

News Release

29th March 2012

Preliminary results for The Co-operative Group for the 52 weeks ended 31 December 2011

THE CO-OPERATIVE GROUP DELIVERS SOLID RESULTS IN LINE WITH EXPECTATIONS

The Co-operative Group continues to invest through the economic downturn

FINANCIAL PERFORMANCE	2011	2010	% change
Gross sales	£13.3bn	£13.1bn	+1.0%
Group operating profit	£585m	£582m	+0.5%
Profit before tax and member payments (equivalent to the pre-tax profit of a plc)	£373m	£396m	-5.8%
Net borrowings	£1.49bn	£1.44bn	+3.3%

FINANCIAL AND OPERATIONAL HIGHLIGHTS

- Group delivers solid results, in line with expectations, against the backdrop of the severely challenging UK economic downturn
- Results reflect the Group's determination to continue to invest in the business with £595m invested in 2011, along with continued investment in the customer offer
- Performance through 2011 shows benefits and strength of the Group's portfolio of different businesses across three operating divisions:
 - Food's performance reflected an increasingly tough market producing an underlying operating profit of £309m (2010: £389m); LFL sales steadily improved during the year, from -3.6% at the half year to -0.4% in the second half, making the full year -2.1% and the improving trend has continued into 2012
 - Banking Group produced a strong performance, turning in an underlying operating profit of £201m (2010: £202m); the Bank maintains stable capital and sound liquidity, with a core tier one ratio maintained at 9.6% (2010:9.6%) and an improved loan to deposit ratio of 94% (2010:103%)

- The Group's other specialist businesses performed well with underlying operating profit of £99m (2010: £90m). This result was achieved in spite of a £18m impact on profits due to a reduction in government funding of prescriptions
- Dividend per point of 1.75p (2010: 2.0p), down in line with underlying profit
- The Co-operative Group named preferred bidder for the Lloyds Banking Group branch assets
- Despite pressures on trading and our commitment to invest, net borrowings increased by only £48m
- Continued moves to ensure we maximise the potential of The Co-operative brand across our family of businesses:
 - Pilots to introduce banking and electrical services to our food stores
 - Launch of provision of legal services through bank branches
 - Development of unified marketing proposition
 - New Manchester head office building on track to open later this year, helping change the way we do business as a Group
- Continued investment in the business, through the downturn, demonstrates the strength of the Group's ownership model:
 - Food: two new distribution centres opened during the period and two more in the pipeline with a total investment of £110m; availability and service improving on the back of £12.5m investment in the rollout of SMART replenishment system; increased investment in new product development with 350 new lines planned for this year; 421 stores refitted, 32 new stores opened and the acquisition of the David Sands convenience chain of 28 Scottish stores; contactless payment system being rolled out in stores within the M25; £11m invested in energy reduction initiatives
 - Banking business: first stage of upgrading of core banking platforms completed – introducing the most modern systems in the industry to enable the delivery of market-leading products and services tailored to customer needs whilst further improving the customer experience through improved functionality; full servicing of current accounts rolled out during 2011 in the 245 Britannia-branded branches, effectively giving customers a near four-fold increase in outlets to conduct their banking; existing credit card platform replaced
 - Specialist businesses: Legal Services set to move into Family Law as "Big Bang" opens up the marketplace; continued investment by Funeralcare with £25m spent on improving the vehicle fleet, branch estate and new crematoria; E-Store launched a market-leading free 90-minute time-slot delivery service for major appliances or large screen TVs purchased online; Pharmacy moved into hospital outpatient dispensing and extended its customer service with the launch of E-Pharmacy and contactless payment trials; and Motors awarded dealer and service centre of the year by Land Rover; Group launched £800m development plan called NOMA set to transform 20 acres of Manchester city centre
- The three-year rolling Ethical Plan, launched in February, demonstrates how the Group's longer term approach has enabled it to raise the ethical bar yet again as the UK's most responsible business, enabling us to offer value to customers while staying true to our values
- Group colleagues raised £7m for MENCAP
- Current trading in line with expectations across our family of businesses; looking ahead we do not see any significant recovery in the UK economy during 2012

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

"The Co-operative Group has delivered a solid set of results against the toughest economic backdrop I have seen in more than 40 years in business. 2011 was a time of severe challenge for the UK economy and for our millions of customers and members. Consumers have been assailed by rising costs, credit squeeze and uncertainty about the future to an extent unparalleled in recent times. Against this background, I believe that this is a creditable performance. We have delivered profitability in-line with expectations, while maintaining our financial strength and resilience.

"It is in times like these that a business shows its true colours; we have revealed ours by continuing to invest for the future – continuing the work that we have been doing over the past five years during which we have revitalised this business and set it up for the future, while doubling sales and doubling profits. Our determination to build on this success has not slowed and over the past year we have invested in the services, systems and infrastructure we need to deliver real value to our customers while setting out to realise the true potential of our vast, diverse customer base and our strong family of businesses. We have also invested significantly in discounts and special offers for our customers. Although these moves have impacted our short-term profitability, we believe our first duty in times of financial and job insecurity is to help our customers make their money go further.

"Looking ahead, I do not expect to see any significant recovery in the UK economy during 2012, with little hope of an improvement in disposable income for our customers. If anything, it is quite possible that things will get worse before they get better. In spite of this, I remain optimistic. The Co-operative Group is in better shape than ever before because of all the work done over the past five years. Our ownership model means that we can take a long-term view and we are as driven, determined and ambitious as ever to modernise our business. We will not allow the current economic downturn to knock us off the course we have set. We have the resources, the resolve and above all the belief to make our vision a reality. When better times come – and they will – these are the foundations on which we will build lasting success."

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Notes to Editors:

The Co-operative Group is the UK's largest mutual business, owned not by private shareholders but by over seven million consumers. It is the UK's fifth biggest food retailer and a major financial services provider, operating The Co-operative Bank and The Co-operative Insurance. Among its other businesses are the number one funeral services provider, the third largest pharmacy chain and one of Britain's largest farming operations. As well as having clear financial and operational objectives, the Group has also set out its social and sustainability goals in its groundbreaking Ethical Plan, which specifies over 50 commitments in these areas.

The Group operates 4,800 retail trading outlets, employs more than 100,000 people and has an annual turnover of more than £13bn. Further information is available at www.co-operative.coop

FINANCIAL OVERVIEW

The financial results for 2011 reflect a solid performance by The Co-operative Group, in a period in which we, along with many other businesses, have faced significant challenges. This has been a time of severe challenge for the UK economy. Our customers have felt the squeeze of rising costs and uncertainty about the future. This has, inevitably had an impact on our sales – most notably in those businesses within the Group that rely on ever-tightening discretionary spending.

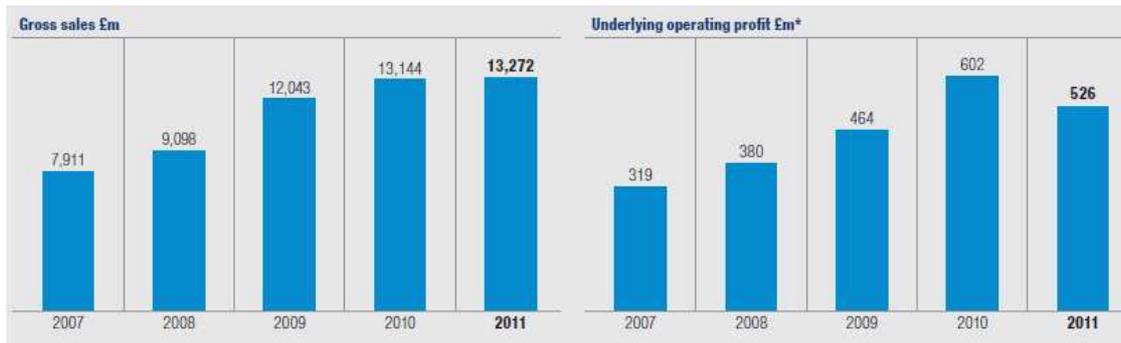
In these circumstances we can see even more clearly the strength that comes from the diversity of our family of businesses. We can also see the huge benefit of our ownership structure; unlike many of our competitors we are able to take a longer-term view because we do not have to chase short-term profitability. With that in mind, we continued to invest through 2011 as we build on the success of the last five years during which we have transformed The Co-operative Group. This way we are ensuring that when the economy improves we are better placed than ever before to operate in the best interests of all our customers.

Against this backdrop individual business performance was mixed. Overall Group net sales were up slightly at £12.41bn (2010: £12.39bn), reflecting the tough trading period we have been through. Within that the Banking Group saw gross revenue rise 9% to £2.2bn. Our Food business produced sales of £7.3bn, down 2.7% (2010: £7.5bn), and on a LFL basis were down 2.1% for the year, reflecting a marked improvement in the second half – H2 down 0.4% versus H1 down 3.6%. Our Specialist Businesses division produced sales of £1.5bn, up 1% on last year.

Operating profit for the Group was £585m (2010: £582m). On an underlying basis Group operating profit was £526m (2010: £602m). Within that, the Banking Group delivered a profit of £201m (2010: £202m) while in Food, profits were down at £309m (2010:£389m) and Specialist Businesses were collectively up to £99m (2010: £90m).

Profit before payment to members fell 5.8% to £373m (2010: £396m).

Financial Headlines; Five Year Trend



BUSINESS REVIEW

Food

2011 was a challenging year for the food retail market, primarily because it was a very difficult year for customers. With increased economic uncertainty and challenges in the UK, overall national food volumes decreased for the first time in many years.

Given these external challenges, results for The Co-operative Food were in line with forecast. Operating profits before significant items were down 20% from £388.6m in 2010 to £309.4m in 2011. Sales were down 2.1% on a like-for-like basis, while inflationary increases added over £60m to the business' cost base.

2011 LFL quarterly analysis

Q1	Q2	H1	Q3	Q4	H2	FY
(4.9%)	(2.5%)	(3.6%)	(0.7%)	(0.2%)	(0.4%)	(2.1%)

With the economic uncertainty set to continue, the outlook for 2012 looks as challenging as 2011. However, the predicted growth in both the convenience and small supermarket channels is forecast to be above overall food sector growth in the next five years. The Co-operative Food's 2,801-strong store estate serves 14.5m customers every week; industry data show that 60% of the population shops in a Co-operative in a year.

To fulfill its potential, The Co-operative Food has set out to ensure its stores are 'right for the customer', with new products developed to meet changing customer needs. The business has also invested in remodeling its supply chain, infrastructure, systems and processes to improve availability on a consistent basis. Meanwhile the business is taking a lead, via its ethical strategy, on key social issues of importance to our customers such as healthy eating and animal welfare.

A priority for the Food business has been to gain a deeper understanding of its customers in order to anticipate and satisfy their needs. Customer research has indicated some scope for improvement in product availability, range, and value. Improvements are already starting to be delivered via change programmes such as SMART (Store Merchandising and Replenishment Transformation), product innovation and investment in reducing prices and a new 'fewer, deeper, stronger' promotional package. The successful relaunch of the premium Truly

Irresistible range in 2011 and the growth of the new 'Eat in' range and the high demand for our Christmas range demonstrate that there is a strong customer demand for The Co-operative own brand. Meanwhile, TV advertising and new point-of-sale packages have been designed to 'shout value'.

Customer convenience is also a priority. The Co-operative Food will next week trial contactless payment in its four Manchester city centre stores. An additional 50 sites within the M25 area will be upgraded with contactless-enabled chip & pin terminals in April 2012, while a further 125 stores within the M25 will join the trial from early May. The significance of locating most of the trial sites in the M25 area is that they will all be online for contactless payment ahead of the London Olympic Games, where this point-of-sale technology is expected to be promoted and used prominently. A decision will be made by the end of 2012, on whether to roll out contactless payment to all food stores.

Customer convenience is also at the heart of The Co-operative Food's ongoing acquisition programme. Thirty two new stores were opened in 2011, including 12 stores opening in 12 days during December. The focus for this latest programme of acquisitions has been to secure city centre locations. New stores were opened in Edinburgh and London, including the high-profile Strand store which opened in February 2011.

Sitting behind the expanding store network, and playing a key role in delivering market-leading customer service, is a revitalised support and supply network. Significant progress has been made in 2011 as the store replenishment strategy was overhauled. New distribution centres were opened in Newhouse and Andover, and further sites are opening in Avonmouth and Castlewood.

Delivery frequencies to many stores have been increased and new depot delivery schedules are being introduced. The roll-out of InStock (an element of the SMART system) was completed in mid February 2012. This system automates store ordering improving availability and freeing up store teams to focus on customer service.

The Co-operative Farms business is now more closely integrated with Food and has performed well over the year, partly due to increases in cereal prices but also due to extensive efficiencies at pack houses supported by good buying practices. Going forward, we aim to continue our support for British farmers as well as our Co-operative farmers who work hard to produce our own-grown British produce such as potatoes and apples. New operations (including a pack house) in Kent and Herefordshire, form a key part of this strategy.

A partnership has also been established with Wiseman Dairies, now part of Muller, to launch a dedicated milk supply chain, which has already been recognised with a Good Dairy award. Under this partnership agreement, contracted British farmers will supply to Wiseman, the equivalent volume of fresh milk required to supply all Co-operative brand fresh milk annually.

Underpinning all of this is the continuing engagement and commitment to the customer, shown by store colleagues throughout a difficult year. Delivering real value and top-class customer service demands personal commitment from every member of the store team.

The Co-operative Food was named Responsible Retailer of the Year at the Oracle Retail Week Awards for the fourth year running, while being named Green Retailer of the Year at The Grocer Awards for the second year in succession.

Banking Group

The aim of The Co-operative Banking Group is to deliver the 'compelling co-operative alternative'. To achieve this we have focused on restructuring our business around its core banking proposition, upgrading core banking systems and extending key services to all customers, while maximising opportunities for growth. Care is taken to balance the demands of capital, liquidity and profit.

The continued resilience of the Banking Group is a positive endorsement for the co-operative model. The 2011 operating result of £216.1m (2010: £209.7m) reflected a strong performance in the Retail sector, partly offset by a difficult year for the corporate sector.

The income statement benefited from gains on the sale of Treasury assets of £37.2m (2010: £11.4m) as part of our liquidity management strategy, and a £20m reduction in total credit risk expected over the life of the Optimum mortgage book (2010: £15m). These helped offset the cost of funding increased liquidity, as we prudently enhanced this core element of our financial strength.

Excluding discontinued operations, the operating result was £200.9m, 0.5% lower than 2010 (2010: £202.0m). Operating profit of £90.5m (2010: £105.5m) was adversely impacted by a £90.0m provision for payment protection insurance (PPI) mis-selling (2010: £4.3m). Our liquidity and capital position remains sound, with an improved Co-operative Bank loans to deposit ratio of 93.9%, and a Bank core tier 1 ratio of 9.6%.

As a member owned financial institution, customers trust the Banking Group to put them at the heart of its business. Levels of advocacy for the Banking Group in 2011 were 10.3 percentage points above the average of its top five competitors. Colleague engagement has also increased during 2011, reaching 81%, compared with 78% in November 2010. Meanwhile the Banking Group was named 'Europe's most sustainable bank' for the second successive year.

During 2011 the Banking Group introduced current account servicing into the Britannia branches, creating 245 more places to bank. To date, some 62,000 current accounts have been opened via these branches (nearly 45,000 during 2011). We have also continued to attract customers switching their current account; during 2011, 10.8% more customers made The Co-operative Bank their main bank.

The Banking Group is transforming its business infrastructure. Improvements have been made to core banking systems, including a new Financial Crime Management system, an upgrade to the banking mainframe system, the re-platforming of the telephony system and new credit card issuing and management systems. The first phase of its new payments hub, covering BACS payments, was implemented in November; the second phase covering card payments will be rolled out in 2012.

Transformation extends beyond the systems infrastructure. An innovative young driver insurance policy was launched in 2011, incorporating 'smartbox' pay as you drive technology, while an in-store banking programme was piloted in a number of The Co-operative Group's food stores.

We have been granted preferred bidder status by Lloyds Banking Group for the sale of 632 branches. This is a significant opportunity; a combination of the Lloyds Banking Group branches and our own branch network would significantly strengthen our ambition as a real challenger in relationship banking in the UK. Our current bid is non-binding and we would only

proceed if we could reach an agreement that was in the interests of our members and other stakeholders. Any transaction would be subject to regulatory approval.

The Co-operative Banking Group consists of two primary operating segments – **Retail**, and Corporate and Business Banking (**CABB**). The Retail business offers a range of banking and general insurance products and services to individuals and households throughout the UK. CABB includes corporate banking, business banking, business services, Platform (the intermediary mortgage business) and Optimum (the closed book of pre-merger intermediary and acquired loan book assets).

The **Retail** operating result (excluding discontinued operations) for 2011 was £138.3m, 77.8% up on 2010, with strong mortgage margins maintained and impairment levels significantly below 2010. The average loan to value ratio remained below 50%, in line with 2010. The General Insurance business has also had a successful year, delivering growth in profits of 42.0%, before significant items and distributions.

The Retail customer proposition continues to attract industry recognition, winning Moneysupermarket's "Best Current Account Provider 2011" and Moneyfacts "Best Longer Term Fixed Rate Mortgage Product" awards. The business was once again shortlisted for "Best Financial Services Provider" at the 2011 Which? Awards.

During 2011, the Banking Group concluded the strategic review of its Life and Savings Business. Following this review, the Field Sales channel has been closed, while the business is in exclusive discussions with North West based mutual Royal London, regarding the sale of CIS, and tCAM, its asset management company. The Banking Group has also enhanced its bancassurance relationship with AXA Wealth Ltd, to ensure customers have continuing access to expert financial advice across its branch network.

The **CABB** operating result for 2011 was £14.5m (2010: £54.7m). Corporate banking has delivered an operating loss of £36.4m in 2011 (2010: profit of £2.5m), reflecting a rise in impairment losses during another difficult year for the industry. In 2011 the Optimum portfolio, a closed book of intermediary and acquired mortgage book assets, reduced in size, as planned, by 5.5% to £7.7bn, and delivered a profit of £52.7m (2010: £61.2m).

The Reclaim Fund Ltd (RFL), a wholly owned subsidiary of the Co-operative Banking Group, commenced trading during 2011 following authorisation from the FSA to collect dormant customer account funds from UK financial institutions, retaining sufficient funds for future reclaims by customers and distributing surplus funds to good causes via the Big Lottery Fund. During 2011, RFL collected £369m of dormant savings account balances; provisions of £147m have been made for possible reclaim by customers, and a £143m provision made for the future payment of funds to the Big Lottery Fund. In line with previous expectations, £48m was distributed during 2011, while £74m of surplus funds has been retained to establish the necessary capital base. As a non-profit making subsidiary of the Group, this £74m appears in the Group income statement within significant items rather than profit.

Specialist Businesses

Despite the economic downturn which has impacted nearly every business sector, the Group's portfolio of specialist businesses has performed well with profits up 10.4% from £90.1m to £99.4m.

In addition to a strong financial performance, customer satisfaction also improved year on year to record levels, with particularly high scores of 92% and 98% being recorded in Pharmacy and Funerals respectively.

The Specialist Businesses strategy is to drive forward each of our core businesses ensuring they deliver great service and value to our members and customers. Key to this is anticipating and responding to member and customer needs, innovating and investing in new technologies and routes to market as appropriate and looking to leverage benefits from working more closely together as part of the Co-operative family of businesses.

Pharmacy

In 2011 the UK pharmacy industry saw a further significant reduction in government funding. By the end of 2011 this reduction had cost the Co-operative Pharmacy business some £18m. In this context, results have remained stable. Operating profits before significant items have decreased 11% from £33.4m to £29.7m.

The Co-operative Pharmacy's strategy is to address the new market realities by improving the sustainability of its business model. Unnecessary cost and wastage have been reduced and margins on products and services improved. A new sales and stock tracking system was introduced in 2010, and has helped deliver outstanding cost savings over the last year.

Cost however, has not been the only focus for the business. A fundamental review of in-store processes was undertaken to ensure a relentless focus on customer service, and a number of non-customer centred processes have been taken out of our day-to-day branch operations. This has enabled us to reduce customer waiting times and drive like-for-like prescriptions dispensed to market leading increases in the last quarter.

Six new branches opened in communities without a local service, furthering business reach and sales potential while underpinning social inclusion. Meanwhile, a new e-Pharmacy channel offers customers greater choice of access, freeing them from reliance on a local branch.

This determination to build our Pharmacy business around customers and communities has seen full year like-for-like sales volumes increase by 1.5% or approximately 1m prescriptions.

A 'new-look' pharmacy was also trialled in eight stores, featuring new products, new consumer messaging and new decor. The pilot produced highly encouraging results. The Pharmacy business intends to build on this encouraging start over the coming year by overhauling its 'over the counter' product range, which currently constitutes some 8% of business.

Other important avenues for growth include the emerging market for outpatient dispensing contracts, offering hospital trusts a more customer-friendly alternative to expensive in-house operations. The Co-operative Pharmacy secured its first outpatient dispensing contract this year, with Doncaster & Bassetlaw NHS Trust. This was supplemented with the completion of two further contracts just after year end, to place the Co-operative Pharmacy second in this emerging market segment. Contracts such as these present a valuable opportunity to expand into an exciting new area.

A key factor in establishing sustainable, long-term growth is colleague engagement. During 2011 The Co-operative Pharmacy invested heavily in training store managers and senior professionals to make a real difference in their own stores.

The business' commitment to creating a positive working environment was recognised with a successful bid for Investors in People accreditation. This, as much as our process improvements and pursuit of new opportunities, gives us a solid grounding for success in the coming years.

Funeralcare

The Co-operative Funeralcare's strategy is to maintain its pre-eminence in the market by offering first-class products and services, investment in future technologies and a relentless focus on people (whether colleagues or customers) to deliver the kind of personal service that clients require at what can be one of the most difficult times in their lives.

Operating profits are up 20.4% on 2010, from £44.5m to £53.6m, supported by improvements in our masonry offer and coffin range, allied with a modest increase in market share.

The Funeralcare business is committed to maintaining the highest standards. A dedicated standards team makes regular audit visits to all sites services and facilities, while customer service questionnaires are used to monitor customer care. Questionnaires also feed into a Funeral Excellence Score (FES) based on a range of quality factors. The 2011 FES score increased from 91.2% to 92.4%, a new record level.

Customer care was the driver for significant changes to Funeralcare's coffin range, to ensure that customers benefit from an informed and flexible choice. The business has also developed its masonry service with encouraging results, as more and more customers arranging Co-operative Funeralcare burials now also purchase their headstones from us.

The Co-operative Funeralcare continues to invest in its ability both to deliver outstanding service now, and to anticipate future customer needs. The funeral home network has benefitted from £13m in estate and £8m in fleet investment during 2011. The business has also acquired a long-term contract with Shropshire Council, increasing our crematorium estate from three to four. Whilst The Co-operative Funeralcare leads the market for funeral services there is still significant potential to increase investment in the area of developing and operating crematoria.

Our commitment to our communities is based on a dedication to providing a sensitive, responsive service to bereaved families. This year Funeralcare launched an ethical strategy to highlight how key social and environmental issues would be managed in the day to day running of our business. 93% of the coffins manufactured by the Co-operative Funeralcare are made from wood certified by the Forest Stewardship Council, while Funeralcare is now the first UK-wide carbon-neutral funeral director.

Legal Services

The Co-operative Legal Services was founded 6 years ago and has gone from strength to strength, growing from 4 colleagues to nearly 500, with an exciting plan for future growth. Results for 2011 have been very positive with operating results up 15% from £3.9m to £4.5m.

Legal Services' strategy, in the wake of the deregulation of the legal services market, is to provide consistent, competitive legal advice to the ordinary person, backed by our scale, reputation, systems, service standards and training. The business has applied for a licence

(Alternative Business Structure, ABS) to offer a broad range of consumer legal services. We aim to provide Co-operative members and customers with accessible, high-quality legal advice and services at a competitive price, challenging the legal 'postcode lottery'.

To support its strategy the business has recruited three leading family law practitioners, and plans to extend its operations to provide support for families in England and Wales.

The legal services business has already been putting its principles into practice with a pilot scheme to offer Wills, Estate Planning, Probate and bereavement advice and Funeral Plans in thirty Co-operative Bank branches. The pilot has shown the value of collaboration across Co-operative businesses (which lies at the heart of Project Unity) and will now be rolled out nationwide, while the service proposition will be enhanced to further customer needs and provide them with broader benefits from Co-operative services..

Life Planning

2011 saw record sales for Funeral Planning products provided through the Life Planning Business. The total number of funeral planning products sold by the Group increased by 9.3%. The Life Planning business is focussed on securing future funeral business for Funeralcare. The Group has adopted a new accounting policy for Funeral Plans in 2011 and now accounts for funeral plan sales under IAS 18 instead of IFRS 4. This means that only a small amount of revenue is recognised at the time of sale, approximately equivalent to the cost of upfront marketing and administration.

The sales function of the Life Planning business was brought together with the sales function from the Legal Services business to provide an enhanced customer proposition. This allows the business to optimise third-party B2B relationships and generate further opportunities to cross-sell products and services and provide an enhanced service to our Business partners and their customers.

Growth in like-for-like sales has been driven by strong performance in Funeral Plan sales through the Co-operative Funeralcare branches (with sales volumes through this channel up by 11.3% year on year). This has been supported by growth in our Legal Charge products, whereby customers are invited to use their Whole of Life product purchased through our Corporate Partners towards their Funeral costs and plan for their Funeral. Sales of Legal Charges have risen 15.4% year on year.

Sunwin Services Group

The Sunwin Services Group provides a range of services to business, including cash in transit, ATM support, IT services and managed security. Despite the economic climate and the temptation for businesses to cut overheads and administrative costs, Sunwin has delivered credible results with operating profits up 12% from £5.6m to £6.3m, through the acquisition of new contracts as customers realise the benefits of the cost-effective service The Sunwin Services Group provides.

Motors

The Co-operative car dealerships have performed creditably in the face of extremely tough economic conditions, exacerbated by a general customer reluctance to spend on big discretionary purchases such as cars. Sales have increased by 4% from £267m to £277m. The business continues to seek opportunities for growth and has invested in a new Land

Rover franchise in Bradford. The Leeds Land Rover franchise has also benefited from a major refit.

The strength of The Co-operative Motors brand has attracted a range of accolades over the last twelve months. The rebranding of the business was recognised as 'Best Marketing Initiative' at the Automotive Management Awards. The business has also been shortlisted for both Dealer Group of the Year and Green Dealer Group of the Year. Since the turn of the year the business has garnered further awards, with Land Rover naming the Bradford franchise its Land Rover Dealer of the Year. The Guisely franchise was named 'Best Franchise' while the Leeds dealership won 'Service Centre of the Year'.

E-store

The Electrical retail sector (including online) has been hit particularly hard by the economic downturn as customers have less disposable income to spend on luxury items, while the depressed housing market has affected sales of major kitchen appliances. Margins have also been under pressure, contributing to a 25.1% reduction in profits. However, performance compares positively with other electrical retailers; sales have fallen slightly, down 6.6% from £87.9m to £82.1m (in a market which has fallen much further), while Christmas internet sales (a key period for online businesses) were up 16% on 2010 following the launch of our new website.

The e-store business strategy is to maintain a competitive pricing policy while focusing on excellent customer experience together with a fast, reliable and flexible delivery service. Significant numbers of customer e-mails, letters, and thank you cards attest to our success. The e-store web site is now live and is the only major internet electrical retailer to feature Feefo reviews (the only reviewer accredited and recognised by Google). To date we have had almost 3,000 reviews with an excellent overall customer service rating of 97%.

While primarily an Internet business, e-store includes an Electrical Buying Group for other Co-operative societies, an Insurance replacement business and a service supporting The Co-operative Food's in-store electrical offer. In 2011 the buying group encountered a difficult year with purchases down 5% compared to 2010, occasioned by difficult Non Food trading conditions, but viewed nevertheless as a creditable performance.

E-store launched a redesigned web site in October 2011, featuring a new look and feel, improved customer information and content and improved functionality (including product and service videos, buying guides, and enhanced product images). To underpin the business' move towards a multichannel proposition, a fully transactional kiosk will be piloted in selected Food stores in Q2 2012.

Clothing

The clothing business has also experienced a challenging year as inflationary prices of raw materials combine with a depressed clothing market to squeeze margins and reduce volumes. Nevertheless operating profits for 2011 are up over 100% from £0.49m to £1.04m. The business has focused on cutting costs and overheads while improving margins, to lay the groundwork for more profitable future performance. Scale however, will continue to be a factor.

Estates

The Co-operative Estates team plays a dual role in the success of the Group, as a business unit generating revenue in its own right, and as a provider of property services to the trading business.

The Estates team's business strategy is to maximise value from its property portfolio through effective investment and disposal of non-core properties; and to maximise the effectiveness of the Group estate through cost effective property management, whilst meeting the needs of the trading businesses.

As a business unit, active property management and tight cost control have helped deliver a successful trading result for 2011. Trading Profit for the year was £19.1m which was £0.3m or 1.6% above the previous year.

As part of this profit generated by the investment properties under management made a significant contribution to Group results for the year. Portfolio value has grown despite depressed property conditions and compares favourably to the IPD benchmark. Meanwhile disposal of non-core properties yielded £33m in cash during 2011 which helped realise capital that can be invested in other Group projects and assist with Group cashflow. In addition the Estates team continues to deploy a range of approaches to optimise the value of provisions relating to the onerous lease estate.

As a service provider Estates plays a key role in managing the Group's 5000-plus Trading properties nationwide. During the year the team managed the opening of 32 new Food stores and 24 Funeralcare branches, as well as the relocation of 11 Pharmacy branches and 8 new Pharmacy contracts were completed. Over 420 food store refurbishments have also been completed.

Estates' contribution to infrastructure management includes enabling the Group to reduce its carbon footprint. Initiatives introduced to reduce carbon emissions and wastage are ongoing, but notably the Group recently achieved the target of reducing operational greenhouse gases by 35% five years ahead of target. Planning consent was secured in the year to build two new windfarms on Co-operative farmland at Coldham and Biggleswade. The intention is that these windfarms will be managed as joint ventures to help deliver the Group's target of generating 25% of energy requirements through its own renewable resources by 2017.

2011 has seen the Estates team achieve recognition, both for its key projects and for the team itself. Accolades included the BIFM Client of the Year and Energy Buyer of the Year at the 2011 Energy Awards.

Looking ahead, the Estates team is helping to shape the future of the Group's home in Manchester. The NOMA urban regeneration project was officially launched in April, and constitutes 20 acres of commercially focused, innovative and highly sustainable development.

Situated at the core of NOMA is 1 Angel Square, the Co-operative Group's new headquarters. Scheduled for occupation from September, the new building is more than just an architectural challenge. In replacing the paper-based, office-centred templates of traditional offices, its flexible working spaces and innovative use of technology will usher in a whole new working environment and culture for Group colleagues.

The building will be populated from September onwards, with migration freeing up a number of other buildings in the area for redevelopment. Here too, the focus is on making positive changes to our environment, bringing older buildings back to life in ways that are both socially proactive and commercially viable.

Social Goals

In the midst of the current, global economic challenges, there are increasing calls for more ethical and responsible forms of business. Given this backdrop, it is appropriate that the United Nations should herald 2012 as the International Year of Co-operatives; the co-operative model being seen as an increasingly relevant factor in a more balanced, sustainable economy.

In 2011, our approach to sustainability was revitalised with the launch of The Co-operative Ethical Plan. The plan, to be refreshed each year in consultation with our democratically elected member representatives, sets ambitious targets across issues of primary concern for members.

Our approach continues to earn us an impressive reputation and during 2011 we achieved a raft of awards, including winner of the *Observer's* Ethical Business Award; first place in Business in the Community's Climate Change Award and 'Platinum Plus' in their Corporate Responsibility Index; a leading ranking in the *Sunday Times'* Best Green Companies List; and winner of *The Financial Times'* award for Europe's Most Sustainable Bank.

Whilst challenges remain, we believe our business model will thrive by delivering value to our members and customers in a responsible and sustainable manner.

Materiality, strategy and governance

The Co-operative Group has always had a purpose beyond profit, and we recognise that certain injustices need to be challenged. We are owned by our members and accountable to them through our democratic structure. The Group Values and Principles Committee, made up of elected members, oversees our approach to sustainability and members help shape our innovative ethical policies.

Our Ethical Plan sets out targets across eight priority areas that we review annually with our members through our Values and Principles Committee to ensure that it continues to show the way forward for corporate sustainable development in the UK. In addition, we have a suite of ethical policies and strategies for our major businesses and in 2011, launched an Ethical Strategy for our Funerals business.

We've been reporting our sustainability performance for over a decade and have been judged around the world as a leader for our openness and honesty.

Performance overview

Keeping communities thriving

We have a presence in every postal area in the UK, providing access to products and services at the heart of the community. In 2011, we invested £13.6m in communities at home and around the world, - and we are aiming to invest 10% of monies available for distribution by 2013, with a target to support 10,000 community initiatives each year, that's one new project every hour, every day.

With our customers, members and employees, in 2011, we raised £7m – well above our £5m target - for our Charity of the Year partners, Mencap and sister charity ENABLE in Scotland, to improve the lives of young people with a learning disability around the UK.

Our members helped over 2,430 local community groups by donating their share of the profits to The Co-operative Community Fund, and colleagues volunteered over 162,000 hours to community projects.

Supporting co-operatives

We believe in 'co-operation amongst co-operatives', seeking to maximise the growth of responsible businesses and contribute to the development of a more diverse and sustainable economy. Against a challenging economic backdrop, the UK co-operative sector continues to grow and there are now over 5,000 co-operatives nationwide.

We are investing £17m over the next three years to support the growth and development of co-operatives in the UK and overseas. Through The Co-operative Enterprise Hub, we continue to provide professional business advice and training to help new co-operatives get off the ground and help existing co-operatives to grow and become more sustainable. Over 700 co-operatives have benefited to from the Hub's support to date.

Inspiring young people

We aim to bring about a cultural shift in the way that young people are viewed and treated in the UK, and to help them change their world. Our Inspiring Young People programme aims to benefit one million young people by 2014.

We launched our Green Schools Revolution in September 2011, a new sustainability education programme for primary and secondary schools. So far, over 3,000 UK schools have registered to take part and we aim to engage 6,000 or one in five schools across the UK by 2014.

In 2011, we established a Co-operative Academy school in Leeds, the third Academy to be launched to date, and we aim to establish a total of six by the end of 2013, delivering an innovative curriculum 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, to which over 200 schools are currently enrolled.

Protecting the environment

Our longstanding commitment to the environment speaks for itself. We have cut our greenhouse gas emissions by 35% since 2006, well ahead of our 2017 target, saving half a million tonnes of greenhouse gases each year. We're aiming for a 50% cut in emissions by 2020, and to generate the equivalent of 25% of the electricity we use from our own renewable sources by 2017. We are looking forward to the completion of our state-of-the-art head office in 2012, which will set new standards for the UK in sustainable design, construction and operation.

During 2011, we lobbied at a UK government and EU level as part of our Clean Energy Revolution campaign. The campaign's focus is to inspire the growth of co-operative and community owned renewable energy projects and end the use of unconventional fossil fuels such as shale gas and tar sands.

In 2011, our focus on sustainable product sourcing was recognised through a leading ranking in a number of industry initiatives: the Marine Conservation Society's Supermarket Seafood Survey; WWF Palm Oil Buyers Scorecard; and Pesticide Action Network UK. We were also the first UK retailer to graduate from WWF's Global Forest and Trade Network for our wood and paper-based products.

Tackling global poverty

We believe that, when undertaken fairly, trade and finance have an unparalleled capacity to improve quality of life and we're proud that over a million people benefit each year from our work. We support thousands of Fairtrade producers and their communities around the world and we will continue to show the greatest commitment to Fairtrade in the UK. Our Fairtrade product availability remains second to none and our market share for Fairtrade far exceeds that of our overall sales; on top of this, we have committed that if a primary commodity from the developing world can be Fairtrade it will be Fairtrade in our stores by 2013.

In 2011, we entered into a partnership with CARE International UK to support 'lendwithcare.org'. The innovative scheme allows people in the UK to lend directly to entrepreneurs in the developing world, helping them work their way out of poverty. Our aim is to facilitate 30,000 loans by the end of 2012. The Co-operative Bank is also spearheading The Global Development Co-operative – a new development fund that aims to raise US\$50m to provide much needed finance to co-operatives in the developing world.

Responsible finance

We have long recognised that a responsible approach to finance is crucial for sustainable development. The Co-operative Bank is the only UK bank to have a customer-led Ethical Policy and, in 2011, we launched the world's first ethically screened insurance products. Since the Policy was launched in 1992, we have withheld over £1bn of investment from business activities that our customers say are unethical, whilst over the same period, increasing our business lending nine-fold.

Looking forward, we have increased our commitment to finance energy efficiency and renewables from £400m to £1bn. We are also focusing on improving the safety of Britain's roads through insurance premium discounts for young safer drivers worth £20m and safety workshops in partnership with road safety charity, Brake.

Responsible retailing

We recognise the importance of our role in improving the nation's health and it is our firm belief that ethical and healthy offerings should be accessible to everyone. We continue to reduce salt, saturated fat and sugar in our own-brand products. Our Healthier Choice options are no more expensive than our standard lines and the nutritional content of our Simply Value products is at least as good as standard equivalent lines.

Animal welfare is a long-standing priority for our members, so we aim for good baseline welfare standards across our entire own-brand range. In 2011, we extended our higher welfare Elmwood standards to fresh pork and sausage products and we are on track to convert our own-brand salmon to Freedom Food standard in 2012. The development of a dedicated supply chain for our milk products has also improved animal welfare standards for dairy cows.

Education for the future

In 2011 the Co-operative confirmed its educational strategy to develop and support co-operative schools across the UK. A key pillar of this strategy is the establishment of Co-operative Academies. The Co-operative Academy of Manchester and the Co-operative

Academy at Brownhills near Stoke-on-Trent (both of which opened in September 2010) have gone from strength to strength, working with their local communities to deliver educational opportunities for students, parents, carers and community members. A third Co-operative Academy is currently being established in Leeds. The Co-operative Group provides leadership, governance and business skills to all three of its Academies, with the goal of providing outstanding education in a values driven organization.

The Co-operative is working in partnership with the Schools Co-operative Society (SCS) and the Co-operative College, funding and providing expertise to the SCS network for more than 200 co-operative schools in England. The Group continues to fund the Co-operative College, who have developed educational models for co-operative schools and co-operative curriculum resources to which they have ready access. The Group also funds the Co-operative Education Trust, Scotland, in delivering resources to schools across Scotland. In Northern Ireland the network of co-operative schools has grown with two more schools joining the existing network, which works closely with the Co-operative Group to embed co-operative values.

Ends

Consolidated income statement

for the year ended 31 December 2011

	Year ended 31 December 2011			Year ended 1 January 2011 (restated)		
	Before significant items £m	Significant items £m	Total £m	Before significant items £m	Significant items £m	Total £m
Revenue	12,408	(90)	12,318	12,388	(4)	12,384
Operating expenses	(12,071)	(200)	(12,271)	(11,906)	(143)	(12,049)
Other income	248	80	328	100	30	130
Operating profit	585	(210)	375	582	(117)	465
Finance income	75	-	75	45	-	45
Finance costs	(66)	-	(66)	(115)	-	(115)
Share of (loss) / profit of associates and joint ventures	(11)	-	(11)	1	-	1
Profit before member payments	583	(210)	373	513	(117)	396
Member payments			(142)			(104)
Profit before tax			231			292
Taxation			(49)			(58)
Profit after tax but before loss on discontinued operations			182			234
Profit / (loss) on discontinued operations, net of tax			26			(23)
Profit for the year			208			211
Attributable to:						
Equity holders of the parent			205			210
Non-controlling interests			3			1
Profit for the year			208			211

Consolidated statement of comprehensive income

for the year ended 31 December 2011

	2011 £m	2010 (restated) £m
Profit for the year	208	211
Other comprehensive income:		
Changes in available for sale assets	(7)	(3)
Actuarial gains on employee pension schemes	-	177
Changes in cash flow hedges	24	(25)
Foreign currency translation differences for foreign operations	-	1
Tax on items taken directly to consolidated statement of comprehensive income	(4)	(42)
Other comprehensive income for the year net of tax	13	108
Total comprehensive income for the year	221	319
Total comprehensive income attributable to:		
Equity holders of the parent	218	319
Non-controlling interests	3	-
	221	319

Consolidated balance sheet

As at 31 December 2011

	2011 £m	2010 (restated) £m
Assets		
Trading Group assets		
Property, plant and equipment	2,511	2,463
Intangible assets	1,520	1,544
Investment property	340	339
Investments	67	30
Derivatives	79	15
Pension assets	431	277
Trade and other receivables	29	42
Deferred tax assets	133	136
Total Trading Group non-current assets	5,110	4,846
Inventories and Biological assets	610	590
Income tax receivable	13	-
Trade and other receivables	478	457
Cash and cash equivalents	267	400
Assets held for sale	1	54
Total Trading Group current assets	1,369	1,501
Total Trading Group assets	6,479	6,347
Banking Group assets		
Cash and balances at central banks	6,696	1,735
Reclaim fund assets	315	-
Derivatives	981	1,729
Loans and advances to banks	2,007	2,394
Loans and advances to customers	33,782	34,999
Fair value adjustments for hedged risk	366	167
Investments	5,949	24,190
Investments in associates and joint ventures	3	3
Reinsurance contracts	71	3,102
Income tax	45	39
Intangible assets	401	317
Property, plant and equipment	202	169
Deferred tax assets	55	105
Prepayments and other receivables	332	527
Assets held for sale	24,266	-
Total Banking Group assets	75,471	69,476
Total assets	81,950	75,823

	2011 £m	2010 (restated) £m
Liabilities		
Trading Group liabilities		
Interest-bearing loans and borrowings	1,534	1,620
Trade and other payables	558	406
Derivatives	141	119
Provisions	303	284
Pension liabilities	253	231
Deferred tax liabilities	299	254
Total Trading Group non-current liabilities	3,088	2,914
Interest-bearing loans and borrowings	163	159
Income tax payable	-	22
Trade and other payables	1,444	1,396
Provisions	118	146
Liabilities held for sale	-	71
Total Trading Group current liabilities	1,725	1,794
Total Trading Group liabilities	4,813	4,708
Banking Group liabilities		
Amounts owed to credit institutions	3,328	3,815
Customer accounts	35,073	32,380
Capital bonds	1,430	1,795
Derivatives	1,091	1,237
Insurance and participation contracts	1,064	17,448
Debt securities in issue	4,165	4,212
Investment contracts	-	316
Unallocated divisible surplus	-	1,037
Other borrowed funds	1,259	975
Income tax payable	30	61
Trade and other payables	428	2,751
Deferred tax liabilities	40	125
Pension liabilities	46	50
Provisions	111	74
Reclaim fund liabilities	241	-
Liabilities held for sale	23,775	-
Total Banking Group liabilities	72,081	66,276
Total liabilities	76,894	70,984
Equity		
Members' share capital	70	70
Retained earnings	4,703	4,576
Other reserves	248	160
Total equity attributable to equity holders of the parent	5,021	4,806
Non-controlling interests	35	33
Total equity	5,056	4,839
Total equity and liabilities	81,950	75,823

Consolidated statement of cash flows

for the year ended 31 December 2011

	2011	2010	2011	2010	2011	2010
	Trading	Trading	Banking	Banking	Total	Total
	Group	Group	Group	Group	Total	Total
	£m	(restated)	£m	£m	£m	(restated)
	£m	£m	£m	£m	£m	£m
Net cash from operating activities	562	579	4,161	(956)	4,723	(377)
Cash flows from investing activities						
Acquisition of property, plant and equipment	(375)	(343)	(54)	(38)	(429)	(381)
Proceeds from sale of property, plant and equipment	29	102	-	1	29	103
Purchase of intangible assets	-	-	(165)	(111)	(165)	(111)
(Acquisition) / proceeds from sale of investments	(4)	(13)	1	-	(3)	(13)
Interest paid in Banking Group	-	-	-	11	-	11
Internal dividends received / (paid)	72	77	(72)	(77)	-	-
Disposal of discontinued operation, net of cash acquired	(51)	-	-	-	(51)	-
Proceeds from sale and maturity of investment securities in Banking Group	-	-	4,514	3,757	4,514	3,757
Purchase of investment securities in Banking Group	-	-	(3,668)	(1,506)	(3,668)	(1,506)
Net cash from investing activities	(329)	(177)	556	2,037	227	1,860
Cash flows from financing activities						
Interest paid on borrowings	(77)	(76)	(67)	(56)	(144)	(132)
Repayment of share capital	-	(2)	-	-	-	(2)
Increase in corporate investor shares	5	10	-	-	5	10
Preference dividends paid	-	-	(5)	(6)	(5)	(6)
Dividends paid to non-controlling shareholders in subsidiary undertaking	(1)	(1)	-	(1)	(1)	(2)
Member payments	(135)	(114)	-	-	(135)	(114)
Additional payments to pension schemes	(47)	(51)	-	-	(47)	(51)
(Repayment) / issue of borrowings	(106)	(117)	171	-	65	(117)
Finance lease (repaid) / receipts	(5)	2	-	-	(5)	2
Net cash from financing activities	(366)	(349)	99	(63)	(267)	(412)
Net increase in cash and cash equivalents	(133)	53	4,816	1,018	4,683	1,071
Cash and cash equivalents at beginning of year	400	347	3,402	2,384	3,802	2,731
Cash and cash equivalents at end of year	267	400	8,218	3,402	8,485	3,802
Analysis of cash and cash equivalents						
Cash and balances with central banks	-	-	6,696	1,735	6,696	1,735
Less mandatory deposits with Bank Of England	-	-	(38)	(36)	(38)	(36)
Loans and advances to banks	-	-	1,020	1,479	1,020	1,479
Short-term investments	-	-	241	230	241	230
Cash held in Reclaim fund	-	-	315	-	315	-
Cash and cash equivalents per balance sheet	267	400	-	-	267	400
Amounts due to credit institutions	-	-	(16)	(6)	(16)	(6)
	267	400	8,218	3,402	8,485	3,802

Operating segments

	2011				
	Revenue from external customers	Underlying segment operating profit	Significant items (net)	Additions to non-current assets	Depreciation and amortisation
	£m	£m	£m	£m	£m
Food	7,348	309	(70)	249	(219)
Banking Group	2,214	201	(107)	219	(135)
Specialist Businesses	1,518	99	(9)	35	(58)
Estates	36	19	-	80	(2)
Federal	1,314	-	-	-	-
Corporate, group costs and other adjustments	(22)	(102)	(24)	12	(7)
Total	12,408	526	(210)	595	(421)

	2010 (restated)				
	Revenue from external customers	Underlying segment operating profit	Significant items (net)	Additions to non-current assets	Depreciation and amortisation
	£m	£m	£m	£m	£m
Food	7,553	389	(28)	250	(211)
Banking Group	2,030	202	(70)	149	(133)
Specialist Businesses	1,504	90	-	32	(56)
Estates	36	19	-	51	(2)
Federal	1,286	-	-	-	-
Corporate, group costs and other adjustments	(21)	(98)	(19)	10	(7)
Total	12,388	602	(117)	492	(409)

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

	2011 £m	2010 (restated) £m
Underlying segment operating profit	526	602
Change in value of investment properties	9	14
Property disposal losses	(19)	(8)
Financial Services Compensation Scheme levy	(17)	(12)
Fair value amortisation	86	(14)
Operating profit before significant items	585	582
Significant items (net)	(210)	(117)
Underlying interest payable	(81)	(80)
Underlying profit before member payments	294	385
Finance income	75	45
Non-cash finance costs	15	(35)
Share of profit of associates and joint ventures	(11)	1
Member payments	(142)	(104)
Profit before tax	231	292