

# News Release

30<sup>th</sup> March 2011

## REVITALISED CO-OPERATIVE GROUP DELIVERS IMPROVED PERFORMANCE ACROSS ITS FAMILY OF BUSINESSES

Preliminary results for The Co-operative Group for the 52 weeks ended 1<sup>ST</sup> January, 2011

FINANCIAL PERFORMANCE	2010	Growth vs 2009*
Group sales	£13.7bn	+9.1% (£12.5bn)
- Trading Group sales	£11.2bn	+6.3% (£10.5bn)
- CFS sales	£2.5bn	+23.6% (£2.0bn)
Underlying Group operating profit **	£624.8m	+31.4% (£475.5m)
- Trading Group underlying operating profit	£459.3m	+34.7% (£340.9m)
- CFS underlying operating profit	£208.6m	+17.7% (£177.2m)
Underlying profit before payments to and on behalf of members (equivalent to the pre-tax profit of a plc)***	£545.7m	+48.3% (£367.9m)
Total Dividend to be paid in 2011****	£150.2m	+38% (£109.0m)
- Consumer members	£77.4m	+55% (£49.8m)
- Employee members	£41.0m	+37% (£29.9m)
Net borrowings	£1,440.2m	down 9.8% (£1,597.4m)

### FINANCIAL AND OPERATIONAL HIGHLIGHTS

- Another record year with solid results across the Group, against backdrop of economic uncertainty
- Revitalisation of the business continues due to ongoing investment in our store and branch estates
- Integrations of Somerfield in Food and Britannia in Financial Services on track
- Completion of three-year business plan under which we have exceeded targets – doubling profits, sales and membership numbers
- Successful launch of next phase of Group development with moves to maximise the potential of the Co-operative family of businesses and increase our membership numbers to 20m by 2020
  - Co-operative Financial Services and Food business increasing co-operation with the set up of in-store banks

- In-store electrical retailing trials with “pods” offering full internet range of goods in food stores
- Co-operative Farms working with Food business to increase percentage of Co-operative UK grown fresh food in stores from 6.5% to 25% by 2015
- Executive management structure realigned behind new strategic focus
- Balance sheet remains strong and cash position well managed
- Proposed Dividend to consumer members up 55% to £77.4m
- Food business delivered strong result, in spite of difficult economic conditions and disruption associated with integration of Somerfield
  - Sales up 4.8% to £7.5bn
  - Operating profit before significant items up 33.3% to £382.6m
  - A further 524 stores refitted and by April 2011 all stores will be operating under the Co-operative brand
  - Winner of Green Supermarket of the Year, and Responsible Retailer of the Year
  - 350 more stores planned by 2013 creating around 7,000 jobs
  - £70m planned investment this year in food logistics network
  - 350 new products launched in 2010 and 50 more to be added to premium TI range this year
- Financial services business enhanced its financial strength over the period
  - CFS revenue up 23.6%
  - Operating profit up 17.7% to £208.6m
  - Capital and liquidity position remains strong: Bank core tier 1 ratio was 9.6%, Bank customer funding ratio at 107%
  - 79% increase in current account switchers in 2010
  - Fundamental transformation of the business continues following Britannia merger, delivering an enhanced customer experience
  - Named the Financial Times Most Sustainable Bank of the Year
- Foundations laid for launch of Ethical Operating Plan, positioning the Co-operative Group as the UK's most responsible business
  - The Plan sets out ambitious new targets and heralds a new era for sustainable development both in our business, and beyond – seeking to improve our own performance while encouraging customers and members to take action and campaign to influence public policy
  - Foundation of Enterprise Hub to nurture more than 350 enterprises to create and grow thriving and sustainable community-based co-operatives
  - Support for the formation of the Schools Co-operative Society, which seeks to establish and support 200 co-operative schools

**Peter Marks, Group Chief Executive, The Co-operative Group said:**

“I am delighted to report that 2010 was another record year for the Co-operative Group, with solid results right across the Group and continued growth in sales and profitability. The past year caps what has been a truly remarkable and exhilarating period for the Group, marking the completion of our three-year business plan following the merger of the Group and United Co-operatives in 2007. When we brought the two societies together we knew we were creating a business with the potential to radically reassert The Co-operative on the high street and drive the renaissance of the wider Co-operative movement. We set ourselves some very ambitious performance targets – and three years on, we have not only met but exceeded those targets against the backdrop of the economic downturn.

“We have achieved our success due to continued investment in our store and branch estates and in our brand, our products and our service. In addition, we made two ambitious and transformative acquisitions - Somerfield in Food and Britannia in Financial Services.

“We have now embarked on the next phase of our journey – working to ensure that we maximise the potential of the Co-operative family of businesses to better serve our 6.5m members. At the same time, our ethics and social campaigning will continue to be at the forefront as we work to reaffirm The Co-operative Group as the pre-eminent ethical business in the UK.

“Looking ahead, we had hoped to see signs of economic recovery by the start of 2011, but the downturn is clearly biting deeper than we had expected. We now anticipate challenging trading conditions through to the end of this year and into 2012. With consumers feeling the squeeze on their spending, I know that all of our businesses will have to fight for their market share. That means we must make even greater efforts to ensure we are responding to the needs of our members and customers and are giving them good reasons to continue to trade with us.

“But, despite the difficult economic environment I am confident that we are well placed to meet the challenge. During 2011 we will still be a business in transition, however, all the work done over the past three years means we are in good shape to continue to weather the downturn and make the most of opportunities when the economic situation improves. We will continue to set ourselves challenging, but achievable targets for both our business performance and our social goals because that is what our members ask for and expect. It is that drive and ambition for excellence that I believe will ensure our long-term success.

“Finally, this time last year I welcomed the interest being shown by all the mainstream political parties in our ownership model, and the potential they saw in co-operatives to drive improvements in the delivery of public sector services. Since then there has been a great deal of talk, but little by way of action. What is now needed, to take ‘Big Society’ thinking from mere rhetoric to something tangible, is a ‘one stop shop’ where those who want to set up a co-operative can meet the experts and actually make things happen. This is something we plan to launch this year. We are also committing to spend £11m to support the growth and development of co-operative businesses and schools in the UK. All of this gives me the confidence to say that we are firmly on the right path to meet our vision of creating a better society.”

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#### **Notes to Editors:**

*The Co-operative Group is one of the UK’s leading businesses and the world’s largest consumer-owned co-operative. The Group is the fifth biggest food retailer and the leading convenience store operator and The Co-operative Financial Services runs the largest “super mutual”. Other interests include the third largest retail pharmacy chain, the number one funeral services business, Britain’s biggest farmer and a leading travel agency. The Co-operative Group has around 6.5 million members. As well as delivering on its financial and operational goals, The Co-operative Group aims to deliver on its social goals, playing an active part supporting local communities and the wider world.*

**Footnotes:**

*\*Results for 2010 represent the 52 weeks to 1<sup>st</sup> January 2011, 2009 represent 51 weeks to 2<sup>nd</sup> January 2010*

*\*\*Underlying Group operating profit measures the normal underlying business performance and removes from operating profit the following volatile or one-off costs: property disposal profits, investment property valuation fluctuations, significant items, fair-value amortisation, Financial Services Compensation Scheme levies and short-term investment fluctuations*

*\*\*\*Underlying profit before payments to members is underlying Group operating profit less underlying interest (interest excluding fair value movement and other net financial income) plus the Group's share of the operating result of associates and joint ventures*

*\*\*\*\*The Dividend payment is subject to approval by members at the Group's AGM on 21<sup>st</sup> May 2011. The total Dividend includes an interim Dividend of £16.4m which was approved by members on 6<sup>th</sup> November, 2010.*

## **FINANCIAL OVERVIEW**

The financial statements for 2010 reflect a strong year for the Group, against the backdrop of challenging market conditions for all our businesses. The integrations of the Somerfield and Britannia are progressing well, with the final steps due to be taken in 2011 and 2012 respectively.

The progress we have made is even more impressive when set against a background of a flat market, the inevitable disruption associated with the massive integration projects we are undertaking and the general lack of consumer confidence.

Group sales were £13.7bn in 2010, an increase of £1.2bn (9.1%) on 2009. Revenue in the Trading Group was up by £0.7bn with a full year trading of the former Somerfield stores. Strong performances were achieved in all continuing businesses in challenging market conditions. Food sales were up 4.8% on the prior year, in spite of severe disruption caused by integration of the Somerfield estate.

The other large trading business, Funerals and Pharmacy, were up by 10% and 3.5% respectively. This was achieved in Funerals against a falling death rate and in Pharmacy operating in a market suffering continued government 'claw back' reforms. A number of the smaller businesses – including Life Planning, Motors, Legal Services and E-store - all achieved significant increases in sales revenue.

The Group's Financial Services division, CFS, saw overall sales, before reinsurance premiums and long-term business; grow by 23.6% to £2.5bn - which includes Britannia for a full year compared to five months in 2009. At the same time, the business has led the market in the responsible and ethical provision of financial services. As the UK financial services market continues to suffer from unprecedented global economic challenges, CFS has enhanced its financial strength.

Underlying Group operating profit (which adjusts for 'one-off' and non- trading items) was £624.8m, an increase of £149.3m or 31.4%. The underlying Trading Group profit of £459.3m was up £118.4m (34.7%) up on previous year. The Co-operative Financial Services (CFS) underlying operating profit (operating profit before FSCS levy, significant items, short-term investment fluctuations and fair value amortisation for 2010) was £208.6m, compared with £177.2m in 2009. This was in spite of the continuing challenges and weakness of the financial services market.

As a result, profit before payment to members (equivalent to the pre-tax profit of a plc) is £414.4m against £411.0m the previous year. However, stripping out the volatile one-off impacts, underlying Group operating profit before payments to members is up 48.3% to £545.7m reflecting a strong core trading performance.

## **BUSINESS REVIEW**

### **FOOD**

Our Food business delivered a strong result in 2010 despite a difficult economic climate, extremely fierce trading conditions and challenges presented as a result of the Somerfield integration. Sales across the business were up 4.8% from £7.2bn to £7.5bn and operating profit before significant items was up 33.3% from £287.1m to £382.6m. However, like-for-like sales were down 2.5% reflecting the disruption to stores by the integration of Somerfield. Given two winters in which our stores were hampered by severe weather conditions, a poor summer and an anticlimactic World Cup which can normally be relied on to drive sales, the

fact that our Food business has ended the year with an operating profit that is over 30% up on last year's figure is commendable.

### **Integration**

2010 for our Food business was without doubt the year of integration. When we set out to create a combined Food business, from The Co-operative Food and Somerfield, within two years, we knew we were setting ourselves stretching targets that would demand intense effort to achieve. We also fully expected to see an impact on performance from the Somerfield estate while such a massive change programme was implemented. In the twelve months under review we refitted 524 Food stores to The Co-operative brand. By April 2011 the entire enlarged Food estate will be operating as The Co-operative. We harmonised the ranges, including taking some key successes from Somerfield, so that the whole estate was offering the same Co-operative branded products. We have taken great strides to get our customer offer right, especially in the larger stores, ensuring we have the range on offer that our customers expect. This is an ongoing project that will see further improvements in 2011. As well as adopting some of Somerfield's product ranges, we also took on board some of its other back office processes.

We have brought together our food marketing and buying operations to create a single Commercial function focused on the customer offer. We have also created a new online training platform for colleagues in store. CITRUS is designed to keep store colleagues up to speed with everything from Health and Safety regulations to maintaining standards in store. After a successful pilot the new software system has been rolled out across the estate.

Our Supply Chain function has undergone unprecedented change as a result of the Somerfield integration. There has been massive development of the logistics network – successfully incorporating one of Somerfield's depots at Lea Green, near St Helens, amongst other significant changes – and the roll-out of our Stock Management And Replenishment Transformation (SMART) project. We also rolled out a new store segmentation plan in 2010, more aligned to our customers needs.

It is impossible to overstate the significance and scale of the changes we have been implementing across the Food business over the last year. This has been delivered through the commitment and hard work of our colleagues. Inevitably, it is they who are at the sharp end of the changes we are making and their understanding, commitment and loyalty to our brand is essential if we are to give good service to our customers. The Co-operative Way is a store manager development programme we have launched which celebrated its first annual graduation event in 2010. The graduates, a mix of existing Co-operative employees and those new to the business, each now have their own stores thanks to the programme. Central to the success of the programme has been the support of 145 academy store managers across the country who have helped with their development and training. 221 delegates started the training in 2010, resulting in the 153 successful managers graduating.

### **Awards**

Our Food business has also enjoyed another bumper year for industry awards. For the third year running we were named Responsible Retailer of the Year at the prestigious Oracle Retail Week Awards. We were also named RSPCA People's Choice Supermarket of the Year for the second year running. The IGD Food Industry Awards presented us with both the Community Award, for our Charity of the Year partnership with RNID, and the Business Transformation Award for the roll-out of our innovative 'Right for Us' programme which uses the latest biometric technology to support store staff scheduling and more efficient payroll management. The Group was named Green Supermarket of the Year at the Grocer Awards and our Scottish colleagues won the title Green Retailer of the Year for the third year running

at the Scottish Retail Excellence Awards. We also continued to win recognition for our food products including champagne, sandwiches, meat and fish and our Fairtrade range.

### **Future growth**

In 2011 we will continue with our rapid pace of improvement. Our stronger buying power through our increased scale is enabling us to offer members and customers better value across our ranges. We are also making more of seasonal events and developing more 'hero' products like the immensely popular bonfire bangers we promoted in 2010. Growth is still a key part of our strategy for Food with 50 new stores planned for 2011, increasing to 125 in 2012 and 175 in 2013. These developments will see us create around 7,000 new jobs.

All of these initiatives are driving through the long-term benefits of the Somerfield acquisition, ensuring that our increased size brings to our members and customers better value, better availability, better products and better execution.

### **The Co-operative Farms**

In recognition of the unique and profitable asset our Farms business has become, we moved it from our Estates business to The Co-operative Food in 2010 with the aim of achieving even greater advantage for the Group.

Our Farming business has delivered a great result in 2010, with an operating profit up 42.9% from £4.2m to £6.0m. This is especially noteworthy when you consider what a significant number of challenges the farming industry is currently contending with, ranging from the severe weather conditions that so affected our strawberry crops last year through to fuel price increases; however, global shortages, crop failures, protectionism, and agricultural problems in Russia and Australia that greatly inflated prices have helped offset the downsides. Thankfully, our Farm business adapts to the various challenges each year. Taking strawberries as an example, our 2011 crop will greatly benefit from what we learned during the winter of 2009/2010 and implemented in time to reduce frost damage from the November temperature plunge. In 2010, our farming business also planted its first vineyard of 6,000 vines at Down Ampney, Wiltshire, which we are hoping will bring about our first own label English wine in 2013. Most of the vines are Ortega as selected by the Food Retail wine buyer.

2011 has a number of exciting new schemes and initiatives in the pipeline, ranging from a major new tenancy on an apple farm in Kent where we are planting 60,000 new trees in the first year alone to dramatically increase apple production – our aim is to provide all British-grown apples for Co-operative Food stores within the next seven years – to the launch of a tremendously exciting project that will see farms across our estate striving to protect the habitat of various species and learn more about them. Whether it is otters in Coldham, bats in Tillington or barn owls in Down Ampney, the aim is to study the challenges these animals face and pass on that greater understanding throughout the farming industry, thereby repairing some of the natural habitats that farming has damaged in the past.

### **FINANCIAL SERVICES**

As the UK financial services market continues to suffer from the current, unprecedented, global economic challenges, The Co-operative Financial Services (CFS) has continued to offer a member-owned, customer-led and ethically-guided alternative business model. We believe that this is one of the reasons why we were endorsed this year, with the naming of CFS as "The world's most sustainable bank". As the award implies, CFS is forging a business model focused on long-term, sustainable success. CFS was also named a 'recommended provider' by Which? Magazine and was the highest-placed high street bank in the influential JD Power survey.

CFS has maintained and enhanced its financial strength, while delivering benefits for customers and members. Underlying operating profit of £208.6m for 2010 was 17.7% higher than 2009. Excluding the costs of reinvesting in strategic change, underlying operating profit was up 27.6% to £246.2m.

The capital and liquidity profile for the business remains strong. The Co-operative Bank (the Bank)'s core tier 1 ratio was 9.6% (2009: 8.7%), reflecting the strong capital base of the business, yet it is notable that CFS has not taken, or needed, government capital support. In addition, the excellent levels of customer funding in the Bank of 107% at December 2010, and the continued reduction in arrears, further attest to our principle of being financially prudent and strong.

CFS's values-based approach to all aspects of the business seeks to balance financial strength with the needs of our customers and our people. Our continuing focus on an easy, fair, personal and responsible service, during a time of deep uncertainty for many of our customers, remains a key distinguishing factor. Despite a difficult mortgage market, CFS has increased its lending, with gross advances of £4.7bn, which illustrates the business's continued support to families and small businesses during these difficult times. CFS is also sensitive to the depressed nature of the savings market and is doing what it can to balance savers' interests with those of borrowers.

CFS also saw a 79% increase in current account switchers in 2010. While this is testimony to the strength of, and trust in, our brand, the fact remains that the UK continues to have one of the lowest switching rates for primary bank accounts in the EU. Current accounts play a cornerstone role in retail banking and CFS is keen to engage in finding solutions that will make current account switching easier for new customers.

Since the merger with Britannia Building Society, CFS has continued to make excellent progress on the integration of two complementary operations. The fundamental transformation of the combined business is now well underway, with its focus on delivering an enhanced customer experience. The first release of our Banking Transformation Programme (the replacement of our core banking systems), has been delivered for our Corporate customers, which provides enhanced functionality and improved security features. In addition, Co-operative current accounts and insurance products are now available in all Britannia branches, and the core product range is aligned across Co-operative and Britannia channels.

### **Retail**

The Retail business delivered an operating profit of £26.5m. Excluding the cost of strategic change initiatives, underlying operating profitability was substantially improved at £58.0m (2009: £18.9m). Continued growth in current account balances, tight cost control and lower impairment charges have been at the heart of a strong Retail Bank performance. Operating profitability for the General Insurance business increased by 48.5% to £31.1m in 2010, benefiting from a highly successful year of growth.

### **Corporate and Markets (CAM)**

The CAM operating result for 2010 of £147.7m was 21% up on 2009. Corporate banking has delivered a sustained performance in another difficult year for the industry, driven by measured growth on the corporate banking asset book through selected high quality new business, combined with significant liability growth through term deposits. The Platform intermediary mortgage business also continued to grow its market presence and reputation throughout 2010, with clear focus on good quality assets supported by a prudent approach to lending.

The Treasury area has delivered effectively on its core responsibilities of ensuring a strong and stable liquidity base, providing diverse sources of wholesale funding to the Bank, managing market risk within risk appetite and delivering a strong financial performance on the investment portfolio.

### **Performance highlights**

The strength of the retail customer proposition has again been recognised by a range of awards. CFS was named a 'recommended provider' by Which? Magazine, and won multiple categories at the Moneywise Customer Service awards. The Co-operative Bank achieved the highest rating in the Forrester UK bank website benchmarking survey (beating NatWest, Santander, Barclays, Lloyds TSB and Halifax), and was the highest-placed high street bank in the influential JD Power survey.

The Co-operative Insurance won the 'Best Online Motor Insurance Provider 2010' at the 'Your Money' awards and also won 'Intelligent Choice Awards' for its customer service and cover from Consumer Intelligence. Customer satisfaction with general insurance products and service is at 74% for Motor and 71% for Household, compared to market averages of 65% and 60% respectively, according to GfK NOP Financial Research Survey (FRS), January 2010 to December 2010.

Life & savings was well ahead of the industry average for customer advocacy in the 2010/2011 ABI customer impact survey, where 79% of customers were 'likely' or 'very likely' to recommend the CFS life and savings business to others compared to an industry average of 69%.

### **PHARMACY**

In 2010, our Pharmacy business found its own unique way to express The Co-operative's ethical commitments. It launched its first ethical strategy, the centrepiece of which was the signing of a three-year partnership with UNICEF, worth £400,000, to support sanitation projects in the developing world. It's a commitment that will help to provide 7,800 latrines, reaching 195,000 people in 390 villages.

Despite tough economic conditions and increased competition from food superstores, Pharmacy has maintained its market share and delivered an impressive improvement in performance with a sales increase of 3.5% from £745.0m to £771.3m in 2010. This has led to an increase in operating profit before significant items of 11.7% from £29.9m to £33.4m.

An important development in 2010 was the first full year of operation for our new National Distribution Centre (NDC) in Stoke-on-Trent. The investment in our NDC has proved to be invaluable in ensuring we have the right medicines available in all our branches and that this can be achieved with increased profitability. In 2010, we also received regulatory approval that allowed us to begin generic medicine production at our joint venture manufacturing facility in China. This will increase in 2011, making further significant improvements to our margins.

The business launched a number of new services in 2010, not least being the flu vaccinations we offered to help customers beat the winter blues, and played a key part in the development of Pharmacy Voice, a new representative body for the industry that will hopefully help to improve the way in which pharmacies liaise with government in 2011 and beyond.

Internally, we made significant investment in technology, with changes to our key patient medication record system in all branches, bringing them on to a single platform and ensuring real benefits both for colleagues and customers.

2011 already promises to be a challenging year, due to the government funding 'claw back', which began in earnest in October 2010, reducing the reimbursement prices for generic drugs. Our business model is strong, however, and the senior management team is geared towards driving good profits for the business and excellent products and customer service.

## **FUNERALCARE**

Customer care is essential to every aspect of the Group's activities. But for our funeral business it is paramount. Funeralcare has built its continuing success on understanding client needs, often at a time of great emotional distress, and providing the utmost care to every aspect of funeral arrangement. That sensitivity, attention to detail, and dedication to service remains at the heart of the business.

In 2010, our commitment to service, by colleagues at every level, has led The Co-operative Funeralcare to once again deliver an outstanding performance. Operating profit was up 18.8% from £43.7m to £51.9m. Funeral sales during the year were also up by 10.0% from £287.4m to £316.0m.

Members can take great pride in the Group continuing to be the UK's leading Funeral Director. We also aim to be recognised as the UK's number one provider of choice and in 2010 we developed a ground breaking national television advert, supported by press, radio, outdoor and online marketing campaigns. Our new advert focused on promoting the choices and options available to clients when arranging a funeral and our ability to meet their individual wishes.

We have continued to invest in the business, with £9.5m to improve our fleet of vehicles and £11.1m to improve our branch estate. We are developing our products and services including our masonry and woodland burial ground offer.

Supporting the local communities we serve has always been a priority for Funeralcare. In 2010, more than 8,500 community activities were carried out by teams across the business, ranging from memorial Christmas trees to the donation of more than 55,000 reflective badges to school children to promote road safety.

## **SPECIALIST RETAIL BUSINESSES**

### **Legal Services**

The Co-operative Legal Services continues to grow strongly with sales up 19.2% from £20.3m to £24.2m. Profits have increased slightly by £0.1m to £3.9m. Our Personal Injury service has again performed well and has allowed us to extend our business-to-business proposition further with the development and launch of our Accident Management Services. Other initiatives have included re-launching our personal injury and will writing websites, together with continued support and development of our joint proposition with Life Planning. Our Legal Service business is currently growing rapidly thanks to great customer service and attractive rates and a strong range of Personal Injury, Probate and Will Writing services.

### **Life Planning**

Our Life Planning business is reporting another excellent year of trading with sales up 20.8% from £29.8m to £36.0m and operating profit up 35.6% from £4.5m to £6.1m. Success has been achieved through a combination of driving sales in existing channels, launching new distribution partners and the development of new products, such as Funeral Protect Plus which was launched in association with CUNA Mutual, one of the biggest credit unions in the UK and a recognisable name in the United States. In addition, improved controls and quality of processes, combined with tight management of costs and commercials, has meant the business has managed to deliver an excellent performance. Highlights of the year include the creation of a Wills and Funeral planning proposition resulting in a substantial increase in direct Funeral plan sales and a lead generation to the Legal Services business that led to a

market increase in wills in the last quarter of the year. 2011 will see the business acting on a number of new partnerships that are currently in the pipeline as well as further developments in the joint Legal Services and Life Planning propositions and distribution process.

### **Travel**

2010 proved to be an exceptionally challenging year for the whole travel industry. Severe pressure on margins in a highly competitive market were compounded by the global impact of the downturn in the economy, the Icelandic ash cloud which grounded flights and cost millions in compensation and other events such as the World Cup and the General Election, also adversely affected holiday sales.

It was evident early in the year that these challenges required a much broader, strategic review and it was against this backdrop that we entered into discussions with Thomas Cook to form a proposed new joint venture which was announced in October 2010. The new joint venture is currently awaiting approval from the regulatory authorities, but we believe it will be good news for our customers, members and the majority of Travel colleagues and will secure The Co-operative Travel brand on the high street for many years to come. Due to this proposal, the results of the Group's Travel business are required to be reported within discontinued operations, in accordance with Accounting Standard IFRS5.

## **SPECIALIST COMMERCIAL BUSINESSES**

### **Sunwin Services Group**

Sunwin Services Group, which comprises Cash in Transit Services, ATM Support, IT Services, Sunwin Fire & Security and Sunwin Managed Security, has enjoyed a good year in difficult trading conditions where our customers, primarily in retail and banking, are looking at ways to reduce costs. Total sales in this financial year were up 3.6% from £28.1m to £29.1m. Operating profit was up 24.4% from £4.5m to £5.6m.

CVIT has seen sales increase 19% in the year by increasing its customer portfolio with a number of new national retail cash collection contracts won during the year. IT Services sales have increased 23% in the year due to an increased number of major projects being undertaken. New contracts won by Managed Security have enabled the business to increase sales by 25%. With our move into larger warehouse premises and a number of industry accreditations gained during the year Sunwin Services Group is well positioned to become an ever increasing presence in the security industry sector

### **The Co-operative Motors**

Our car dealerships performed well in the midst of a volatile market, turning last year's loss of £1m into an operating profit of £2.9m this year. This was greatly assisted by the transformation of 19 dealerships that adopted The Co-operative brand.

New car sales performed well in the first half of the 2010, but came under increasing pressure as the year wore on and the economy once again began to contract.

Working closely with our manufacturing partners meant that we were able to mitigate margin pressures through the delivery of target plans. These close partnerships resulted in us gaining the Landrover franchise for Leeds with 2010 seeing its first full year of trading. This and significant sales improvements as a result of unswerving commitment to customer service, propelled it into one of Landrover's top 10 best branches in the UK.

### **E-Store**

At a time when the biggest electrical retailers in the UK have performed poorly with trading losses and declining market share, our E-Store business has again performed well. Net revenue increased by 11.5% to £87.9m, and operating profit has increased to £2.1m. This performance is very encouraging as the UK electrical market was in decline in 2010, with e-

commerce growth flat compared to 2009. Our market share has grown, primarily due to outstanding prices, excellent customer service, and our rapid and very reliable delivery service. Continued consumer recognition of our brand has helped improve our business.

Our delivery service still remains industry leading with over 99% of products delivered to our customers on the chosen date, together with our two hour delivery time slot. During the year we have collected over 15,000 old appliances from customers who have been recycled, and we have also recycled 250 tonnes of cardboard and polystyrene packaging. E-Store has strong links with other co-operative societies, managing the Co-operative Electrical Buying Group. The service includes buying, warehousing, distribution, and promotions. Electrical sales throughout The Co-operative businesses performed well during 2010, benefiting from the ability to purchase container deals in large quantities with direct shipment from overseas to our warehouse.

### **The Co-operative Clothing**

The Co-operative Clothing delivered a very creditable result, improving its operating profit, which was up by £0.2m to £0.5m. The business' main focus for 2011 will be increased sales channels, spearheaded by a new catalogue for trade. Other improvements in 2010 included innovations such as automated labelling and ongoing improvements in warehouse processes with new conveyor and scanning machines. Clothing is developing new product ranges in suiting, beauty and catering, increasing the colour range of top selling shirts and blouses as well as looking to drive new sales and maximise current opportunities by e-marketing existing and new clients.

### **Estates**

Estates made a significant contribution to the Group in 2010, both in terms of business performance and the provision of key services to the trading businesses. Despite the depressed economic conditions, underlying operating profit was up 2.7% from £18.4m to £18.9m over the previous year. In addition, the revaluation of our investment property portfolio contributed an additional £14m to operating profit, ending the year at £339m, aided by an uplift in the property market and proactive portfolio management. Property disposals of £96.8m were completed in the year, which helped realise capital that can be invested in other Group projects and assist with Group cash flow.

The construction of the new head office got underway in the summer, marked by a Foundations event at which we were able to set out our vision for the building and the benefits it will bring to the business and to the wider community in Manchester. Over the lifetime of the project, around 4,000 jobs will be linked to its construction. We are working to ensure we maximise apprenticeships on the site and are forming links with schools, colleges and higher education to develop learning opportunities too. We have formed a partnership with a local charity working with the young homeless in the city, Lifeshare, and have already renovated their offices. The ambition of our new head office was recognised in 2010 when we won the Estates Gazette Green Award for Office Development of the Year. The building will be the first phase of our 20-acre masterplan which will see us leading a radical regeneration of a key part of the city centre that has suffered from under-investment for decades.

During 2010 we were commended on our energy efficiency programme right across the Group, when we were named Retailer of the Year at the annual Rosenblatt New Energy Awards, beating off other major retailers. The judges were very impressed by efforts from all of our businesses but in particular Food, which has embedded the programme into its daily business with an energy champion in every store, a dedicated team of Regional Energy Managers, the monitoring of energy usage every half hour as well as delivering store refits with an average energy saving of 10%. The Energy efficiency programme, led by Estates,

has now saved the business over £25m during the last three years as well as reducing the Group's carbon footprint.

The Estates workplace services team won a prestigious UK award during the year for Excellence in Facilities Management, recognising their progressive management processes with a portfolio of high maintenance buildings. While the Estates based Operational Risk team continued to ensure the businesses maintained compliance and actively managed risks during the year in the face of an increasingly regulatory business environment.

## **SOCIAL GOALS**

A set of clear values and principles has guided our business since its creation in the mid-nineteenth century, through times of challenge and prosperity alike. Our commitment to these values has provided us with considerable commercial strength; building customer confidence in our brand and an impressive reputation amongst the general public, while earning us many prestigious accolades. I would like to take this opportunity to thank all those colleagues without whom we would not be considered The Grocer's Green Supermarket of the Year; the FT Sustainable Bank of the Year or, indeed, the RSPCA's People's Choice Supermarket.

While sustainability is very much 'business as usual' at The Co-operative Group, these awards testify to the boldness of our agenda, which has enabled us to improve the communities of many thousands of people across the world. There is still much more we can do, both abroad and closer to home. In 2011 we have launched our boldest ethical Plan and campaign yet. This aims to cement our position as the UK's most responsible business, and will call on millions of our customers and members to join us in working for a fairer world.

The Co-operative Group's strategy for sustainability is informed by those issues of greatest relevance to our business and our stakeholders. The Group has always had a purpose beyond profit, and has recognised that certain injustices need to be tackled. A series of innovative ethical policies have built on our co-operative values and principles and been informed by the views of our member-customers. In 2010, we launched a new Pharmacy Ethical Strategy, and an Ethical Strategy for our funerals business followed in 2011.

We are owned by our members and are accountable to them through our unique democratic structure. Sustainability strategies are overseen by the Group Values and Principles Committee – comprising elected representatives drawn from our membership. Sustainability performance is linked to business KPIs, and as such, impacts upon remuneration of our Executive team. We remain accountable to all our stakeholders through our award-winning annual Sustainability Report – praised for its openness and honesty – which gives a detailed analysis of performance across all material social responsibility, ecological sustainability and economic indicators.

2011 has seen the launch of a landmark, three-year Ethical Operating Plan. The Plan sets out ambitious new targets and heralds a new era for sustainable development both in our business, and beyond. As well as improving our own performance in these areas, we will encourage our customers and members to take action and campaign to influence public policy.

## **Performance overview**

### **Keeping communities thriving**

With a presence in every postal area in the UK, we are at the heart of the community. In 2010, £12.4m (4% of pre-tax profits), was invested in communities at home and abroad. In 2010, more than 1,600 local community groups were supported by members who donated their share of the profits to The Co-operative Community Fund, and colleagues volunteered more than 90,000 hours to assist a host of deserving projects. In 2011, we will be counting

on our customers, members and employees, once again, to help meet our fundraising target of £5m for Mencap, The Co-operative Group's Charity of the Year, to improve the lives of young people with a learning disability around the UK. Furthermore, we plan that, by 2013, 10% of our profits available for distribution will be invested in the community, with at least £5m being targeted at tackling poverty around our stores and branches.

### **Supporting co-operatives**

We continue to uphold the principle of 'co-operation amongst co-operatives', and in 2010 supported the very first Co-operatives Fortnight, to raise the profile of co-operatives in communities across the UK. The Co-operative Enterprise Hub is now active nationwide, and is investing £7.5m over the next three years to enable co-operative businesses to start up and grow, through the provision of advice, training and finance. By 2013, we intend to have invested a total of £11m in the development of co-operatives, and set up an additional £20m international Co-operative Development Loan Fund.

### **Inspiring young people**

It gave me great pleasure in June to launch our new 'Inspiring Young People' programme, which helps 250,000 young people across the UK to change their world. In 2010, The Co-operative opened the first two of its Co-operative Academy schools, based in Manchester and Stoke-on-Trent, and a third will open in Leeds in 2011. The Co-operative Academies will deliver an innovative curriculum to students aged 11-19, providing access into work within a values-led ethos. This forms part of the Group's wider work supporting Co-operative Schools, which includes establishing a co-operative society for 120 schools, operating with co-operative values and principles. Our Green Schools programme is helping more than 100,000 children to make more sustainable choices, and has seen nearly 200 schools kitted out with renewable energy technologies.

In 2010, we completed the roll out of our 'Truth About Youth' initiative to challenge and change negative perceptions of young people, launched our 'Votes at 16' campaign to engage young people with the democratic process at an earlier age, and continued to champion financial literacy amongst young people. The Co-operative British Youth Film Academy provides opportunities for young people to gain the skills they need to break into the film industry, and our StreetGames Young Volunteers programme has enabled more than 2,600 volunteers to gain leadership skills and coach sports to other children in their local community. By 2013, The Co-operative Apprenticeship Academy will have created 2,000 new apprenticeships.

### **Protecting the environment**

We have a long-standing commitment to the pursuit of ecological sustainability, through managing our own impacts responsibly and influencing the wider debate on environmental issues. Throughout 2010 we continued to drive a programme of energy efficiency in more than 600 of our most energy-intensive Food stores, and continued the training and development of over 3,000 in-store energy champions. Work is well underway on our new head office, which will set new standards in sustainable design, construction and operation in the UK. Our ambition doesn't stop here. We've set new targets to ensure virtually all operational waste is diverted away from landfill by 2013 and reduce operational greenhouse gas emissions by 35% by 2017. We take seriously our role as a campaigner and influencer of public policy. In 2010, we have been funding research into the impact of pesticides on the bee population as part of our Plan Bee campaign, and enabling people across the UK to take up bee-keeping. We're also lobbying at an EU level to ensure that decision makers are fully aware of the catastrophic impacts associated with unconventional fossil fuels, such as tar sands, and have backed ground-breaking films and exhibitions highlighting these risks.

### **Tackling global poverty**

We continue to strive for a fairer world, where basic human needs are met and rights are respected. We remain second to none in terms of Fairtrade availability; our Fairtrade market share far exceeds that of our overall sales, and Fairtrade sales have nearly tripled in just three years. In 2010, we visited a number of Fairtrade and community projects supported by The Co-operative Group in Africa, to see at first hand how we are helping tackle poverty in some of the poorest parts of the world. In Kericho, Kenya, we met some of the 11,000 small-holder tea farmers we are helping organise into co-operatives in order to achieve the Fairtrade certification needed to supply businesses like ourselves. For them, the chance to be part of the Fairtrade system means the chance to provide the education their children need. It is benefits like this that make us proud to say that, as part of our new Plan, if a primary commodity can be Fairtrade, it will be Fairtrade by 2013. During 2010, we also continued to deliver water, sanitation and green energy solutions to communities in the developing world. In 2011, we will launch a new campaign to make poverty history through a revitalised third world debt campaign 'Unfinished Business'.

### **Ethical finance**

We have long recognised that the provision of ethical finance is crucial to the pursuit of sustainable development. The Co-operative Bank has seen its commercial lending grow sixteen-fold since the launch of its customer-mandated Ethical Policy in 1992, which prohibits investment in certain business areas. Indeed, over £1bn has, to date, been withheld from business activities that bank customers deem unethical. In 2010, we launched a Social Banking Unit to better serve organisations with distinctly ethical or social purpose. Looking ahead, we will increase our commitment to fund energy efficiency and renewable solutions to £1bn. In an exciting development, the £1bn of investments that underpin our key general insurance products are now also subject to ethical screening.

### **Responsible retailing**

The Co-operative recognises the importance of its role in the drive to improve the nation's health, and continues to reduce the salt, saturated fat and sugar in own-brand products. What's more, we've stepped up our commitment to open and honest product labelling, and launched a new front of pack labelling scheme that shows both Guideline Daily Amount and 'traffic-light' information. It's our firm belief that our ethical and healthy offerings should be accessible to all, and not the few. That's why we will ensure that our Healthier Choice options are no more expensive than our standard lines, and the nutritional content of Simply Value products will be at least as good as standard equivalent lines.

We have long known that animal welfare is a priority for our members, and it is our intention that good baseline welfare standards are applied across our own-brand range. In 2010, our range of Elmwood higher animal welfare products was extended, with more than 140 Elmwood product lines on the shelves, and sales tripling since the range was launched in 2008 to £110m. 2011 will see Elmwood standards being extended to fresh pork and sausage products, and the development of a dedicated supply chain for milk will deliver improved animal welfare standards for dairy cows.

### **OUTLOOK**

We had hoped to see signs of economic recovery by the start of 2011 but the downturn is clearly biting deeper than we had expected. We now anticipate challenging trading conditions through to the end of this year and possibly beyond. The impact of the Government's Spending Review and significant job losses in the public sector have not yet been felt. We should be preparing ourselves for the possibility of a long, slow climb out of the recession. Our businesses which attract discretionary spend (Travel, Motors, E-Store) are likely to be hardest hit. However, our broad range of business activities means the Group, overall, has some protection from the worse effects of the austerity measures.

With our members and customers feeling the squeeze on their spending, we know that all of our sectors will have to fight for their market share. That means we must make even greater efforts to ensure we are responding to the needs of our members and customers and are giving them good reasons to trade with us. Our products must be right and our service must be good. That's not always easy when driving major changes that cause considerable disruption – as we have done with our Food business. Now is the time though to give maximum attention to availability, cost, value and the overall shopping experience.

Despite the difficult economic environment that 2011 presents to us, we are confident that the strategic decisions we took to significantly grow the Group, through the merger with Britannia and the acquisition of Somerfield, will start to bring rewards by the end of the year. We should remember that these two big integrations are not yet complete. There is still significant investment underway in the back-office computer systems of the Bank and in reshaping our supply chain operation in Food.

So, in 2011 we will still be a business in transition. We have revitalised our brand, invested millions in our store and branch estate, and improved our products and our service. But the journey is not complete. We are still getting ourselves in shape for the future. Our Board has recognised that one part of the transition should be ensuring that the Group is truly operating as one unified business. The first stage of this process has been to restructure our Management Executive. We are now agreeing a new operating model for the whole Group that will help us to identify opportunities for greater collaboration between businesses and support functions and the leverage of our rejuvenated co-operative brand.

Ends

