

RECORD SALES AND PROFITS AT THE CO-OPERATIVE GROUP

Preliminary Results for The Co-operative Group for the
51 weeks ended 2nd January, 2010

FINANCIAL HIGHLIGHTS	2009	Growth vs 2008
Group sales	£13.7bn	+ 31%.
- Trading Group sales	£11.6bn	+ 37%
- CFS sales	£2.1bn	+ 6%
Underlying Group operating profit before significant items	£473m	+ 20%
- Underlying Trading Group Profit	£338m	+ 22%
- Underlying CFS Profit	£177m	+ 21%
Profit before payments to and on behalf of members (equivalent to the pre-tax profits of a plc)	£402m	+ 85%
Members' funds	£4.5bn	+ 15%
Dividend paid to customer members	£55m	+ 16%
Net borrowings	£1.6bn	+£949m

OPERATIONAL HIGHLIGHTS

- Acquisition of Somerfield to become the UK's fifth largest food retailer
- Co-operative Financial Services merger with Britannia creates UK's first 'super mutual'
- Launch of the biggest marketing campaign in Group's history
- Continued investment in the brand and transformation of entire estate
- 65% of the total estate rebranded and modernised
- 16 successive quarters of like-for-like (LFL) food sales growth
- LFL food sales up by 5.5% year on year
- 38% growth in Bank current accounts
- 30% uplift in life and savings new business premiums
- Third successive year of double digit growth in Group sales and profit

SOCIAL GOALS

- £11.3m invested in communities in 2009
- £6.7m raised for charity this year
- Voted Responsible Retailer of the Year – for the third year running
- CFS voted Best Financial Provider by Which? Magazine
- Relaunch of The Co-operative Bank's unique customer-mandated Ethical Policy
- 250,000 young people benefited from Group community projects covering renewable energy and recycling
- £5m pledged to support the co-operative enterprise hub
- CFS Toxic Fuels campaign raising awareness of the impact of tar sands extraction
- The Plan Bee campaign raising awareness of honeybee decline, funding research, and encouraging people to help bees and plant bee-friendly wildflowers
- 15% reduction in packaging target met a year ahead of schedule

Peter Marks, Group Chief Executive, comments:

“These are record results in what has been an historic year for The Co-operative Group. Our business has continued to thrive in spite of economic pressure, and I am pleased to report that we are on track with the integration of both Somerfield and Britannia. And, it seems, our business model has never been quite so relevant!

“Whilst we have expanded and evolved as an organisation, we have stayed true to our core principles and we continue to do what we do best: serving customers with excellent products and services, and bringing solid values and trust to the communities in which we operate.

“Our food business continues to go from strength to strength following the acquisition of Somerfield. We now run almost 3,000 community food stores and we have a store in every single postal area in the UK bar one! Each week, we serve 21 million customers. That means that we are the retailer best placed to deliver great savings to customers, without the need to travel to big superstores. This was exemplified in our Great Deal Locally campaign and over £200m of price cuts and deals over Christmas which helped customers buy what they actually needed.

“Our Financial Services business has continued to flourish in spite of the global recession, taking us closer to our vision of being the UK’s most admired financial services provider. The historic merger of The Co-operative Financial Services and Britannia Building Society has created the most diversified mutual in UK financial services, uniquely positioned to present a member-owned, customer-led and ethically-guided alternative to the shareholder-owned or government-owned model.

“It is no coincidence that our business model is in vogue with the mainstream political parties who see consumer and employee-owned co-operatives as a potential solution to some of the issues faced by the public sector. This is great news and I wholeheartedly welcome it. If these plans are to work, however, they must be underpinned by an unswerving commitment to investing in the people who can deliver the renaissance that public sector services so badly need. Without the right leaders, managers and staff to drive change, and create first class businesses, the benefits of co-operative ownership will be lost.

“I am keen to ensure that the Group plays its part in fostering new forms of co-operative ownership, and where better than within the world of education. We are supporting Co-operative Academies in Manchester and Stoke to help develop the creative talent of tomorrow. This is part of a wider vision of ours to broaden the involvement of parents, pupils, teachers and the community in the provision of education through the establishment of Co-operative Trust Schools which we expect to number 200 by the year end.

“Looking ahead, we expect the economic pressures to continue until the end of this year or the first half of 2011. Sustaining the level of success we have enjoyed over recent years will not be easy. All of our businesses are operating in fiercely competitive markets which will only get tougher, so we will be redoubling our efforts to help our customers by providing even greater value and service.”

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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 employs 123,000 people, and has 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.

NB *The figures stated only include a 51 week trading period compared to 52 weeks in the previous year*

BUSINESS REVIEW

Overview

It is no understatement to say that 2009 has been a transformational year for The Co-operative Group and an historic one for the Co-operative Movement as a whole. Over the past 12 months we have achieved the acquisition of Somerfield, the merger with Britannia, the launch of our brand advertising campaign and the ongoing transformation of our entire estate. Taken individually, each of these events would mark a significant change for any business. Taken together, they demonstrate that 2009 saw the greatest change to the business, in its entire history. These achievements, however, are merely the tip of the iceberg.

The bringing together of Somerfield with our existing Food business has, for instance, involved an enormous amount of work behind the scenes to establish a combined Food business with almost 3,000 stores the length and breadth of the United Kingdom. This work has been undertaken whilst maintaining business as usual ensuring that we continue to place the utmost importance on great products and great services. It is to the credit of everyone involved that our new and existing customers now view the Group as a totally revitalised business.

2009, then, has been a year of growth – both in terms of our core businesses and in terms of how the Group is viewed by the outside world thanks to the rollout of the brand advertising campaign and the transformation of our family of businesses. The Co-operative is once again a respected brand on the high streets of the communities in which we operate. We have taken the Big 4 and created the Big 5, and we have created the UK’s first “super mutual” in financial services.

This is how we come to be reporting another year of excellent figures, with gross sales up 31% from £10.4bn to £13.7bn and Group revenue before reinsurance premiums up 33% from £9.4bn in 2008 to £12.5bn. Profit before payments to and on behalf of members – equivalent to pre-tax profits in a plc – rose by 85% from £218m to £402m. However, this included a £99m benefit from the fair value amortisation relating to the Britannia merger and significant improvements in the performance of our investment property portfolio, offset by a reduction in the one-off gains in the disposal of fixed assets.

Excluding these, underlying operating profits of £473m were 20% up on last year. Our borrowings increased from £648m to £1.6bn, largely as a result of the Somerfield acquisition and our investment in the brand rollout. This resulted in a net debt to EBITDA ratio of 2.4 compared with 1.4 in 2008. Members’ funds also rose during the year by 15.2% to £4.5bn.

Food

Our Food business delivered an excellent result with sales including Somerfield up 66% from £4.5bn to £7.5bn and trading profit up 31% to £286m from £219m the previous year. Like-for-like sales increased by a healthy 5.5% year on year. Following a strong Christmas in 2009, we have now delivered 16 successive quarters of like-for-like growth in a fiercely competitive marketplace

and a difficult economic climate. Against the backdrop of financial pressures on household budgets, rising unemployment and increases in fuel prices and extreme wintry conditions, our focus on great deals and community-based stores, helped boost sales.

The big story of 2009 for the Food business, however, has been the Somerfield acquisition and the fact that three years of planned growth has been completed in a single, decisive move. We now operate almost 3,000 local community stores. Each week, we serve 21 million customers and we have a store in every single postal area in the UK bar one. The Somerfield acquisition has also changed our Food business from being focused very much on the convenience store sector to one which combines that expertise with a strong presence in small supermarkets. The challenge now is to become the market leader in that sector, just as we are in the smaller store convenience sector. Our heritage and support for the UK was highlighted throughout our store estate with the launch of our campaign to support British food and reminding our customers we have been at the heart of the community serving Britain for 165 years. During 2009, 778 stores were rebranded and upgraded, 597 Co-operative and 181 Somerfield stores converted to The Co-operative brand which means that 65% of the total estate, including Somerfield, has now been rebranded and modernised, providing a progressive modern shopping experience for our customers. Crucially, sales from rebranded stores have increased by 12% year-on-year.

We have placed value right at the centre of our customer message this year with the Great Deal Locally campaign, which focused on the fact that our stores are located in the heart of local communities so best placed to deliver great savings to customers, without the need to travel to big superstores. Great Deal Locally focused on price cuts, helping customers buy what they actually needed. We introduced Bulk Stacks of show-stopping deals on products that are meal or household essentials, supported with significant television, in-store and leaflet communication. Our most important diet and health initiative this year has been the Green Dot campaign, highlighting healthier choices with a simple prominent green dot on the front of our packaging. Customers of our Healthy Living and Reduced ranges and those buying fruit and vegetables were already familiar with this approach. All Green Dot messages are based on approved nutrition claims. The Green Dot campaign has been an unreserved success with these 850 healthier green dot products making up 25% of our own-brand offering, and accounting for 15% of sales. Our Simply Value range has been another great success, with an 85% increase in sales year-on-year. Other highlights included our Meal Deal campaign – which focused on providing customers with great value family meals – and our Christmas Smart Coupon campaign.

At the Scottish Retail Excellence Awards, The Co-operative won the prestigious title of Retailer of the Year. Judges said the Group demonstrated leading performance across all aspects of its business in Scotland, including clear brand values, commitment to product and store innovation and active involvement in the communities it serves. The Co-operative also picked up the Green Retailer of the Year award for the second year running. As far as 2010 is concerned, although the marketplace remains challenging, both in terms of the economic climate and the increased competition from other retailers, we are confident our offer is distinct enough to retain customers and drive further growth in the year ahead.

Financial Services

The Co-operative business model is increasingly being seen by consumers, commentators and politicians alike as a long-term and sustainable solution to the challenges facing the UK financial services industry.

Against the backdrop of the banking crisis and the worst economic recession in decades, few financial services businesses can claim to have strengthened their balance sheet, brand strength and future strategic capability in the past 12 months in the way The Co-operative Financial Services (CFS) has.

The merger of The Co-operative Financial Services with Britannia Building Society has created the UK's most diversified, mutual financial services provider. Merging two complementary businesses driven by shared values and values, offers the UK consumer a member-owned, customer-led and ethically-guided alternative to the shareholder and state-owned banks so publicly called into question by the 'credit crunch'. Moreover, the merger delivers increased reach, diversity and opportunity, whilst enhancing the financial capability of the business which is clearly in keeping with the long-term interests of our members and customers.

Total operating results (i.e. operating profit before tax, FSCS levy, significant items, short-term investment fluctuations and fair value amortisation) for 2009 was £177m compared with £147m in 2008 (an increase of 21%). These results reflect the business' success in maintaining profitability despite the continuing weakness of the market. Meanwhile CFS' underlying capital and liquidity positions continue to provide the foundations for stable growth. Our liquidity position remains very strong at 104%, and we remain very well capitalised with a capital ratio of 13.6%. We have also maintained rigorous cost control, with pro-forma 12-month operational costs down by 1%.

These figures reflect a business determined to achieve commercial success within a framework of financial prudence and strength. Our focus in 2009 was on delivering a groundbreaking merger while maintaining 'business as usual'. It is to the credit of all colleagues that profits have improved with underlying like-for-like profits up 3% to £174.3m. Customer loans have also increased significantly to £34.1bn (2008: £10.2bn) as a result of the merger. On a like-for-like basis, customer assets have remained stable in difficult markets which re-affirms our support for UK consumers and business, while retaining our strong liquidity and capital positions.

Our liquidity has also been supported by strong growth in customer deposits as consumers continue to be attracted to the CFS mutual and ethical position and competitive pricing. Customer deposits have consequently increased significantly to £32.5bn (2008: £11.7bn) which on a like-for-like basis represents a growth of 2.6%.

Throughout the year CFS was widely recognised as a customer services' champion in being named Best Financial Provider by Which? and by receiving the UK Customer Experience Award as 'best large company'. The Co-operative Bank and smile, our internet bank, took two of the top three spots at Which's inaugural People's Choice Awards, while the Co-operative Insurance won a platinum award for Motor Claims customer satisfaction from Consumer Intelligence.

Platform was named Best Intermediate Lender by Your Mortgage Magazine and our Corporate Banking operation was named small/mid-sized debt provider of the year. Crucially as a business that seeks to take both personal and social responsibility, The Co-operative Financial Services also became one of only seven businesses to be awarded the new 'platinum plus' rating from Business in the Community.

These awards have helped bring us to wider consumer attention. Current account sales have seen a 38% uplift at a time when many competitors are struggling to keep existing customers. Meanwhile life & savings new business premiums for 2009 were 30% higher than 2008 and general insurance gross written premiums increased by 8%.

To support our people in delivering our customer promise, and to lay the foundations for sustainable long-term growth, we are investing significantly in the transformation of our systems and process infrastructure. 2010 will see the first phase implementation of a major programme to transform our banking systems infrastructure with the launch of a new, more customer-centred business banking service. We will continue to focus on stability and core strength rather than opportunism; building on strong performance in 2009 to deliver further benefits for members, customers and society. Above all we will continue to offer consumers a viable alternative to traditional financial services – a model that is fair, easy, responsible and personal.

Pharmacy

Despite extremely tough trading conditions during the course of 2009, and continued pressures on the market driven by further cuts to pharmacy funding from the Department of Health (DoH), our Pharmacy business has delivered a creditable performance, with sales up from £744m in 2008 to £745m. Operating profits were down 21% from £37.8m to £29.9m. Despite this, there have been a number of significant achievements during the year ranging from the launch of a new National Distribution Centre, which will improve stock availability for customers in over 750 pharmacies and give us improved control of our procurement, to sizeable investment in our IT infrastructure, which includes the introduction of a new financial management system and the rollout of a new EPOS In Control platform to all branches.

2009 has also seen us take great strides in rebranding the business with 221 branches newly refurbished and 12 branches positioned either closer or actually within primary care trusts which enables our customers to collect their prescriptions with the minimum of fuss. Other highlights of the year include the launch of our Healthy Heart initiative within Health Centres and improvements to our membership offer, such as the rewards available for the Prescription Collection Service.

Our medicines use reviews have also gone from strength to strength, growing 48% year-on-year and now delivered in 635 branches in England and Wales. Going forward, 2010 is going to be a key year in the development of the industry, with the conclusion of negotiations between the Pharmaceutical Services Negotiating Committee (PSNC) and the DoH regarding the new pharmacy contract and corresponding funding allocation. Within the Pharmacy business itself, we will need to ensure that we are equipped to take the full benefit of the national implementation of the electronic prescription service, a step that will see further investment in our patient medication record systems in branch.

Our joint venture in China should be in production towards the end of the year and the first generic medicines should start to be distributed to pharmacies, adding to the continued strengthening of our own-label medicines and the improvement of our 'over the counter' offer.

Funeralcare

The Co-operative Funeralcare sales during the year were up from £274m to £287m. Operating profit before significant items increased by 11.5% from £39.2m to £43.7m.

In delivering these results, providing exceptional client service remains central to Funeralcare's strategy. Significant investment in Funeralcare's premises, vehicles and staff has continued throughout the year.

Funeralcare continues to expand its business portfolio following the merger with Plymouth and South West Co-operative Society with a further 32 funeral homes joining The Co-operative Group. The business also acquired a new Woodland Burial site, Mayfields, located on the Wirral, Merseyside.

Travel

In the worst recession for 60 years and the most challenging year for the travel industry, sales in our Travel business fell by 5.9% from £262m to £246m, leading to an operating loss before significant items of £2.3m, down £7.6m on last year. To mitigate the impact of lower volumes, action was taken during the year to both reduce the cost base and improve business efficiency, including consolidation of our profitable call centre businesses and changes to the business model within our Homeworking Division. This work has helped to ensure we are better placed to benefit from the future recovery in the economy.

2009 saw the launch of our own tour operation 'Co-operative Holidays', in partnership with Cosmos, and the continued growth of our dynamically packaged beach holidays. Sales through our new website, www.co-operativetravel.co.uk, grew rapidly in 2009 as we further developed the site, and our Travel business was voted National Retail Travel Agent of the Year at the British Travel Awards.

Legal Services

Our Legal Services business had an excellent year with sales up 45% from £14m to £20m and with operating profits before significant items up £2.1m from £1.7m to £3.8m. In a short period of time we have established the business as a significant provider of personal injury claims and management services to internal and external business partners. In addition, we have become one of the leading providers of wills, probate and estate administration services in the UK, supporting not only customers of Co-operative Funeralcare, but also those of other societies within the Co-operative Movement and of external partners.

Life Planning

With sales up 73% from £18m to £31m and an operating profit before significant items up £2.6m from £1.9m to £4.5m, our Life Planning business enjoyed another record year. Success continued to be driven by broader distribution, continued product innovation and greater customer awareness. 2009 has seen the investment and planning carried out in 2008 really start to reap benefits. For instance, our legal charge product which was launched the previous year in partnership with Axa, went on to surpass all expectations.

Sunwin Services Group

2009 has seen Sunwin Services Group continue the growth begun the previous year. Sunwin Security and eSolutions have both worked hard to expand their business and Aegis has worked tirelessly to reduce costs and provide an industry-leading service which is now being extended to Somerfield stores.

Overall, sales were up by 28.9%, from £22m to £28m and operating profit before significant items was up £3.8m, from £0.7m to £4.5m.

Motors

The current economic climate has undoubtedly impacted upon the Motor business with turnover decreasing by 5.5% from £209m in the previous year to £198m, and profit decreasing to a loss of £1m. Whilst the Government's scrappage scheme has stimulated sales of new cars, this has adversely affected margin with reduced interest in higher margin used cars. The business also began rebranding in 2009, from Sunwin Motors to The Co-operative Motor Group, and this will continue in 2010, thereby taking advantage of a wide range of synergies with the other businesses in the Group, as well as renewed consumer awareness of The Co-operative as a trusted brand.

E-Store

Despite continuing challenges presented by a fiercely competitive market, our Electrical business has had an excellent year in 2009, with Internet sales up 36% compared to last year.

The electrical industry in the UK was circa 10% down in 2009, and the on-line electrical sector finished the year level, measured against 2008. Considering these industry figures it is obvious Co-operative Electrical has again increased its market share during the last 12 months. Total sales including our buying group increased by a significant 54% compared to the previous year, with Co-operative Societies also performing well measured against the sector. Anglia and

Channel Islands also joined the buying group during 2009, which has assisted the buying group in achieving its volume growth.

Estates

Our Estates business performed well despite the impact of the credit crunch. Turnover was slightly down from £34m to £33m due to surplus asset disposals and tenant bad debts, and trading profit down £1.6m from £20m to £18.4m.

Despite a difficult market, the value of our underlying investment portfolio increased in value by £3.5m to end the year at £321.6m. This is expected to improve further as the property market emerges from the recession.

Through an ongoing initiative to reduce energy costs the division is saving our businesses £14m per annum, a 20% saving on a 2006 like-for-like basis. Estates is also driving forward the Group's new Head Office and Masterplan for the development of the existing HQ site, and having completed the detailed design work has now begun on site. Our Corporate Procurement department made an important contribution to the Group helping guarantee significant savings.

Farms

2009 has been another year of steady performance for our farming business, with an overall profit of £4.2m, a decline on the previous year driven by cereal prices, but a growth in potato packhouse profits. We have seen further expansion of our unique 'Grown by Us' range, with new products including carrots, sweetcorn and turkeys, but the key aspect of growth for the business has been the increased depth of distribution as products have been rolled out throughout both the Co-operative and the Somerfield estates. The business was also included in both the high-profile brand advertising campaign and Food's Christmas advertising campaign, which helped to raise its profile.

The Co-operative Farms won Farm Business of the Year at The Farm Business Magazine Food & Farming Industry Awards, as well as Farmers Weekly, Farmer of the Year and Green Farmer of the Year.

SOCIAL GOALS

Our values & principles and, in turn, the reputation they have earned us with our customers and members, have provided us with considerable strength at a time of reduced confidence in business.

We continue to lead the way in many of the areas of sustainability that matter to our customers and members. This leadership has been recognised, during 2009, through a host of accolades: not least, our number one 'green' ranking amongst supermarkets, and our ranking as the bank customers were most likely to recommend, in the Concerned Consumer Index; Retail Week's Responsible Retailer of the Year; the RSPCA's People's Choice Supermarket Award; Business in the Community's (BitC) Environmental Leadership Award; and leading rankings for CFS and the Group in BitC's Corporate Responsibility Index.

2009 saw the launch of a new customer-mandated Ethical Policy for The Co-operative Bank, the introduction of new initiatives that support the member-directed Ethical Policy of the Food business, and considerable progress being made to address the three themes of our member-endorsed Community Plan: inspiring young people, combating climate change and tackling global poverty.

We estimate that at least 100,000 young people in the UK are benefiting from investments being made by The Co-operative. Operating in some of the most deprived wards in England and Wales, The Co-operative Street Games Young Volunteers programme provides young people with the opportunity to develop their sports coaching and community leadership skills. For some, this can even provide a valuable route into paid employment or other youth work. Since it was launched in October 2007, the project has seen 1,150 young volunteers give 27,000 volunteering hours to help develop sport in their local communities.

A major new grants programme launched in 2009, the Truth About Youth, will provide significant financial support for other young people's initiatives – some £280,000 being made available in each of the Group's seven democratic regions. Grants were awarded in 2009 to YWCA – a charity working with young disadvantaged women in Cardiff – and to Envision in Birmingham. Grants in each of the remaining regions will be made throughout 2010.

Following its endorsement by members as a key Community Plan theme, we stepped up our commitment to international development in 2009, pledging an additional £1m to tackle global poverty (over and above existing revenue commitments, such as Fairtrade premiums). This funding is being deployed in a number of ways. It will support development uplift projects in communities where we already have a relationship, with a focus on water, sanitation and renewable energy solutions. For example, we recently initiated a project with communities in Malawi that supply our own-brand sugar; providing over 30 boreholes, 1,000 latrines and fuel-efficient stoves to benefit some 10,000 people. Secondly, we are supporting overseas co-operatives, to help people lift themselves out of poverty, with initiatives agreed in 2009 with the Co-operative Travel, Funeralcare and Food businesses. A Co-operative Food project in Kenya, match-funded by the Department for International Development, will help 8,000 smallholder tea farmers to organise together as co-operatives. The project will yield improved marketing opportunities and provide assistance with achieving Fairtrade certification, making farmers eligible to supply tea for The Co-operative's flagship 99 Fairtrade tea blend.

We estimate that over 500,000 people in the developing world already benefit from the activity of The Co-operative Group each year, with new initiatives increasing this impact further still. We have taken a holistic approach to combating climate change – addressing our direct impacts as a business, investing in renewable energy and energy efficient technologies, funding carbon offset projects and campaigning for change. In 2009, 2,500 Co-operative members and their families joined The Wave, a march in London calling for a safe and fair deal ahead of the United Nations Climate Change summit in Copenhagen. This was the biggest mobilisation of our membership base in recent times and helped make The Wave the largest climate change protest ever held in the UK. We also ensured that the issue of the exploitation of unconventional fossil fuels, such as Canadian tar sands, was never far from the public eye. Closer to home, our walking buses and Green Energy for Schools programmes continued to be rolled out, with schemes operational at 224 and 185 schools respectively by the end of the year.

Our campaigning activity continues to take our sustainable development approach to a fundamentally different level to that of other businesses. Throughout 2009, we put pressure on Government to support the creation of marine reserves around the UK coast to protect threatened fish stocks. This campaign reached a successful conclusion in November when Parliament legislated to establish a network of marine reserves by 2012. Our commitment to maintaining biodiversity also led us to launch Plan Bee – a 10-point plan to save the honeybee. Through the Group's support, new research has been made possible. Members have also been mobilised to make their gardens more 'bee-friendly', through free wildflower seed giveaways, and a film 'Vanishing of the bees' has been distributed in cinemas throughout the UK to highlight the plight of the declining honeybee population.

Our support for films with powerful social responsibility messages saw us also help to bring the Oscar-nominated film 'Burma VJ' to a much wider UK audience. The film tracks the brave new breed of young video journalists who put their lives on the line to tell the real story of the 2007

Burmese uprisings and the subsequent repression by the ruling military regime. The Co-operative is adding its voice to the campaign to free the people in the film, who have been incarcerated for filming the uprisings.

Our colleagues and members make a massive contribution to the success of our sustainability and community investment programmes. Their passion for such activity is no better evidenced than by the staggering £3.7m that was raised for 2009's Charity of the Year, the Royal National Institute for the Deaf and £3m raised for Somerfield's charity, Macmillan. This fundraising effort is in addition to the £11.3m of community investment made by The Co-operative Group in 2009 – some 3.8% of our pre-tax profits – which will support thousands of community initiatives in the UK and overseas.

The merger of The Co-operative Financial Services and Britannia has created a stronger, more diverse, co-operative offering in the financial services industry. The Co-operative Bank's Ethical Policy was relaunched in early 2009 with a series of new agenda-shaping banking positions that further cement the bank's commitment to international development, animal welfare and the environment. This ground breaking Policy now extends across the Britannia business. In 2009, 43 finance opportunities were found to be in conflict with the Policy and were, therefore, turned away by the bank, whilst commercial lending continued to grow. The launch of two new funds by Co-operative Investments responded to market demand for lower-risk investments in sustainable businesses, and greatly expands our offering to the responsible investor.

Our commitment to ecological sustainability did not wane as we brought several businesses into The Co-operative Group family. Alongside the enormous amount of behind the scenes work that took place to ensure we remain at the vanguard of ecologically-responsible businesses, we progressed significant new packaging reduction initiatives, such that we met our 15% packaging reduction target by the end of 2009 – a year ahead of schedule. We also made a concerted effort to reduce the number of plastic bags given away to customers – recording a 60% reduction on 2006 levels at the end of the year. Our range of sustainably-sourced fish was expanded, with the addition of four new products taking the total number of Marine Stewardship Council-certified products from 14 to 18.

Our approach to marine stewardship also saw The Co-operative Food emerging first amongst eight retailers in the Marine Conservation Society's 2009 Supermarket survey. Alongside our efforts to stock responsibly-sourced fish, we were praised for our campaigning work for marine reserves and the financial support provided to enable UK fisheries to become more sustainable.

Animal welfare remained a Food Ethical Policy priority in 2009. We extended the range of products accredited to the higher welfare Co-operative Elmwood chicken standard and introduced Elmwood turkey products; adapting some 151 supplier farms to meet the standards. All premium range own-brand Christmas turkey products were 'Reared by Us' sourced from free-range traditional bronze turkeys reared by our farms. We converted our entire range of own-brand pre-packed bacon and gammon to British, in an initiative that raises animal welfare standards, whilst supporting 300 British pig farmers. We also sought to ensure that all our premium own-brand Truly Irresistible fresh pork, bacon and sausages would be made using RSPCA Freedom Food-accredited, outdoor-reared Hampshire breed pork, and have developed Elmwood pig meat standards for introduction into the rest of our own-brand pork and sausage range in 2010.

OUTLOOK

2009 was an excellent year for The Co-operative Group, propelling us back into the Premiership of UK retailing and putting us in great shape to capitalise on the range of opportunities open to us.

Looking ahead, we have to make sure that we navigate the still choppy waters of the recession shrewdly and with prudence. It may be that the UK does not start to see real economic growth until the end of 2010 or as late as the beginning of 2011. Therefore, sustaining the level of success we have enjoyed over the last two years will not be easy. All of our businesses are operating in fiercely competitive markets which will only get tougher in the year ahead.

That said, we will be looking to see our Food and Financial Services businesses enjoy the benefits of greater scale, passing on greater savings and improved products and services to our members and customers. We will also be looking to see our other businesses prosper when the economic climate begins to improve.

FINANCIAL REVIEW

The financial statements for 2009 reflects an excellent year for the Group. The acquisition of Somerfield and the merger with Britannia and Plymouth & South West Co-operative have provided significant challenges around integration of structure, systems and the brand going forward. These challenges have been addressed and considerable progress has been made to date and full integration planned during 2010.

Revenue

Group revenue before reinsurance premiums was £12.5bn in 2009, an increase of £3.1bn (33%) on 2008. Income in the Trading Group was up by £3bn with most of this due to the Somerfield acquisition in February. However, this year only includes a 51 week trading period compared to 52 last year. Strong performances have been achieved in several Trading areas. Food business like-for-like sales were up 5.5%, and Funerals sales were 5% better than the prior year. A number of smaller businesses, Sunwin Services, Co-operative Legal Services, Co-operative Life Planning and E-Store all achieved significant increases in sales revenue, which compensated for Travel, Motors, Farms and Property which suffered due to the economic climate and market conditions.

Our Financial Services business emerged in good shape from the global crisis prompted by the credit crunch and the subsequent worldwide recession. This was due principally to the business being underpinned by strong capital reserves. Overall Financial Services Revenue (including Britannia from 1 August 2009) but before reinsurance premiums and long-term business was above last year by 8.4% at £1.6bn.

Operating profit

Group operating profit before significant items was £612m, £219m (56%) higher than 2008. This includes a fair value amortisation of £99.1m in respect of the Britannia merger. Trading Group profits of £378m were £103m (38%) up on the previous year. This figure is boosted by a significant improvement in the valuation of investment property (2009: £3.5m gain, 2008: £62m loss) offset by the reduction in one-off profits from the disposal of fixed assets (2009: £36m, 2008: £58m). Excluding these, profits were 21.6% higher than last year's £278m at £338m, albeit that 2009 was a 51-week trading year versus 2008's 52 weeks.

The Co-operative Financial Services (CFS) shareholder profit before tax, FSCS levy, significant items, short-term investment fluctuations and fair value amortisation for 2009 was £177m compared with £147m in 2008. These results reflect the business's success in maintaining profitability despite the continuing weaknesses of the financial services market, while underlying capital and liquidity positions continue to provide the foundations for stable growth.

The CFS retail business remained profitable despite the low interest rate environment and the economic recession. The long-term business which is run in the interests of policy holders achieved target levels across the board, with new business premiums for 2009 13% ahead of

2008. Commercial and Markets profits increased on a like-for-like basis from a £4.4m loss to £113.2m profit, an increase of £117.6m, being driven by improved margins and rigorous cost control but also by the recovery from the investment provision made in 2008.

Significant items totalled a net figure of £109m in 2009 compared with £117m in 2008; £54m related to integration and restructure costs in CFS. The Trading Group costs of £55m were principally the integration costs relating to Somerfield offset by the disposal of Food stores both compulsory and tactical due to this acquisition. Group operating profit after significant items was £503m, an increase of £228m (83% on the 2008 figure of £275m).

Financial income and expense

Net interest payable was £108m compared with £36m in 2008. This principally reflects the increased levels of borrowings to finance the Somerfield acquisition that took place in February 2009 and the level of refits and rebranding that took place subsequent to this transaction. The structure of this refinancing involved a bridging loan, which was paid back within the timescales required due to planned tactical and OFT disposals. The mark to market movement in 2009 was a charge of £35m compared with a charge of £83m in 2008. This predominantly reflected movements in quoted debt and fixed interest hedging arrangements due to reductions in long-term interest rates, partially offset by gains on foreign currency movements.

Payments to and on behalf of members

The Group paid out over £100m to and on behalf of its members during the year. A dividend of £96m was approved at the June 2009 AGM and a further interim dividend of £11m was approved at the November 2009 half-year meeting, a total of £107m.

The analysis of dividend paid to each of our stakeholder groups is as follows:

	£m
Payments to and on behalf of individual members	54.5
Payments to and on behalf of employee members	23.0
Payments to and on behalf of corporate members	19.6
Payments to and on behalf of the community and fellow Co-operatives	10.0
	107.1

Balance Sheet Capital and Reserves

The Group balance sheet has increased in both size and strength from £3.9bn to £4.6bn. This is due to the CFS merger with Britannia as well as the retained profit for this period offset by actuarial losses on the Pension fund. The Trading Group fixed assets as mentioned have grown principally due to the acquisition of Somerfield, the merger with Plymouth society and the increased refit and brand activity on the newly-acquired stores. Working capital levels have increased year on year to deal with requirements of the larger business.

The key banking covenants that were introduced on the restructuring of the Trading Group's finance for the Somerfield acquisition were all comfortably satisfied with significant headroom.

The Co-operative Financial Services has maintained a strong balance sheet continuing to pursue a policy of financial prudence, maintaining high levels of capital and excellent liquidity and funding levels. The Bank has a capital ratio of 13.6% after the deduction of fair value merger adjustments. The tier 1 ratio is 9% with a core tier 1 of 8.6%. These ratios have all increased since 2008, again demonstrating the strength of the merged business. Meanwhile the Bank has maintained its high level of customer deposits to loans ratio of 104%.

At 31 December 2009 the realistic working capital within the Co-operative long-term business fund, being the excess of the realistic values of assets over the realistic value of liabilities, stood at £1,008m compared to £573m at the start of the financial year. Excluding the effect of gilt repos and reinsurance collateral arrangements; this represents a working capital ratio of 7.2% compared to 3.7% at 10 January 2009.

The Balance Sheet performance for the Corporate banking operation indicates that we have continued to develop the lending side of the business. The business is focused on a tight lending policy, a selective lending approach and supporting existing and long-standing customers. Meanwhile deposit growth is strong, indicating that customers remain confident in CFS.

Please note: The financial statements will be available shortly.