business.

The Co-operative Bank

In June, The Co-operative Bank agreed the terms of a capital raising plan to secure its long-term future. Importantly, this included an agreement on the future structure of the shared Co-operative Pension Scheme which provides security for scheme members.

Throughout the process the Group played a key role in finding a capital solution for the Bank and worked hard to provide certainty for and protection of the interests of its members, colleagues, investors and the members of the shared pension scheme (Pace); removing £2bn of pension liabilities from the Group.

It was agreed with the Pace Trustees to separate the respective sections of the scheme and to remove the Bank's obligation to support the Group's Pace scheme liabilities. The Group and the Trustees also negotiated with the Bank a recovery plan for the Bank section of the Pace scheme which will see the Bank contribute £100m over 10 years and provide initial collateral of £216m from the point of sectionalisation.

As a result of the process the Group saw its shareholding reduce from 20% to 1%. The Group has since sold its entire remaining shareholding to an existing shareholder in the Bank. As a result of the recapitalisation of the Bank, the Relationship Agreement between Group and Bank which covers, among other things, the promotion of Bank services to members of Group, will naturally fall away and come to a formal end in 2020.

Outlook

- In **Food** we see inflation continuing to impact on consumers' spending power and expect competition in the convenience sector to become fiercer. Our focus will remain on making the shopping experience for our members and customers even better.
- In **Funerals** we will use digital technology to enable our colleagues to give more time to supporting bereaved families.
- In **Insurance** we will develop further the IT work already underway and introduce further changes to keep pace with a challenging market.

Our markets continue to be fiercely competitive and alongside this remains an uncertain economic backdrop. We remain on track in terms of the continued investment in our business which is returning benefits to our members and their communities, both now and for the long term.

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* ***Underlying operating profit*** *excludes one-off items, property and business disposals and change in value of investment properties. A reconciliation of Underlying Operating Profit to Operating Profit is provided in note 1 of the Interim Financial Statements.*

** *In addition to the items excluded from Underlying Operating Profit,* ***Underlying Profit before Tax*** *also excludes finance income and non-cash finance costs, and share of profits and losses from associates and joint ventures. A reconciliation of Profit before Tax to Underlying Profit before Tax is provided in Condensed Consolidated Income Statement.*

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

Notes to editors

About the Co-op Group

The Co-op, one of the world's largest consumer co-operatives with interests across food, funerals, insurance, electrical and legal services, has a clear purpose of championing a better way of doing business for you and your communities. Owned by millions of UK consumers, The Co-operative Group operates a total of 3,800 outlets, with more than 69,000 employees and an annual turnover of over £9.5 billion.

Co-operative Group Limited

Interim Report 2017

Chair's introduction

"We're delivering on our promise to champion a better way of doing business for you and your communities"

It's been an important first half for the Co-op. Six months in which we've delivered significant value for our members and demonstrated we're delivering on the purpose we set ourselves in 2014 – *to champion a better way of doing business for you and your communities.* Our colleagues remain vital to our success.

We're giving back to our members more than we have for a number of years. From January to the end of June our active membership grew from 4 million to 4.5 million, and in total our members earned £29m for themselves through the '5% for you' reward and nearly £6m through the '1% for your community' reward.

Our new Membership rewards are strengthening communities at a time when community resilience has never been more urgent. In April we gave £9m to 4,000 local causes as we made the first payout since launching our new Membership last September. The 1% reward has already made us one of the major funders of stronger communities in the UK.

During the first half of the year we made an emphatic return to our historic mission to be a leader in ethical commerce and a campaigner on the issues that matter to our members. We've recommitted to championing Fairtrade; we're backing British farming more than any other retailer, we've increased our commitment to tackle global water poverty, and we're leading the way in our support for the survivors of modern slavery in the UK.

Most importantly, all of our businesses are trading well which is central to our ability to generate value for our members.

Our new Group CEO, Steve Murrells, has been building his top team since his promotion in February. We're pleased to have appointed Jo Whitfield to succeed Steve at Co-op Food; Helen Webb as our new Chief HR Officer, and Helen Grantham has become our permanent Group Secretary and takes on the role of General Counsel. For the first time, we have a Group Executive with more women than men. We'll soon be announcing our new Chief Membership Officer.

On the Board we welcomed Gareth Thomas as our latest Member Nominated Director (MND) and said farewell to Ruth Spellman who had served as an MND for two years and chose not to seek re-election.

As The Co-operative Bank ('the Bank') went through an exercise to secure additional capital, we successfully set in motion plans to separate our pension scheme arrangements while protecting the interests of our members, investors and current and former colleagues. As a result of this exercise, we saw our shareholding in the Bank reduce from 20% to 1% in early September, and have subsequently sold our entire remaining shareholding.

As we approach three years of Rebuild we can be proud of what's been achieved but we want to remain ambitious. Co-op Membership has clearly proved popular with our existing members and those customers who have joined us since last September. The goal now is to grow our profits so that we can develop Membership further, make more people aware of our difference, and deepen the relationship with our members and their communities.

Allan Leighton
Group Chair

Chief Executive's statement

"Our businesses are key to creating member value"

Our profit before tax in the first half was up 47% when compared to 2016 with our underlying profit before tax down £13m, reflecting our Insurance performance. But there's a fundamental change that's taken place in the way we're doing business. Unlike the same period a year ago, we're now giving back millions (£29m in the first half of the year through our '5% for you' reward) to our members by putting money into their pockets, rewarding them for their continued support, and strengthening the communities in which they live (£6m earned for local causes through the '1% for your community' reward). We're also campaigning on the causes that matter to them most.

The engine of this value creation is to be found within our family of businesses which are all reporting good performance.

In Food we're continuing to see strong growth in like-for-like sales (from stores that have been open for more than one year). Profit is in line with last year after taking account of the significant rewards we're returning to our members and the persistent challenges that a retail business faces in its competitive market.

In Funerals, 'at need' (funerals for when someone dies) sales are in line with last year while funeral plans continue to show strong growth. Growth remains central to our strategy and we're on track to have opened 80 new funeral homes by the end of the year. We're also making better use of digital technology and creating more time for our colleagues to care for the families who need our services.

In Legal Services we're working more closely than ever with our Funerals business to create a comprehensive approach to life planning.

In Insurance the number of our members holding policies has risen but we've seen an expected fall in revenue. This follows the purchase of additional reinsurance to further enhance our capital position while we focus on investing into the business – in particular improving our customer experience.

You can read more about the trading performance of the individual business areas in the Business Review on page 5.

Our colleagues remain a priority for us. We want to reward their advocacy of the Co-op by creating a workplace where they feel valued, respected and recognised for the critical role they play in our success. I'd like to thank all of our colleagues for their contribution to the significant progress we made in the first half of 2017 and for their ongoing commitment to a better way of doing business.

Overall Group performance

Group revenue fell slightly to £4.6bn (2016: £4.7bn) as a result of lower sales in our Food business following the sale of some of our stores and the reinsurance of risk in our Insurance business.

The profit before tax for the period was £25m, up 47% (2016: £17m). This includes a number of one-off and non-trading items. The profit before tax for 2016 included a write down of £45m of our investment in The Co-operative Bank, which was partially offset by a £25m profit on asset disposals. In 2017, the profit before tax includes a lower level of one-off items but includes £29m to our members through our '5% for you' rewards.

Our key profit measure is underlying profit before tax which looks at our core trading performance less underlying interest (interest on borrowings). Underlying profit before tax has decreased by £13m to £14m (2016: £27m), principally as a result of the £12m fall in our Insurance business profit, and reflects our plans over the last few years to invest in Rebuild. This reflects rewarding our members with £29m and a strong performance in our Food business, with like-for-like sales up 3.5%, together with good cost control. The profits in our Insurance business were lower as it experienced less reserve releases from claims liability reviews than in 2016.

A reconciliation of profit before tax to underlying profit before tax is included in the Condensed Consolidated Income Statement on page 17.

Our debt levels remain well below the £0.9bn target we had set for our Rebuild phase, with net debt of £680m at the end of the period.

The agreement with The Co-operative Bank for the separation of pension arrangements means that there has been a derecognition of around 21% of the pension surplus (£375m) which has reduced net assets. The pension surplus is on an accounting basis. The statutory funding basis, which informs how much cash we will need to pay into the pension pot in the future, values pension liabilities on a more prudent basis. On the statutory funding basis we still expect Pace, our largest pension scheme, to be in a small deficit position.

A stronger Co-op and a growing membership

Having made considerable changes to the business over the last three years, including our Membership offer and our brand look, we're pleased with the progress we're making. We've proved that we're able to generate growth through our great products and services, and that we're returning value to our members through individual member rewards, community enhancement and ethical campaigning.

We've been growing Co-op Membership faster than we expected and that means we're feeling some short-term pressure on our profit as we develop how to get the balance between profit generation and returning value to our members.

We know that the way to address this is to refine the Membership offer, deepen the relationship with existing members, and attract brand new members who don't already trade with us. This is central to ensuring we have a truly distinctive proposition.

We remain ambitious about our future and the ever-improving relationship we have with our members, customers and their communities.

We want to make our Co-op not only the best it can be for our members and customers but one of the best co-operatives in the world. There's more to do to establish beyond doubt how our Co-op is truly a different and better way of doing business and why we're a vital ingredient to the social and economic well-being of the UK.

Our Co-op model of ownership protects us from short-term investor demands and instead allows us to test what will work for the long-term benefit of our members. Having returned to commercial stability and growth we have the opportunity to try out new ideas, examine the market and spend time understanding the current and future needs of our members and customers.

Over the coming months we'll be looking at how to make better use of data to improve how we talk to our members and customers and how we develop our current offer. And we're looking at potential new markets where we could address a clear social need with a co-operative solution.

Steve Murrells
Group Chief Executive

Business review

We have continued to grow our businesses, improve our products and services and extend the reach of our Co-op brand.

Food

In the first six months Co-op Food has reported sales of £3,476m (2016: £3,518m). The decrease compared to last year is due to the disposal of 298 smaller food stores to McColl's Retail Group plc and a number of petrol filling stations to enable investment in new stores in targeted locations and to serve a wider convenience mission. Like-for-like store sales remain strong at 3.5% up, ahead of the market by 1.5%, and we've seen 14 successive quarters of like-for-like growth. Convenience store like-for-like sales are up 4.5% as we continue our focus on convenience retailing.

Underlying profit was in line with last year at £65m (2016: £63m), a strong performance given that this includes the cost of member rewards which started during the second half of 2016 and further investment in improving our stores and depot infrastructure. Operating profit was £77m (2016: £63m), an increase of 22% helped by profits on property and business disposals and increases in investment property values.

We've made strong progress with our transformation programme across sourcing, retail and logistics.

As our biggest business and the most common touch point with our members and customers, Co-op Food has led the way in the launch of our new Membership rewards. The vast majority of those who have joined us this year have done so through our Food stores. It's through our Food offer and in our store environment that we're able to talk about our Co-op difference most often and where we're looking to expand the reach of the Co-op in new ways.

As we passed the half year we were pleased to confirm Jo Whitfield as our new Food CEO, another strong internal appointment and the first woman in the UK to lead a national food retailer.

In May we agreed with independent petrol service station operator MRH to pilot seven new franchise convenience stores. The first store opened in Eastcote in Hillingdon and we'll decide with MRH by the end of the year whether to roll out the partnership. The principle of franchises is not new to the Co-operative Movement and the model provides a low-cost way to rapidly increase our Co-op presence across the UK, reaching new communities and members with our quality convenience offer.

We've also opened 34 new Food stores in the first half of the year and improved 93 of our existing stores. We're on track to hit our target of 100 new stores by the end of 2017.

The most significant proof of our Co-op difference in Food has been our decision to become the first national retailer to commit to 100% own brand fresh and frozen British meat, whether raw or part of our award-winning prepared food range. It's a move that's been welcomed by our members and the farming community. Farming is at the heart of so many of the communities we serve. By sourcing home-grown food we're supporting local economies, and the impact ripples out to wider communities. We hope other retailers will follow our lead wherever they can.

In line with our commitment to support the communities in which we trade, we're increasing our local sourcing. From sausages in Yorkshire to crisps in Cornwall and ales in Cumbria, we're promoting local businesses and growing their markets. We've made a commitment to be the best UK retailer for local and regional sourcing and we're delivering on that promise.

At the start of the year we unveiled a new tuna sourcing policy which extends our own commitments and, in a first, also held big brands to account. We've widened our tuna sourcing policy to include branded canned tuna suppliers – Princes and John West. We're glad to report that they've met our policy requirements ahead of time so that their tuna is now sourced from fisheries improvement projects, working towards the Marine Stewardship Council standard so that the marine environment is protected.

Funeralcare

Both sales and underlying profit were in line with last year in our Funerals business. Sales were £166m (2016: £164m) with underlying profit of £41m (2016: £42m). Operating profit was down on last year at £41m (2016: £62m) but last year included £20m profit on the sale of our crematoria.

In June Robert MacLachlan took up the leadership of our Funerals business having previously held senior positions in the financial services, healthcare and funeral planning sectors before joining Funeralcare in November 2015 as National Operations Director. Our strategy remains to grow Funeralcare and we successfully opened 27 new funeral homes in the first half, with plans to open a further 53, taking us to 80 by the end of the year. We've continued our programme of refits and rebrands, with 117 planned for the year. We're also progressing with a programme to brand all of our private name estate as 'Co-op'.

We're the country's largest provider of funerals, with 16.4% market share, and as such we have a responsibility to lead the way in this sector of UK business. We've expressed that leadership in several ways during the first half of the year.

We're working to develop a comprehensive set of professional services that address end of life needs. Unlike any other business in the UK, the Co-op has the opportunity to provide a complementary proposition, ranging from will writing and funeral plans to at need funeral services and probate.

In January we announced an extension of our free child funeral policy, providing support for thousands of bereaved parents of children up to the age of 18.

Recently, we've welcomed the call for greater regulation and transparency in the funeral planning market. The findings and recommendations in the Fairer Finance report are consistent with our own view of the funeral planning market. In particular, we see a clear difference in the quality of plans offered by organisations, like us, that not only provide the plan but also deliver the funeral, and those who sell plans that aim to generate a fund that might cover the funeral costs but also might not. We're proud to offer the UK's only fully guaranteed plan, with no hidden costs.

We've worked on transparency, making clear everything that's within our plans and also by developing our own online comparison tables to make it easy for clients to see it for themselves.

We also continue to lead the way on affordable funerals at time of need with more people choosing our Simple funerals. Once again, our drive for transparency was demonstrated through the launch in our funeral homes of a new way to present funerals, explaining upfront in simple language the total costs of different options so the client is in control of price and service choices.

During the first half we've been making important operational changes across our funeral homes by introducing new digital technology and new colleague roles so we can give even more time to supporting families through their bereavement.

An increasingly important aspect of our work is to encourage a much-needed cultural shift in our attitude towards dying and bereavement. Our own research has shown that almost a third of people (30%) feel that Britain has a particular problem talking about death compared to other nations and cultures. Our people remain our greatest asset and their ongoing commitment to client care, whether dealing with tragic events like the Manchester bombing or supporting people coming to terms with bereavement through local community events, is a privilege to witness.

Legal Services

Sales in Legal Services were £12m (2016: £11m) with operating profit of £0.2m (2016 £0.6m). Probate and estate planning sales have grown strongly, but operating profit has fallen, mainly due to us investing in the business in preparation for further expansion.

Our Legal Services business continues to develop new products to help our members' long-term needs with the aim of developing our Funeralcare branch network as a way to introduce some of our legal services (will writing and probate in particular) to our members and their families.

Using our Co-op digital expertise, we've been championing the need to make will writing more accessible by promoting our online will service. This allows people to start making their will online 24 hours a day, 7 days a week. We then provide a follow up telephone call with a wills specialist to discuss individual circumstances before the will is put in place.

A further enhancement of our will writing and probate services has been a new partnership with Cancer Research UK, which aims to raise more than £750,000 to support the charity's pioneering work into the prevention, diagnosis and treatment of cancer.

Insurance

Our Insurance revenue was £164m (2016: £208m) with an underlying loss of £1m (2016: profit of £11m). A fall in revenue was expected following the purchase of additional reinsurance which helps support our capital position. Underlying growth in revenue was 12% reflecting improving rates.

The change in underlying operating profit year-on-year is driven by lower levels of reserve releases for old claims in 2017 than in 2016 when they contributed significant profit. Excluding this effect, the profitability of the Insurance business has improved reflecting increased rates, improved efficiency and the benefits of investment in pricing capabilities. The operating loss, which is after adjusting for one-off costs associated with the Transformation programme, was £11m (2016: loss of £4m).

For the last two years we've been working with IBM to upgrade our IT systems as part of the broader transformation of Co-op Insurance. The IT elements of this upgrade programme had been anticipated to deliver benefits for members and customers last year. We announced in our Annual Report that the delivery of this programme was delayed, and we've been talking with IBM about the future direction of the project. In July, the contract with IBM was terminated and we're now considering alternative options for updating Co-op Insurance's technology.

Like all parts of our Co-op, our Insurance business is committed to creating value for our members in multiple ways. Our focus has been on making sure we remain competitive, within a highly competitive market, and without sacrificing customer service or our leadership position on insurance ethics. We've also been developing relevant ways for the business to support local communities and address future insurance trends and challenges.

Key to our community support has been our partnerships with Neighbourhood Watch and Brake, the road safety charity, to help make our communities and roads safer.

During the first half we've been working with a team of environmentalists from the University of Salford looking at the erosion of floodplains across the country but in particular in Cumbria. The study revealed that as 90% of floodplains are no longer functioning as they should and are unable to withhold water, water now flows downstream more quickly. This puts greater pressures on towns and villages, where flood defences are now unable to cope. In light of this, we've taken action and launched a toolkit in Cumbria and nationally to help to prevent and respond to floods.

We recognise that extreme weather in the UK is a likely consequence of global warming and because of that we've extended our carbon offset programme, which now offsets a proportion of our motor and home insurance customers' carbon emissions as standard. This is a first for the industry in the UK with funds going to carbon reduction projects in Ghana and Kenya.

A further example of providing value has been our Co-op Young Drivers Insurance which saw its sixth anniversary in March. This ground breaking product, now imitated by others, has rewarded our policyholders by nearly £12m since it launched in 2011. Our latest data has found that on average our Young Driver policyholders receive £140 back in their pockets over the average policy lifetime.

We continue to innovate as we celebrate our 150th anniversary in the autumn and are looking to expand our business-to-business offering especially across the co-operative sector in the UK. Members and colleagues have to be instrumental in our product design process with a pipeline of products now under development.

Electrical

Sales in our Electrical business were £27m (2016: £34m), reflecting delays in the launch of the new website and a very competitive market, with the decline in sales contributing to an operating loss of £2m (2016: loss of £1m). We've recently announced that we're expanding our '5% and 1%' Membership rewards to include selected electrical products.

Communities and campaigning

Strengthening communities

By April we had clear proof of the community difference we're already making as we celebrated the first payout from our 1% rewards. Our message, as we distributed £9m to 4,000 local causes, was that 'great things happen when we work together'.

Each local cause received on average £2,250, enabling them to make a real difference in local communities. The local causes were wide ranging: from instruments for town bands, kit for Scout huts, choirs, and football clubs to supporting women's groups, the homeless, library clubs, village halls and food banks. However the thing they have in common is that they represent what matters most to our members.

Our second round of causes have been nominated by our members and they'll receive their payout in November.

We're now deepening our relationship with the communities in which we trade by recruiting Member Pioneers – *by 2020* we hope to have one for each of the 1,500 communities in which we have a trading presence – so we can be there on the ground identifying need and resources and making the connections that enable more good things to happen. We're proud of our Member Pioneers as, unlike other retailers who treat community as an add on to existing roles, Member Pioneers are recruited as distinct roles, outside of any other responsibilities or work commitments they may have. While some colleagues have been recruited as Member Pioneers, most are ordinary Co-op members who want to increase their commitment in the community.

Our first Co-op Community Report, published in April, showed that community spirit is alive and well despite the considerable pressures of modern life. And, contrary to popular belief, we discovered that young people were more likely to be actively involved in community activity than their parents or grandparents.

The 1% reward is not the only way we're helping to strengthen local communities. Our commitment to education is growing through our Co-op Academies Trust which now runs ten schools in Manchester, Leeds and Stoke following the addition of academies in Priesthorpe, Pudsey and Failsworth, Oldham.

The Co-op Foundation is a further way in which we're helping disadvantaged communities work together to increase their resilience. The Foundation is focusing its work on encouraging young people to contribute to their communities with the emphasis on overcoming social, economic or environmental challenges.

Back to being a campaigning Co-op

At our AGM in May our members gave overwhelming backing to our return to being a campaigning Co-op. Once again we're adopting leadership positions on questions of ethical commerce. We're pioneering business support for the victims of modern slavery, we're recommitting to Fairtrade when others are rolling back on their promises, and our model of tackling global water poverty in partnership with the One Foundation has now been taken up as an international initiative in which we've been invited to take a leading role.

We also announced in May that our total fundraising in our campaign to tackle loneliness and social isolation has reached £6m – almost doubling our original target. In February we released research carried out by the New Economics Foundation that showed how loneliness is costing British business £2.5bn a year through loss of employee productivity.

Our businesses are developing ways to address social isolation through our support for local causes and we're continuing to work with the British Red Cross to lobby at a national level on this issue. The money we've raised is also being used to recruit a team of professional British Red Cross 'Community Connectors' who can help people of all ages and circumstances reconnect with the community around them.

Our colleagues

We continue to champion the vital contribution of all colleagues. Working for us means you can: Show you care, Succeed together, Be yourself, always, and Do what matters most. For our colleagues this is 'Being Co-op' and we're now learning how best to encourage, recognise and celebrate this way of working.

We're determined to make the Co-op a great place to work, a place where diversity is not only championed but seen as an essential ingredient to our future success.

Our growing apprenticeship scheme is one way we're showing our Co-op difference and our commitment to skills training for the next generation. During the first half of 2017 we recruited 333 additional apprentices covering all parts of the Co-op and we're on track to have recruited 1,000 by the end of the year. We currently pay £5.3m a year to the apprenticeship levy. We're committed to offering our apprentices permanent jobs and we choose to pay them above the government's minimum rate in line with the colleagues they work alongside. Our apprenticeship programme has broad appeal; for example, 1 in 3 apprentices within our Funerals business are over the age of 50.

Our Aspire network, which supports female career development, has seen a 30% increase in membership since the start of the year and we're currently trialling a new Parent2Parent buddying programme for those colleagues returning from maternity, paternity, adoption or shared parental leave. We were also recognised this year with a placing in the Stonewall top 100 LGBT inclusive employers list and our LGBT+ colleague group, Respect, was also recognised with a highly commended award.

Looking ahead

The Rebuild phase of our turnaround began at the start of 2015 following the completion of our Rescue phase. The work has focused on ensuring we have a solid platform on which to build a successful future for our organisation. Rebuild has encompassed all our businesses and a wide variety of our ways of working and helped build an approach to managing large scale, often group-wide, transformation projects.

During the first three years of Rebuild we've started to revitalise our Co-op membership; introduced a new governance framework, created our new brand look, and introduced 'Being Co-op' to our 70,000 colleagues to help them become our greatest Co-op advocates. We've also made significant improvements in the resilience of our critical business systems, processes and infrastructure.

We recognise that, as with all organisations, there's a need for continuous improvement, both operationally within each business area and for the Co-op as a whole, if we are to deliver a truly distinctive Co-op way of doing business and a secure organisation for the future. We're going to continue to develop our Membership offer and define how we can create value for our members and their communities. Creating that member value needs to be integral to our business model and operations rather than just a separate outcome of our work. To achieve that we need to keep improving the foundations that the organisation is built on. We must be clear about our ambitions as a Co-op and align our long-term business planning with that ambition.

We've made great strides in rebuilding our Co-op but we know there's more to do. Many of the Rebuild activities will continue into 2018.

The focus of Rebuild through the second half of 2017 and throughout 2018 will be:

- Bringing Co-op Membership to life and building on the changes we've made so far so that we attract more and more new customers
- Embedding a membership focus into every stage of our business thinking and creating value for our members
- Harnessing the data we're gathering to help us make better business decisions and protect it to ensure that our members trust us with their valuable insights and information
- Delivering in our Food business the Retail Business and Logistics transformation programmes, among others, that will make the shopping experience for our members and customers even better
- Looking for opportunities to extend the reach of our brand through franchise arrangements and wholesale operations
- Continuing to focus on supporting bereaved families when they need us and completing the new ways of working that make the most of digital technology
- Broadening our insurance product offer to meet more of our members' needs
- Improving our business support functions to ensure we have better risk management processes and better insight to support our decision-making
- Continuing to strive to make our Co-op a great place to work

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group have been reviewed by the Directors and are unchanged from those set out in the 2016 Annual Report and Financial Statements. These risks are considered to be those that have the potential to impact our commitment to deliver returns to our members and our business plans. These are summarised as follows:

Strategic and Business	• Delivering our Rebuild programme and moving towards Renew • Delivery of the Insurance business transformation programme • Defining our future operating model • Delivering our Community plans • Undertaking the successful separation from The Co-operative Bank • Delivering good governance and continuing to build our relations with our Council and members
Finance and Treasury	• Managing the pressure on profit • Managing pension scheme risk and funding • Meeting our banking covenants
Operational and Customer	• Managing our data effectively • Protecting the IT environment from external threats • Keeping our data safe • Providing a stable and resilient IT platform • Managing health and safety
Brand and Reputation	• Behaving in an ethical way

In the first half of 2017 there was uncertainty about the long-term future of The Co-operative Bank ("the Bank") with the Bank announcing the terms of its capital raising plan on 28 June 2017. The Co-op was supportive of this plan which saw our shareholding in the Bank fall from 20% to 1% in early September. We have subsequently sold our remaining shareholding in the Bank. As part of the new arrangements we agreed principles to split the total pension liabilities of Pace and to remove the Bank's obligation to support the Group's share of the Pace pension scheme liabilities. We will also see the Relationship Agreement between Group and Bank naturally fall away and come to a formal end in 2020. The Directors consider this outcome to be appropriate to provide certainty for and protection of the interests of our members, colleagues and the members of the shared pension scheme (Pace).

The Group also faces risks and uncertainties in relation to the outcome of the EU Referendum on 23 June 2016 and the subsequent legislative steps taken to start the process of leaving the EU. There is uncertainty around the political and economic impact on our business environment. Specific to our business there is a potential impact to our people and aspects of our supply chain. The Directors will continue to monitor the potential impact on the Group's current and future financial position as the legislative framework evolves.

More information on the principal risks and how the Group mitigates those risks can be found on pages 36–39 of the Group's 2016 Annual Report.

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

We confirm that to the best of our knowledge:

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

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

By order of the board of Co-operative Group Limited

Allan Leighton
Group Chair

20 September 2017

Independent review report by Ernst & Young 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 1 July 2017 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 guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

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

As disclosed in the general accounting policies section of the 2016 Annual Report, the annual financial statements of the Society are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

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

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 1 July 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
Manchester
20 September 2017

Condensed Consolidated Income Statement
for the 26 weeks ended 1 July 2017

In plain English - what does this show? Our consolidated income statement shows all our earned sales for the year less our expenses. The result is the net profit that we have made.

	Notes	**26 weeks ended 1 July 2017 (unaudited) £m**	26 weeks ended 2 July 2016 (unaudited) £m	52 weeks ended 31 December 2016 (audited) £m
Revenue	1	**4,642**	4,699	9,472
Operating expenses		**(4,632)**	(4,646)	(9,363)
Other income		**41**	19	39
Operating profit	1	**51**	72	148
Finance income	3	**23**	39	53
Finance costs	4	**(59)**	(63)	(162)
Share of profit / (loss) of associates and joint ventures	8	**10**	(31)	(171)
Profit / (loss) before tax		**25**	17	(132)
Taxation	5	**(4)**	(6)	(2)
Profit / (loss) for the period (all attributable to members of the Society)		**21**	11	(134)

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

In plain English - what does this show? The table below adjusts the operating profit figure shown in the consolidated income statement above by stripping out the impact of items that are not generated by our businesses' day-to-day trading. These are typically the profits or losses from selling businesses or properties or other one-off items. This helps readers of our accounts to better understand how our business is performing. Furthermore, the second table below strips out member rewards to show underlying profit on a comparable basis with 2016.

	Notes	**26 weeks ended 1 July 2017 (unaudited) £m**	26 weeks ended 2 July 2016 (unaudited & restated*) £m	52 weeks ended 31 December 2016 (audited & restated*) £m
Profit / (loss) before tax (as above)		**25**	17	(132)
Add back / (deduct):				
One-off items	1	**10**	19	21
Profits from property and business disposals		**(4)**	(25)	(27)
Change in value of investment properties		**(7)**	(2)	(16)
Finance income	3	**(23)**	(39)	(53)
Non-cash finance costs	4	**23**	26	88
Share of loss / (profit) of associates and joint ventures	8			
- Bank		**-**	45	185
- Travel (includes income from recognition of put/call option)		**-**	(13)	(12)
- NOMA		**(10)**	-	(1)
- Other		**-**	(1)	(1)
Underlying profit before tax		**14**	27	52
Underlying profit before tax (as above)		**14**	27	52
Add back: member rewards	14	**29**	-	16
Underlying profit before tax and member rewards		**43**	27	68

*See general accounting policies section on page 22 for details of the restatement.

Condensed Consolidated Statement of Comprehensive Income
for the 26 weeks ended 1 July 2017

In plain English - what does this show? The consolidated statement of comprehensive income includes other income and costs that are not included in the consolidated income statement on the previous page. These are usually revaluations of property, pension schemes and certain financial investments.

	Notes	**26 weeks ended 1 July 2017 (unaudited) £m**	26 weeks ended 2 July 2016 (unaudited & restated*) £m	52 weeks ended 31 December 2016 (audited) £m
Profit / (loss) for the period		**21**	11	(134)
Other comprehensive (losses) / income:				
Items that will never be reclassified to the income statement:				
		-	101	
Remeasurement (losses) / gains on employee pension schemes	6	**(13)**	101	464
Derecognition of pension surplus re Bank sectionalisation	6	**(375)**	-	-
Related tax on items above		**66**	(19)	(71)
		(322)	82	393
Items that are or may be reclassified to the income statement:				
Changes in value of available for sale assets		**(3)**	11	16
Related tax on item above		**-**	-	(3)
		(3)	11	13
Other comprehensive (losses) / income for the period net of tax		**(325)**	93	406
Total comprehensive (losses) / income for the period (all attributable to members of the Society)		**(304)**	104	272

*See general accounting policies section on page 22 for details of the restatement.

Condensed Consolidated Balance Sheet

as at 1 July 2017

In plain English - what does this show? The analysis gives a snapshot of the financial position of the Group as at the 1 July 2017. It sums up the Co-op's assets and liabilities.

	Notes	**As at 1 July 2017 (unaudited) £m**	As at 2 July 2016 (unaudited & restated*) £m	As at 31 December 2016 (audited) £m
Non-current assets				
Property, plant and equipment		**2,003**	1,860	1,943
Goodwill and intangible assets		**905**	902	911
Investment properties		**53**	85	74
Investments in associates and joint ventures	8	**35**	239	52
Other investments	13	**1,509**	1,507	1,414
Reinsurance contracts		**52**	65	47
Derivatives		**44**	77	50
Pension assets	6	**1,591**	1,477	1,939
Trade and other receivables		**68**	21	55
Deferred tax assets		**220**	204	221
Reclaim Fund assets		**278**	275	237
Total non-current assets		**6,758**	6,712	6,943
Current assets				
Inventories		**379**	410	439
Trade and other receivables		**674**	655	704
Cash and cash equivalents		**497**	454	283
Assets held for sale	7	**29**	124	106
Other investments	13	**382**	264	372
Reinsurance contracts		**17**	9	7
Reclaim Fund assets		**358**	299	332
Total current assets		**2,336**	2,215	2,243
Total assets		**9,094**	8,927	9,186
Non-current liabilities				
Interest-bearing loans and borrowings	9	**1,154**	1,089	1,141
Trade and other payables		**1,164**	1,062	1,078
Provisions		**216**	263	224
Pension liabilities	6	**244**	197	251
Deferred tax liabilities		**363**	354	422
Insurance contracts		**486**	482	477
Reclaim Fund liabilities		**562**	500	495
Total non-current liabilities		**4,189**	3,947	4,088
Current liabilities				
Overdrafts		**5**	4	6
Interest-bearing loans and borrowings	9	**18**	28	21
Income tax payable		**-**	-	1
Trade and other payables		**1,615**	1,566	1,506
Provisions		**104**	88	102
Liabilities held for sale	7	**2**	-	5
Insurance contracts		**256**	254	247
Reclaim Fund liabilities		**-**	-	1
Total current liabilities		**2,000**	1,940	1,889
Total liabilities		**6,189**	5,887	5,977
Equity				
Members' share capital		**72**	72	72
Retained earnings		**2,729**	2,862	3,030
Other reserves		**104**	106	107
Total equity		**2,905**	3,040	3,209
Total equity and liabilities		**9,094**	8,927	9,186

* See general accounting policies section on page 22 for details of the restatement.

Condensed Consolidated Statement of Changes in Equity
for the 26 weeks ended 1 July 2017

In plain English - what does this show? The analysis shows how our net assets have changed during the year.

	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 31 December 2016		**72**	**3,030**	**107**	**3,209**
Profit for the period		**-**	**21**	**-**	**21**
Other comprehensive income:					
Remeasurement losses on employee pension schemes	6	**-**	**(13)**	**-**	**(13)**
Derecognition of pension surplus re Bank sectionalisation	6	**-**	**(375)**	**-**	**(375)**
Gains less losses on available for sale assets		**-**	**-**	**(2)**	**(2)**
Available for sale cumulative gains transferred to the income statement		**-**	**-**	**(1)**	**(1)**
Revaluation reserve recycled to retained earnings		**-**	**-**	**-**	**-**
Tax on items taken directly to other comprehensive income		**-**	**66**	**-**	**66**
Total other comprehensive losses		**-**	**(322)**	**(3)**	**(325)**
Balance at 1 July 2017		**72**	**2,729**	**104**	**2,905**

For the 26 weeks ended 2 July 2016 (unaudited & restated*)	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 2 January 2016		72	2,770	95	2,937
Profit for the period		-	11	-	11
Other comprehensive income:					
Remeasurement gains on employee pension schemes	6	-	101	-	101
Gains less losses on available for sale assets		-	-	12	12
Available for sale cumulative gains transferred to the income statement		-	-	(1)	(1)
Tax on items taken directly to other comprehensive income		-	(19)	-	(19)
Total other comprehensive income		-	82	11	93
Balance at 2 July 2016		72	2,863	106	3,041

For the 52 weeks ended 31 December 2016 (audited)	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 2 January 2016		72	2,770	95	2,937
Loss for the period		-	(134)	-	(134)
Other comprehensive income:					
Remeasurement gains on employee pension schemes	6	-	464	-	464
Gains less losses on available for sale assets		-	-	17	17
Available for sale cumulative gains transferred to the income statement		-	-	(1)	(1)
Revaluation reserve recycled to retained earnings		-	1	(1)	-
Tax on items taken directly to other comprehensive income		-	(71)	(3)	(74)
Total other comprehensive income		-	394	12	406
Balance at 31 December 2016		72	3,030	107	3,209

* See general accounting policies section on page 22 for details of the restatement.

Condensed Consolidated Statement of Cash Flows
for the 26 weeks ended 1 July 2017

In plain English - what does this show? This table analyses the cash coming in and out of the Group during the year. It splits the cash by type of activity - showing how much our businesses have generated and then how or where we have spent that cash.

	Notes	**26 weeks ended 1 July 2017 (unaudited) £m**	26 weeks ended 2 July 2016 (unaudited) £m	52 weeks ended 31 December 2016 (audited) £m
Net cash from operating activities	10	**263**	189	247
Cash flows from investing activities				
Acquisition of property, plant and equipment		**(194)**	(134)	(330)
Proceeds from sale of property, plant and equipment		**139**	37	60
Purchase of intangible assets		**(3)**	(13)	(23)
Acquisition of investments in joint ventures and associates		**(7)**	(2)	(5)
Proceeds from sale of investments		**-**	-	5
Disposal of businesses, net of cash disposed		**(2)**	-	17
Distribution received from investments		**34**	1	2
Net cash used in investing activities		**(33)**	(111)	(274)
Cash flows from financing activities				
Interest paid on borrowings		**(12)**	(33)	(72)
(Repayment) / issue of corporate investor shares		**(2)**	8	-
Repayment of borrowings, net of derivatives		**-**	(2)	(22)
Finance leases repaid		**(1)**	(2)	(3)
Net cash (used in) / from financing activities		**(15)**	(29)	(97)
Net increase in cash and cash equivalents		**215**	49	(124)
Cash and cash equivalents at beginning of period		**277**	401	401
Cash and cash equivalents at end of period		**492**	450	277
Analysis of cash and cash equivalents				
Overdrafts per balance sheet		**(5)**	(4)	(6)
Cash and cash equivalents per balance sheet		**497**	454	283
		492	450	277

Accounting policies and basis of preparation

These condensed consolidated interim financial statements of the Society for the period ended 1 July 2017 ("the interim financial statements") comprise the Society and its subsidiaries (together referred to as the "Group") and the Group's investments and joint ventures.

The audited consolidated financial statements ("the 2016 annual report") of the Group for the year ended 31 December 2016 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 2017 are unaudited and do not constitute statutory accounts. They have been reviewed by the auditors and their report is set out on pages 15 and 16 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 2016 annual report.

The comparative figures for the financial year ended 31 December 2016 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 20 September 2017.

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 2016 annual report.

Accounting policies

The accounting policies applied in preparing these interim financial statements are consistent with those described in the Group's 2016 annual report.

The comparative figures presented within these financial statements for the financial year ended 31 December 2016 and the interim period ended 2 July 2016 are consistent with the 2016 annual report and 2016 interim report respectively, with the exception of the restatements noted below:

<u>Full year 2016 (52 weeks ended 31 December 2016) and half year 2016 (26 weeks ended 2 July 2016) comparatives:</u>

- deferred income recognised on the disposal in 2011 of 70% of the Group's interest in Travel is now shown within profits / (losses) from property and business disposals in the segmental analysis (note 1 of the accounts) whereas previously it was shown within underlying operating profit (within Other businesses). Underlying segment operating profit has decreased by £7m (FY 2016) and £4m (HY 2016) and profit on property and business disposals has increased correspondingly to facilitate a more meaningful comparison of underlying operating profit.

<u>Half year 2016 (26 weeks ended 2 July 2016) comparatives only:</u>

- pensions assets and pension liabilities on the balance sheet have been restated by a reduction of £40m and £19m respectively and retained earnings have been restated by £17m (net of £4m tax) to reflect this. Furthermore, legal advice obtained in 2016 confirmed that the Group can recognise the surplus on the United, Yorkshire and Plymouth schemes and as such the Group did not need to provide the £11m (and £2m tax) IFRIC 14 onerous liability remeasurement reflected in the comparative half-year figures. Further details of the nature of the restatements refer to note 23 of the 2016 annual report.

Standards, amendments and interpretations issued but not yet effective

Details of those standards that may impact the Group's accounts in future periods are given in the Group's 2016 annual report. The adoption of the following standards will or may have a material impact when adopted and Management are currently assessing the likely effect on the Group's accounts:

- IFRS 9 (Financial Instruments: Classification and Measurement) *
- IFRS 15 Revenue from Contracts with Customers *
- IFRS 16 Leases **

The introduction of the new revenue standard (IFRS 15) may affect revenue recognition on funeral plans and management is currently assessing the potential impact of the new standard on the financial statements.

* Effective for annual periods beginning on or after 1 January 2018.

** Effective for annual periods beginning on or after 1 January 2019.

Going concern

The Directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position. The Directors have also assessed the financial risks facing the Group, its liquidity position and available borrowing facilities.

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

The Trading Group meets its working capital requirements through a number of separate funding arrangements, certain of which are provided subject to continued compliance with certain covenants (Debt Covenants). Profitability and cash flow forecasts for the Trading Group, prepared for the period to September 2018 (the forecast period), and adjusted for sensitivities considered by the Board to be reasonably possible in relation to both trading performance and cash flow requirements, indicate that the Trading Group will have sufficient resources available within its current funding arrangements to meet its working capital needs, and to meet its obligations as they fall due.

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

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

Notes to the interim financial statements

1 Operating segments

In plain English - what does this note 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 2017 (unaudited)	**Revenue from external customers £m**	**Underlying segment operating profit (a) £m**	**One-off items (a) (i) £m**	**Property and business disposals (a) (ii) £m**	**Change in value of investment properties £m**	**Operating profit £m**
Food	**3,476**	**65**	**-**	**5**	**7**	**77**
Funeralcare	**166**	**41**	**-**	**-**	**-**	**41**
Insurance	**164**	**(1)**	**(10)**	**-**	**-**	**(11)**
Other businesses	**39**	**(2)**	**-**	**-**	**-**	**(2)**
Federal (e)	**797**	**-**	**-**	**-**	**-**	**-**
Costs from supporting functions	**-**	**(53)**	**-**	**(1)**	**-**	**(54)**
Total	**4,642**	**50**	**(10)**	**4**	**7**	**51**

26 weeks ended 2 July 2016 (unaudited & restated) (d)	Revenue from external customers £m	Underlying segment operating profit (a) & (d) £m	One-off items (a) (i) £m	Property and business disposals (a) (ii) & (d) £m	Change in value of investment properties £m	Operating profit £m
Food	3,518	63	-	(2)	2	63
Funeralcare	164	42	-	20	-	62
Insurance	208	11	(15)	-	-	(4)
Other businesses (c)	44	-	-	4	-	4
Federal (e)	765	-	-	-	-	-
Costs from supporting functions	-	(52)	(4)	3	-	(53)
Total	4,699	64	(19)	25	2	72

52 weeks ended 31 December 2016 (audited & restated) (d)	Revenue from external customers £m	Underlying segment operating profit (a) & (d) £m	One-off items (a) (i) £m	Property and business disposals (a) (ii) & (d) £m	Change in value of investment properties £m	Operating profit £m
Food	7,064	182	-	5	16	203
Funeralcare	307	69	-	30	-	99
Insurance	439	11	(29)	-	-	(18)
Other businesses (c)	89	(2)	-	7	-	5
Federal (e)	1,573	-	-	-	-	-
Costs from supporting functions	-	(134)	8	(15)	-	(141)
Total	9,472	126	(21)	27	16	148

Notes to the interim financial statements continued

1 Operating segments continued

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

i) One-off items of £10m (2016: £19m) relate to £10m (2016: £15m) of replatforming costs within the General Insurance business and £nil (2016: £4m) of restructuring related costs (included in costs from supporting functions) incurred in relation to the establishment of the Target Operating Model for the Group's support centre.

ii) See Profits / (losses) from property and business disposals table overleaf for further details.

b) Transactions between operating segments excluded in the above analysis are £3m (2016: £2m) sales of Co-op Electrical and £1m (2016: £1m) sales of Co-operative Legal Services.

c) Other businesses primarily comprise Co-operative Electricals and Co-operative Legal Services.

d) Deferred income recognised on the disposal in 2011 of 70% of the Group's interest in Travel is now shown within property and business disposals whereas previously it was shown within underlying operating profit (within Other businesses). See general accounting policies section on page 22 for details of the restatement.

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

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

	Notes	**26 weeks ended 1 July 2017 (unaudited) £m**	26 weeks ended 2 July 2016 (unaudited & restated*) £m	52 weeks ended 31 December 2016 (audited) £m
Underlying segment operating profit		**50**	64	126
Underlying interest payable	4	**(36)**	(37)	(74)
Underlying profit before tax		**14**	27	52
One-off items		**(10)**	(19)	(21)
Profits from property and business disposals (see overleaf)		**4**	25	27
Change in value of investment properties		**7**	2	16
Finance income	3	**23**	39	53
Non-cash finance costs	4	**(23)**	(26)	(88)
Share of profits / (losses) of associates and joint ventures	8	**10**	(31)	(171)
Profit / (loss) before tax		**25**	17	(132)

* See general accounting policies section on page 22 for details of the restatement.

Notes to the interim financial statements continued

1 Operating segments continued

Profits / (losses) from property and business disposals	**26 weeks ended 1 July 2017 (unaudited)**		26 weeks ended 2 July 2016 (unaudited)		52 weeks ended 31 December 2016 (audited)	
	£m	**£m**	£m	£m	£m	£m
Crematoria sale						
- proceeds	**-**		30		41	
- less net book value written off	**-**		(10)		(11)	
		-		20		30
Sale of Somerfield Stores Ltd						
- expenses	**-**		(7)		(13)	
- payable recognised	**-**		(39)		(35)	
- net onerous lease provision release and net book value written off	**-**		62		53	
		-		16		5
Sale of Twin Rivers windfarm						
- proceeds	**-**		-		21	
- less net book value written off	**-**		-		(16)	
		-		-		5
Food store sales to McColls Retail Group						
- proceeds	**112**		-		-	
- less net book value written off	**(99)**		-		-	
		13		-		-
Sale of other land and buildings						
- proceeds	**27**		14		69	
- less net book value written off	**(33)**		(18)		(67)	
- provisions recognised on closure	**(2)**		(11)		(20)	
		(8)		(15)		(18)
Impairment of property, plant and equipment		**(1)**		(3)		(5)
CFS Management Services Limited (CFSMS) retirement liability derecognised		**-**		3		3
Deferred income on Travel disposal		**-**		4		7
Profit on disposal		**4**		25		27

Notes to the interim financial statements continued

2 Supplier income

In plain English - what does this note show? This note shows the different types of supplier income that we have received. This income is taken off operating expenses in the income statement.

Supplier Income	**26 weeks ended 1 July 2017 (unaudited) £m**	26 weeks ended 2 July 2016 (unaudited) £m	52 weeks ended 31 December 2016 (audited) £m
Long term agreements	**70**	69	155
Bonus income	**58**	61	157
Promotional income	**167**	178	359
Total supplier income	**295**	308	671

Percentage of Food's Cost of Sales before deducting Supplier Income	**%**	%	%
Long term agreements	**2.1%**	2.1%	2.2%
Bonus income	**1.7%**	1.8%	2.3%
Promotional income	**5.0%**	5.3%	5.2%
Total %	**8.8%**	9.2%	9.7%

Accounting Policy
Supplier income is recognised as a deduction from cost of sales on an accruals basis, based on the expected entitlement that has been earned up to the balance sheet date for each relevant supplier contract. The accrued incentives, rebates and discounts receivable at year end are included within trade and other receivables. Where amounts received are in the expectation of future business, these are recognised in the income statement in line with that future business. There are three main types of income:

1. Long term agreements: These relate largely to volumetric rebates based on agreements with suppliers. They include overriders, advertising allowances and targeted income. The income accrued is based on the joint buying group's latest forecast volumes and the latest contract agreed with the supplier. Income is not recognised until confirmation of the agreement has been received from the supplier.

2. Bonus income: These are typically unique payments made by the supplier and are not based on volume. They include payments for marketing support, range promotion and product development. These amounts are recognised when the income is earned and confirmed by suppliers. An element of the income is deferred if it relates to a future period.

3. Promotional income: Volumetric rebates relating to promotional activity agreed with the supplier. These are retrospective rebates based on sales volumes or purchased volumes.

Trade receivables includes £96m of supplier income that is due to Food from suppliers. As at 21 September 2017 £94m of the current period balance had been invoiced and settled.

Notes to the interim financial statements continued

3 Finance income

In plain English - what does this note show? The note gives further details of the finance income that the Group has recognised in the year. This income arises in two ways: (i) the interest earned on our pension scheme and, if a gain, (ii) the movement in the value of our interest rate swap positions (which are used to manage risks from interest rate movements).

	26 weeks ended 1 July 2017 (unaudited) £m	26 weeks ended 2 July 2016 (unaudited) £m	52 weeks ended 31 December 2016 (audited) £m
Net pension finance income	**23**	22	45
Fair value movement on interest rate swaps	**-**	17	8
Total finance income	**23**	39	53

4 Finance costs

In plain English - what does this note show? Our main finance cost is the interest that we've incurred during the year on the bank borrowings that help fund the business. Other finance costs include (i) the movement in the fair value of certain elements of that debt from year to year, (ii) and if a loss, the movement in the value of our interest rate swap positions (which are used to manage risks from interest rate movements) and (iii) the non-cash charge we incur each year on long-term provisions as the payout moves one year closer (the discount unwind).

	26 weeks ended 1 July 2017 (unaudited) £m	26 weeks ended 2 July 2016 (unaudited) £m	52 weeks ended 31 December 2016 (audited) £m
Loans repayable within five years	**(13)**	(12)	(27)
Loans repayable wholly or in part after five years	**(23)**	(25)	(47)
Underlying interest payable	**(36)**	(37)	(74)
Fair value movement on quoted debt	**(12)**	(18)	(74)
Fair value movement on interest rate swaps	**(6)**	-	-
Discount unwind of payables and provisions	**(5)**	(8)	(14)
Non-cash finance costs	**(23)**	(26)	(88)
Total finance costs	**(59)**	(63)	(162)

The Group's Eurobond debt is fair valued each period with the fair value movement going through the income statement. Fair value movements on forward currency transactions were immaterial in the current and prior period.

Notes to the interim financial statements continued

5 Taxation

In plain English - what does this note show? This note shows the tax charge recognised at half year. This is calculated in three parts based on (i) material transactions reflected in the half year results (ii) recognition of the full impact of enquires concluded by HMRC in the first half of the year and (iii) the forecast effective tax rate for the full year applied to our underlying half year trading results (excluding the tax impact of the material transactions).

The tax charge of £4m (2016: £6m) and effective tax rate of 16% (2016: 35%) relates to:

1. A review of the effective tax rate for the full year has been applied to the underlying trading results - this results in an expected tax credit of £2m.
2. The sale of the CIS Tower within the NOMA joint venture has increased our tax charge by £4m.
3. The release of the deferred tax asset classified as held for sale arising from the sale of a number of stores to McColls Retail Group plc has reduced our tax charge by £5m.
4. HMRC concluded on an historic enquiry in the first half of the year, as such the uncertain tax risk provision for this enquiry has been released in full - this reduces the tax charge by £1m.
5. A charge of £8m has been posted in respect of the current year movement in the deferred tax liability from our pension asset.

A credit of £66m has also been posted to other comprehensive income in respect of the actuarial movement arising on the pension fund. The net deferred tax liability of the Group at half year is £143m (2016: £152m) and the corporation tax creditor is £nil.

The Group does not expect to be tax-paying in respect of their full year results due to the availability of brought forward tax losses and allowances.

6 Pensions

In plain English - what does this note show? The analysis shows the key assumptions used for the actuarial valuation of the Pace scheme. The subsequent tables also show the net position (being either a surplus or a deficit) for all of the Group's defined benefit (DB) pension schemes as well as showing how the total net surplus has changed during the period.

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

The main DB pension scheme for the Group is the Pace scheme which closed to future service accrual on 28 October 2015. The actuarial valuations for the Pace scheme have been updated to 1 July 2017 in accordance with IAS 19. All other schemes have only been adjusted for interest and cash movements.

	1 July 2017 (unaudited)	2 July 2016 (unaudited)	31 December 2016 (audited)
The principal assumptions used to determine the liabilities of the Pace pension scheme were:			
Discount rate	**2.68%**	2.80%	2.74%
Inflation rate	**3.39%**	3.00%	3.45%
Future pension increases where capped at 5.0% pa - Retail Price Index	**3.22%**	3.00%	3.26%
Future pension increases where capped at 5.0% pa - Consumer Price Index	**2.29%**	2.00%	2.35%
Future pension increases where capped at 2.5% pa - Retail Price Index	**2.24%**	2.50%	2.26%
Future pension increases where capped at 2.5% pa - Consumer Price Index	**1.96%**	2.00%	2.00%

Notes to the interim financial statements continued

6 Pensions continued

	1 July 2017 (unaudited) £m	2 July 2016 (unaudited & restated*) £m	31 December 2016 (audited) £m
Pension schemes in surplus	**1,591**	1,477	1,939
Pension schemes in deficit	**(244)**	(197)	(251)
Closing net retirement benefit	**1,347**	1,280	1,688

	1 July 2017 (unaudited) £m	2 July 2016 (unaudited & restated*) £m	31 December 2016 (audited) £m
Opening net retirement benefit attributable to Group	**1,688**	1,130	1,130
Derecognition of Britannia EFRBS liabilities	**-**	3	3
Current service cost and admin expenses	**(3)**	(3)	(5)
Net finance income	**23**	22	45
Contributions by employer	**27**	27	51
Remeasurement (losses) / gains	**(13)**	101	464
Derecognition of surplus due to Bank sectionalisation (see below)	**(375)**	-	-
Closing net retirement benefit	**1,347**	1,280	1,688

*See general accounting policies section on page 22 for details of the restatement.

During 2017, the Group, the Bank and the Pace Scheme Trustees agreed heads of terms to sectionalise the Bank's element of the Pace scheme. Pace had previously been accounted for, on a defined benefit basis, entirely by the Group because sufficient information was not available to identify the Bank's share of the assets and liabilities. During 2017, it was agreed that 20.7% of the assets and liabilities of Pace will be allocated to the Bank's section upon sectionalisation reflecting a pro rata allocation of 'orphan pension liabilities'. These 'orphan pension liabilities' are predominantly the liabilities of deferred and pensioner members of the CIS Employees' Pension Scheme which were transferred into Pace on its establishment in 2006.

Therefore there is now sufficient information to account for the scheme proportionally on a multi-employer basis. The Group continues to account on a defined benefit basis for its 79.3% share of Pace's assets and liabilities. The ability to determine an appropriate share of the scheme between the participating entities has resulted in a de-recognition of £375m of the Pace surplus with a corresponding charge through other comprehensive income.

Sectionalisation should conclude by the third quarter of 2018. This will also remove the Bank's 'last man standing' obligation to the rest of the Pace scheme. An obligation on the Group to support the pension liabilities of the Bank section could arise in limited circumstances if the Bank were to not meet its own section pension liabilities.

Notes to the interim financial statements continued

6 Pensions continued

Amounts recognised in the balance sheet:	1 July 2017 (unaudited) £m	2 July 2016 (unaudited) £m	31 December 2016 (audited) £m
Fair value of plan assets:			
- Pace	**8,580**	10,597	10,918
- Somerfield Scheme	**1,102**	934	1,106
- Other schemes	**816**	693	811
Total assets	**10,498**	12,224	12,835
Present value of liabilities:			
- Pace	**(7,148)**	(9,235)	(9,135)
- Somerfield Scheme	**(943)**	(819)	(950)
- Other schemes	**(1,060)**	(890)	(1,062)
Total liabilities	**(9,151)**	(10,944)	(11,147)
Net retirement benefit asset / (liability) per balance sheet:			
Pace	**1,432**	1,362	1,783
Somerfield Scheme	**159**	115	156
Total assets	**1,591**	1,477	1,939
Other schemes	**(244)**	(197)	(251)
Total Liabilities	**(244)**	(197)	(251)
Net Asset	**1,347**	1,280	1,688

The assets and liabilities of the Pace scheme as at 1 July 2017 have been reduced by 20.7% to reflect the proposed sectionalisation of the Bank's element of the scheme.

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

Notes to the interim financial statements continued

7 Assets and liabilities held for sale

In plain English - what does this note show? The note shows the value of the assets that the Group holds for sale at the period end (these are assets that we plan to sell soon and generally relate to Food stores). When this is the case, our balance sheet shows those assets separately as held for sale.

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

	1 July 2017 (unaudited) £m	2 July 2016 (unaudited) £m	31 December 2016 (audited) £m
Property, plant and equipment	**9**	63	48
Investment Properties	**17**	-	-
Intangible assets	**3**	61	58
Total assets	**29**	124	106

Deferred tax liabilities	**(2)**	-	(5)
Total liabilities	**(2)**	-	(5)

Assets held for sale includes 21 of the remaining food stores that are still to be sold to McColls Retail Group plc in the second half of the year. Assets are recorded at their current carrying value unless this exceeds any expected net proceeds of sale in which case the assets are impaired. As the proceeds are expected to be above carrying value, no impairment has been incurred.

Notes to the interim financial statements continued

8 Investments in associates and joint ventures

In plain English - what does this note show? This note gives details of the Group's interests in The Co-operative Bank plc (Bank) and TCCT Holdings UK Limited (Travel) as well as some smaller investments in our Manchester property joint venture (NOMA) and our Windfarm joint ventures. These items are called 'investments in associates' as the Group has a significant influence over their activities but does not have control. The note shows how the value of these investments in the balance sheet has changed during the year, as well as what share of their profit or loss has been shown in our consolidated income statement.

The Group's share of profit in relation to associates and joint ventures for the period was £10m (26 weeks ended 2 July 2016: loss of £31m). A breakdown of the investment and income is disclosed below:

	26 weeks ended 1 July 2017 (unaudited)		26 weeks ended 2 July 2016 (unaudited)		52 weeks ended 31 December 2016 (audited)	
	Income £m	**Investments £m**	Income £m	Investments £m	Income £m	Investments £m
The Co-operative Bank plc (Bank)	**-**	**-**	(45)	140	(185)	-
TCCT Holdings UK Limited (Travel)	**-**	**-**	(3)	34	12	-
NOMA	**10**	**22**	-	35	1	39
Other investments (including windfarms)	**-**	**13**	1 -	30	1	13
	10	**35**	(47)	239	(171)	52
Income from Travel put/call option	**-**	**-**	16	-	-	-
Income from Travel dividend guarantee	**-**	**-**	-	-	-	-
Total	**10**	**35**	(31)	239	(171)	52

Bank
The Group has recognised £nil income for the 26 weeks ended 1 July 2017 (2016: £45m loss). This comprises the share of the Bank's comprehensive losses of £35m (2016: £14m), the share of fair value unwind credits of £46m (2016: £61m) and an impairment of £11m (2016: £92m).

The Bank announced on 28 June 2017 that agreement on the terms of an equity raise and recapitalisation had been reached with its shareholders and noteholders. On 1 September 2017, the recapitalisation was successfully completed, see note 15 for more details. The fair value of the remaining 1% in the recapitalised bank is not material and so the investment has remained at £nil. The remaining 1% shareholding has subsequently been sold.

Travel
On 29 November 2016, a deed was signed with Thomas Cook that determined when the additional outstanding dividend amount of £32m (which was recognised in income in 2015) had to be paid by and in addition confirmed that the value payable for the Group's shares in the JV in the event of exit in 2017 would be £50m, in line with the terms of the Shareholders' Agreement. Of the outstanding dividend, £20m was received on 3 January 2017 and the remaining £12m was received on 3 April 2017.

On 6 December 2016 the Group served notice to Thomas Cook of the decision to exit its investment in the Travel JV under the put option granted to it in the Shareholders' Agreement. This means that Thomas Cook Retail Ltd has to buy the Group's 30% interest by 30 November 2017. Upon giving notice, the Group lost all voting rights to the associate meaning it is no longer able to demonstrate significant influence over the entity. Therefore, the book value of the investment in Travel has transferred to trade and other receivables in 2016 and was treated as a disposal in 2016 in the table below. The remaining £50m in relation to the exit payment is held within other receivables within trade and other receivables on the balance sheet.

NOMA
The £10m income (2016:£nil) comprises the Group's share of NOMA's profit of £4m, mainly due to the sale of the CIS Tower and £6m as the requirement to eliminate unrealised profits under equity accounting has now ceased. Further cash of £7m has been invested into the joint venture in 2017 (2016: £2m).

8 Investments in associates and joint ventures continued

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

	26 weeks ended 1 July 2017 (unaudited)	26 weeks ended 2 July 2016 (unaudited)	52 weeks ended 31 December 2016 (audited)
	£m	£m	£m
At beginning of period	**52**	285	285
Addition of associates	**7**	2	5
Share of profits / (losses)	**10**	(47)	(171
Distributions received	**(34)**	-	(2
Disposals	**-**	(1)	(65
At end of period	**35**	239	52

Contingent liabilities and commitments of associates and joint ventures
Details of contingent liabilities and commitments in relation to the Bank at 31 December 2016 were disclosed in the 2016 annual report. These included the following key areas: Indemnification agreement with CFS Management Services Limited (CFSMS), a subsidiary of the Group which provides services to the Bank; Conduct and Consumer Credit Act issues; sale of the Bank's share in Visa Europe Limited (VE); regulatory and other investigations; legal proceedings; mortgage securitisation representations and warranties; pensions; separation from the Group; Warwick Finance One and Two mortgage securitisation representations and warranties; and NOMA. The items disclosed remain broadly unchanged.

9 Interest-bearing loans and borrowings

In plain English - what does this note show? The note provides information about the value and contractual terms of the Group's interest-bearing loans. This includes information about their value, interest rate and repayment terms and timings. Details are also given about other borrowings and funding arrangements such as Corporate investor shares and finance leases. All items are split between those that are due to be repaid within one year (current) and those which won't fall due until after more than one year.

For a breakdown of IFRS 13 level hierarchies in relation to these borrowings, see note 13.

	As at 1 July 2017 (unaudited) £m	As at 2 July 2016 (unaudited) £m	As at 31 December 2016 (audited) £m
Non-current liabilities:			
£450m 6 7⁄8% Eurobond Notes due 2020*	**511**	490	511
£350m 7 1⁄2% Eurobond Notes due 2026*	**429**	381	416
£21m 8 7⁄8% First Mortgage Debenture Stock 2018*	**21**	21	21
£109m 11% final repayment subordinated notes due 2025	**109**	109	109
£19m Instalment repayment notes (final payment 2025)	**16**	17	16
Corporate investor shares	**-**	1	-
Non-current portion of finance lease liabilities	**-**	2	-
Trading Group interest-bearing loans and borrowings	**1,086**	1,021	1,073
£70m 12% Financial Services Callable Dated Deferrable Tier Two Notes due 2025	**68**	68	68
Total Group interest-bearing loans and borrowings	**1,154**	1,089	1,141

Notes to the interim financial statements continued

9 Interest-bearing loans and borrowings continued

	As at 1 July 2017 (unaudited) £m	As at 2 July 2016 (unaudited) £m	As at 31 December 2016 (audited) £m
Current liabilities:			
Instalment repayment notes (final payment 2025)	**1**	1	1
Corporate investor shares	**14**	24	16
Current portion of finance lease liabilities	**1**	1	2
Other unsecured loans	**2**	2	2
Total Group interest-bearing loans and borrowings	**18**	28	21

* 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.

Reconciliation of movement in net debt

Net debt is a measure that shows the Group's net indebtedness to banks and other external financial institutions and comprises the total of cash and short-term deposits.

For 26 weeks ended 1 July 2017 (unaudited)

	Start of period £m	Non cash movements £m	Cash flow £m	Movement in corporate investor shares £m	End of period £m
Interest-bearing loans and borrowings:					
- current	(21)	-	1	2	(18)
- non-current	(1,141)	(13)	-	-	(1,154)
Total Debt	(1,162)	(13)	1	2	(1,172)
<u>Group cash:</u>					
- Group cash (per balance sheet)	283	-	214	-	497
- Overdraft (per balance sheet)	(6)	-	1	-	(5)
Group Net Debt	(885)	(13)	216	2	(680)
<u>Comprised of:</u>					
Trading Group Debt	(1,095)	(13)	2	2	(1,104)
Trading Group Cash	208	-	190	-	398
Trading Group Net Debt	(887)	(13)	192	2	(706)
CISGIL debt and overdrafts	(73)	-	-	-	(73)
Co-operative Banking Group (excluding CISGIL) cash and overdrafts	75	-	24	-	99
Group Net debt	(885)	(13)	216	2	(680)

Notes to the interim financial statements continued

9 Interest-bearing loans and borrowings continued

For 26 weeks ended 2 July 2016 (unaudited)

	Start of period	Non cash movements	Cash flow	Movement in corporate investor shares	End of period
	£m	£m	£m	£m	£m
Interest-bearing loans and borrowings:					
- current	(22)	2	-	(8)	(28)
- non-current	(1,071)	(18)	-	-	(1,089)
Total Debt	(1,093)	(16)	-	(8)	(1,117)
Group cash:					
- Group cash (per balance sheet)	405	-	49	-	454
- Overdraft (per balance sheet)	(4)	-	-	-	(4)
Group Net Debt	(692)	(16)	49	(8)	(667)
Comprised of:					
Trading Group Debt	(1,025)	(16)	-	(8)	(1,049)
Trading Group Cash	331	-	38	-	369
Trading Group Net Debt	(694)	(16)	38	(8)	(680)
CISGIL debt and overdrafts	(72)	-	-	-	(72)
Co-operative Banking Group (excluding CISGIL) cash and overdrafts	74	-	11	-	85
Group Net debt	(692)	(16)	49	(8)	(667)

For 52 weeks ended 31 December 2016 (audited)

	Start of period	Non cash movements	Cash flow	Movement in corporate investor shares	End of period
	£m	£m	£m	£m	£m
Interest-bearing loans and borrowings:					
- current	(22)	-	1	-	(21)
- non-current	(1,071)	(74)	3	1	(1,141)
Total Debt	(1,093)	(74)	4	1	(1,162)
Group cash:					
- Cash (per balance sheet)	405	-	(122)	-	283
- Overdraft (per balance sheet)	(4)	-	(2)	-	(6)
Group Net Debt	(692)	(74)	(120)	1	(885)
Comprised of:					
Trading Group Debt	(1,025)	(74)	3	1	(1,095)
Trading Group Cash	331	-	(123)	-	208
Trading Group Net Debt	(694)	(74)	(120)	1	(887)
CISGIL debt and overdrafts	(72)	-	(1)	-	(73)
Co-operative Banking Group (excluding CISGIL) cash and overdrafts	74	-	1	-	75
Group Net debt	(692)	(74)	(120)	1	(885)

Notes to the interim financial statements continued

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

	Notes	**26 weeks ended 1 July 2017 (unaudited) £m**	26 weeks ended 2 July 2016 (unaudited & restated*) £m	52 weeks ended 31 December 2016 (audited & restated*) £m
Operating profit		**51**	72	148
Depreciation and amortisation charges (excluding deferred acquisition costs)		**126**	130	251
Non-current asset impairments	1	**1**	3	5
Profit on disposal of businesses and non-current assets	1	**(5)**	(28)	(32)
Change in value of investment properties	1	**(7)**	(2)	(16)
Retirement benefit obligations		**(22)**	(27)	(45)
Decrease / (increase) in inventories		**48**	35	6
Increase in receivables		**(90)**	(106)	(153)
Increase in payables and provisions		**154**	126	71
Net cash flow from Trading activities before movements in Financial Services		**256**	203	235
Fair value through profit and loss movement		**45**	(23)	(27)
Assets available for sale movement		**(16)**	9	21
Movement in deferred acquisition costs		**-**	(3)	(3)
Reinsurance assets		**(15)**	(6)	15
Loan receivables at amortised cost		**1**	(2)	(6)
Insurance and other receivables		**(34)**	14	36
Insurance and participation contract provisions		**19**	(8)	(24)
Insurance and other payables		**7**	5	-
Movements in assets and liabilities in Financial Services		**7**	(14)	12
Net cash flow from operating activities		**263**	189	247

* See general accounting policies section on page 22 for details of the restatement.

Notes to the interim financial statements continued

11 Commitments and contingent liabilities

a) Capital expenditure not accrued for, but committed by the Group at 1 July 2017 was £nil (2 July 2016: £nil).

b) There are no significant changes to the contingent liabilities of the Group as disclosed in the 2016 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 ('the Bank'), as disclosed in the 2016 annual report. Significant changes to those relationships and transactions since the year end are as follows:

The Group, the Bank and the trustees of Pace entered into a legally binding agreement which, when implemented, will effect pensions separation within Pace such that the Bank will become responsible for its own section of Pace only, and will no longer have 'last-man standing' risk for the rest of Pace. See note 6 for more detail.

The Group has agreed with the Bank to use its best efforts to implement the Restructuring and Recapitalisation and has entered into new agreements with the Bank such that: the relationship agreement will terminate and run off, and co-existence principles will terminate; the Bank undertakes to distinguish its branding from the branding of Group.

Following the recapitalisation of the Bank (see note 15), the Bank will no longer be a related party from 1 September 2017 as it is no longer an associate of the Group.

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

	1 July 2017 (unaudited) £m	2 July 2016 (unaudited) £m	31 December 2016 (audited) £m
Intercompany assets	**-**	-	1
Bank balance / (overdraft)	**5**	98	118
Intercompany liabilities	**(133)**	(154)	(140)

Notes to the interim financial statements continued

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

Other investments as per the balance sheet:	**1 July 2017 (unaudited) £m**	2 July 2016 (unaudited) £m	31 December 2016 (audited) £m
Current	**382**	264	372
Non-current	**1,509**	1,507	1,414
Total Other Investments	**1,891**	1,771	1,786

Other investments held by the Group are as follows:	**1 July 2017 (unaudited) £m**	2 July 2016 (unaudited) £m	31 December 2016 (audited) £m
Fair value through profit or loss:			
Funeral plan investments	**1,009**	866	872
Deposits with credit institutions (Insurance)	**181**	222	226
Available for sale:			
Listed debt securities (Insurance)	**701**	683	688
Total Other Investments	**1,891**	1,771	1,786

Fair values of the Trading Group recognised in the balance sheet

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

- Level 1 - quoted market prices in an active market
- Level 2 - valuation techniques using observable inputs
- Level 3 - valuation techniques using unobservable inputs

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

1 July 2017 (unaudited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through income or expense				
- Funeral plan investments	**-**	**-**	**1,009**	**1,009**
- Derivative financial instruments	**-**	**44**	**-**	**44**
- Insurance investments	**-**	**181**	**-**	**181**
Available for sale assets	**-**	**701**	**-**	**701**
Total financial assets at fair value	**-**	**926**	**1,009**	**1,935**
Liabilities				
Financial liabilities at fair value through income or expense				
- Fixed-rate sterling eurobond	**-**	**940**	**-**	**940**
- First mortgage debenture	**-**	**21**	**-**	**21**
- Funeral plan liabilities	**-**	**-**	**1,005**	**1,005**
Total financial liabilities at fair value	**-**	**961**	**1,005**	**1,966**

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 Trading Group including cash, trade and other receivables / payables then the notional amount is deemed to reflect the fair value.

2 July 2016 (unaudited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through income or expense				
- Funeral plan investments	-	-	866	866
- Derivative financial instruments	-	61	16	77
- Insurance investments	-	222	-	222
Available for sale assets	-	683	-	683
Total financial assets at fair value	-	966	882	1,848
Liabilities				
Financial liabilities at fair value through income or expense				
- Fixed-rate sterling eurobond	-	871	-	871
- First mortgage debenture	-	21	-	21
- Funeral plan liabilities	-	-	866	866
Total financial liabilities at fair value	-	892	866	1,758

Notes to the interim financial statements continued

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

31 December 2016 (audited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through income or expense				
- Funeral plan investments	-	-	872	872
- Derivative financial instruments	-	50	-	50
- Insurance investments	-	226	-	226
Available for sale assets	-	688	-	688
Total financial assets at fair value	-	964	872	1,836
Liabilities				
Financial liabilities at fair value through income or expense				
- Fixed-rate sterling eurobond	-	927	-	927
- First mortgage debenture	-	21	-	21
- Funeral plan liabilities	-	-	915	915
Total financial liabilities at fair value	-	948	915	1,863

Basis of valuation of Level 1 financial liabilities:

Eurobonds - this debt is fair valued at each period with the fair value movement going through the income statement. This is because the Group has used interest rate swaps to hedge the impact in movements in the interest rate and the movement in the fair value of the quoted debt is partially offset by the fair value movement in the interest rate swaps (noted below).

Basis of valuation of Level 2 financial assets and liabilities:

Derivatives - forward exchange contracts, such as the Group's interest rate swaps, are either marked to market using listed market prices or 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:

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 through profit and loss. An analysis of the movement and reconciliation between the opening and closing balance is shown in the table below.

Funeral Plan Investments	**1 July 2017 (unaudited) £m**	2 July 2016 (unaudited) £m	31 December 2016 (audited) £m
At start of period	**872**	781	781
New plan purchases	**126**	92	135
Plans redeemed or cancelled	**(72)**	(30)	(67)
Interest and bonus applied	**83**	23	23
At end of period	**1,009**	866	872

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

The Group holds investments on the balance sheet in respect of Funeral Plan policies which are invested in either individual whole of life policies, trusts or life assurance products. The investments are subject to an annual actuarial valuation. The most recent valuation was performed as at 30 September 2016 and reported headroom on a wholesale basis of £146m (2015: £37m).

Actuarial Valuation (Unaudited)	30 September 2016 £m	30 September 2015 £m
Assets:		
With profits whole of life policies	845	681
Trusts	42	47
Total Assets	**887**	728
Liabilities:		
Present value (wholesale basis)	741	691
Total Liabilities	**741**	691
Headroom	146	37
Headroom as a % of liabilities	20%	5%

14 Membership and community reward

In plain English - what does this note show? This note shows the number of active members that the Group has 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 the Group's businesses (excluding The Co-operative Bank) within the last 12 months.

	1 July 2017 (unaudited)	2 July 2016 (unaudited)	31 December 2016 (unaudited)
Members	m	m	m
Active Members	4.5	3.4	4.0
Membership and community rewards (within income statement)	£m	£m	£m
Member reward (5%) earned	29	-	16
Community reward (1%) earned	6	-	3
Carrier bag levy donated to charities	4	5	10
Other donations	1	1	2
Total reward	**40**	6	31

15 Events after the reporting period

On 1 September 2017, The Co-operative Bank plc ('the Bank') announced that it had successfully recapitalised, raising approximately £700m of additional core tier 1 capital and positioning the Bank to meet regulatory capital requirements in full in the medium term. The Group's shareholding has therefore reduced from 20% to 1% from 1 September 2017. As a result, some formal arrangements including the right of the Group to nominate a Director to the Bank Board have ended and meant the Group no longer accounts for the Bank as an associate as it has lost significant influence. The Group has since sold its entire remaining shareholding to an existing shareholder for £5m.