



open  
honest  
rewarding  
trustworthy  
championing  
responsible  
ethical  
caring

and very proud...

annual report  
& financial statements  
2006

# The Midcounties Co-operative

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# What is a Co-operative?

The following Statement of Co-operative Identity adopted by the International Co-operative Alliance in 1995 is at the heart of what it means to be a co-operative:

'A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise.'

Furthermore, co-operatives subscribe to values and principles that have been enshrined, again by the ICA, as follows:

## Values

'Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.'

## Principles

The co-operative principles are guidelines by which co-operatives put their values into practice. They are:

- voluntary and open membership
- democratic member control
- member economic participation
- autonomy and independence
- education, training and information
- co-operation among co-operatives
- concern for community

## Directors, Strategic Executive and Advisors

### **DIRECTORS**

Vivian Woodell – president  
Steve Allsopp – vice-president (Oxford, Swindon & Gloucester Region)  
Doreen Shaw\* – vice-president (West Midlands Region)  
Martin Alder  
Sheila Allen  
John Boot\*  
Isobel Burbidge – appointed October 2005  
Martin Burton  
Irene Edgar\*  
Patrick Gray  
Winifred Gray – retired October 2005  
Geoff Hurmson\*  
Donald Morrison  
Barrie Naylor\*  
Jean Nunn-Price – retired October 2005  
Colin Nyland  
David Page – retired October 2005  
Jim Postles  
Anne Ransome  
Alan Sutton\*  
Mike Swan\*  
Helen Wiseman

\* directors appointed to the Main Board with effect from 24 September 2005, following the merger of Oxford, Swindon & Gloucester Co-operative Society and West Midlands Co-operative Society

# Directors, Strategic Executive and Advisors (continued)

## **WEST MIDLANDS REGIONAL BOARD**

Doreen Shaw – Chair  
John Boot  
Irene Edgar  
Norman Heywood  
Geoff Hurmson  
Harry Minter\*  
Barrie Naylor  
Alan Sutton  
Mike Swan  
Derek Watkins

### **\*In Remembrance**

It is sad to report that Harry Minter passed away on 27 March 2006. Harry's positive and valued contribution over many years to the Board of West Midlands Co-operative Society will be missed by all.

## **STRATEGIC EXECUTIVE**

On the merger of Oxford, Swindon & Gloucester Co-operative Society and West Midlands Co-operative Society effective 24 September 2005, the management structures of the former societies were replaced by the Strategic Executive for The Midcounties Co-operative. Thus, all appointments to the Strategic Executive were effective as of 24 September 2005.

Bob Burlton – Chief Executive  
Ben Reid – Chief Executive Designate  
Peter Couchman – Membership & Corporate Marketing  
Bill Laird – Chief Operating Officer, Trading – resigned 31 March 2006  
Alan Miller – Information Services  
Edward Parker – Secretary & Head of Governance  
Trish Poole – Personnel Services  
Steve Ridler – Commercial Services

## **REGISTERED OFFICE**

New Barclay House  
234 Botley Road  
Oxford  
OX2 0HP

## **BANKERS**

The Co-operative Bank plc  
The Royal Bank of Scotland plc

## **SOLICITORS**

Brook Street des Roches  
Witney

## **AUDITORS**

KPMG LLP  
Birmingham

# Directors' Report

The Directors have pleasure in presenting their annual report and audited financial statements for the Society for the year ended 28 January 2006.

## **YOUR SOCIETY**

The Midcounties Co-operative Limited is a consumer co-operative, subscribing to co-operative values and principles.

Its main activities are in retailing with food, motor, funeral, pharmacy, travel and childcare outlets and post offices. The Society is also engaged in property management and information services and is the owner of the '.coop' domain name business.

## **MERGER**

The year has been dominated by the formation of The Midcounties Co-operative, arising from the merger of Oxford, Swindon & Gloucester Co-operative Society Limited (OSG) and West Midlands Co-operative Society Limited (WM) on 24 September 2005.

The merger was effected by way of a 'transfer of engagements' of WM into OSG (a process open to entities incorporated under Industrial & Provident Society legislation). OSG, as the surviving legal entity, was renamed The Midcounties Co-operative Limited at the time.

A significant amount of work was undertaken in a short space of time to achieve the merger and, since then, to take forward the integration of the two societies. The Board would like to record its thanks to all those involved for their support and commitment.

## **FINANCIAL REVIEW**

This has been a year of very substantial change and the financial results reported are for a combination of eight months of the former Oxford, Swindon & Gloucester Co-operative Society (OSG) and four months of The Midcounties Co-operative. This has made the task of providing meaningful comparisons of results very difficult. A fair overview would be that there was a small fall in like for like sales in food, owing to very strong, increased competition, but increased sales in funerals, motors and childcare. However, in the latter two cases, owing to reductions in margins and increased costs, the increases did not flow through to trading profit.

Overall, gross sales including VAT, were £420.9m compared with £350.5m in the OSG Society the previous year. This coming year, gross sales are expected to be in the region of £565.0m. Turnover (excluding VAT and agency sales adjustment) was £358.2m compared with £313.0m last year for OSG. Underlying trading profit (this excludes one-off costs and profits) was £6.3m and £3.4m last year, although these two figures are not directly comparable.

The Society incurred significant non-recurring costs in preparing for and implementing the merger. These are included in a charge of £2.9m for exceptional costs, which includes amounts for organisational changes that have been determined and announced, but which will actually take place over the next few months. Whilst comparisons are difficult, underlying trading profit from the former OSG region increased by 10% on a like for like basis. Allowing for the loss of trade from disposals in 2005 would show that the underlying trading profit increased by some 30%.

During the year, the Society generated £13.1m profit from the sale of properties. The main items were the investment properties of Didcot and Threeways House in Oxford, and the sale of the store at Cam in Gloucestershire. Net interest payable was similar to the previous year at £1.4m.

The overall effect of all the above is that profit before dividends and grants was £15.0m compared with £5.5m the previous year. Transfers to reserves were £9.9m this past year compared with £1.9m for the previous year.

Owing to a change in accounting standards the sums reported for distributions actually represent allocations of profit spanning two years. The sums for the previous year were for one year and so these figures are not directly comparable. Distributions include the dividend paid to members, the money returned to local communities and the funding given for co-operative development.

When it comes to looking at the Society's balance sheet, comparisons with last year are difficult due to the merger and due to the impact of changes in accounting policies affecting the revaluation of trading properties and the valuation of the two pension schemes. Overall, net assets have increased to £146m from £80m. Of this increase, £44m is because of the revaluation of trading properties in the former Oxford, Swindon & Gloucester Society and £26m is the value of net assets transferred from the former West Midlands Co-operative Society. This is after Goodwill write offs of approximately £28m which were required by accounting practice.

Members' share capital has increased to £30.9m from £25.9m, with an injection of £5.7m from the former WM. Revaluation reserves increased to £47.0m from £9.6m, even after allowing for the sale of the Threeways House investment property in Oxford. Revenue reserves increased from £44.9m to £68.3m which is one of the clearest indicators of how the merger has led to the creation of a stronger balance sheet.

# Directors' Report (continued)

The Society has enjoyed a strong cash flow with £15.9m generated from operations and a net capital inflow of £19.3m from the excess capital receipts from disposals – such as Cam, Threeways House and Didcot – over new capital expenditure. This has led to a reduction in net debt from £28.7m to £16.3m, despite assuming £17.1m of debt from the former WM. As a result of all of the above, gearing is at a comfortable level of 11.1%, which provides the Society with good potential for the development of the business in the future. Full details on the Society's accounts are shown on pages 13 to 37.

## **MEMBERSHIP**

The total membership figure of the new society is 415,133. This figure reflects a large number of dormant accounts and the figure for current members who are known to have up to date records is 188,969. Of those 7,810 have indicated that they wish to be included on the active member database. Recruitment for last year was 17,529. Last year, more than 117,000 members used their superdividend cards and the Society returned a total of £729,279 back to members in the form of superdividend vouchers. Over £26,500 of this has been invested back into share accounts and more than £12,243 has been donated to charities.

## **DIRECTORS AND STRATEGIC EXECUTIVE**

The present membership of the Main Board, Regional Board and Strategic Executive are set out on pages one and two.

## **SUPPLIER PAYMENT POLICY**

It is Society policy to agree and clearly communicate the terms of payment as part of the commercial arrangement negotiated with suppliers and then pay according to those terms based upon the timely receipt of an accurate invoice. Trade creditor days of the group for the year ended 28 January 2006 were 28 days. This represents the ratio, expressed in days, between the amounts invoiced to the Society by its suppliers in the year and the amounts due at the year end to trade creditors.

## **COLLEAGUE INVOLVEMENT**

The Society has a people strategy that aims to engage all colleagues in delivering the Society's goals.

The Society has continued the development and support of all colleagues to improve the employment experience and help the business develop. Investors in People (IIP) is a national award given to businesses that show a clear commitment to supporting and developing their staff. All the Society's operations are working towards or have achieved accreditation to the new higher IIP standard that has recently been introduced.

The Society has continued its policy of equal opportunities including the employment of people with disabilities. Full and fair consideration is given to applications for employment where a disability is advised, having regard to particular aptitudes and abilities.

On behalf of the Board



Edward Parker  
Secretary & Head of Governance

10 April 2006

# Statement of Directors' Responsibilities in Respect of the Directors' Report and the Financial Statements

The directors are responsible for preparing the Annual Report and the Group Financial Statements in accordance with applicable law and regulations.

Industrial and Provident Society Law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for the period.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that its financial statements comply with the Industrial and Provident Society Acts. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with those Acts. After making all the appropriate enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the group's financial statements in accordance with section 32 of Co-operatives<sup>UK</sup> Limited's Code of Best Practice.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## BOARD CERTIFICATION

This Annual Report is hereby signed on behalf of the Board of Directors pursuant to Section 3A of the Friendly and Industrial and Provident Societies Acts 1968.



Vivian Woodell – president



Bob Burlton – chief executive



Steve Allsopp – vice-president



Edward Parker – secretary



Doreen Shaw – vice-president

10 April 2006

# Governance Report

## CO-OPERATIVES<sup>UK</sup> CODE OF BEST PRACTICE

During the year the corporate governance code of best practice applicable to members of Co-operatives<sup>UK</sup> was revised substantially. The new 'Code of Best Practice' (the 'Code') was adopted by Congress in May 2005. As a result, all members of Co-operatives<sup>UK</sup> are required to adopt the new Code for financial periods commencing during 2006.

In October 2005, shortly after completion of the merger, the Main Board set up a Committee to review the Code and its implications for the governance arrangements of the Society. The Committee has met twice and plans to report to the Main Board at a forthcoming meeting with its recommendations in relation to the Code.

Although the Committee's review of the Code is not yet complete, in broad terms, the Committee believes the governance arrangements of the Society are generally appropriate for an organisation of the size, nature and complexity of the Society and fall within the ambit of the Code.

However, the Committee does recognise that there are a number of areas where current practice does not meet with the requirements of the Code. These will be highlighted to the Main Board with recommendations on the way forward for the issues raised.

The remainder of this report focuses on the current governance arrangements of the Society.

## SOCIETY STRUCTURE

Prior to the merger, the Society was split into 3 districts, with a Board of 14 directors, each elected for two year terms.

At the time of the merger, this structure changed. The Society is now split into two regions – the Oxford, Swindon & Gloucester Region (OSG Region) and the West Midlands Region (WM Region). The WM Region has a Regional Board, with certain delegated powers. There is no equivalent for the OSG Region.

The Society has a Main Board, comprising 19 Directors. 12 of the Directors are elected by and from the members of the OSG Region (OSG Directors). The remaining 7 Directors are appointed by and from the WM Regional Board (WM Directors). The WM Regional Board comprises 9 directors (with one vacancy to be filled) who are elected by and from the members of the WM Region.

After the Main Board elections to be held in the autumn of 2006, the rules of the Society prescribe that the Main Board will reduce in number to 16 Directors – 10 OSG Directors and 6 WM Directors.

Terms of office on the Main Board vary between 1 and 3 years, as transitional arrangements are worked through to bring all Main Board Directors onto 3 year terms. Directors on the WM Regional Board are elected for 3 year terms.

The Main Board is chaired by the President who is supported by two Vice-Presidents (one from each Region). The President is elected by the Main Board each year. The OSG and WM Vice Presidents are elected by the OSG and WM Directors respectively each year. The Chair of the WM Regional Board is elected each year by the WM Regional Board.

## BOARD ATTENDANCE RECORD

A schedule of attendance at Board and Committee meetings is set out here;

<b>OSG Directors</b>	Board (for the year) (17 meetings)	Audit (for the year) (3 meetings)	OS&G Trustee (for the year) (6 meetings)	Remuneration (for the year) (4 meetings)
Vivian Woodell	15	3	4	3
Steve Allsopp	15	3	6	2
Martin Alder	15	2	3	n/a
Sheila Allen	15	3	6	n/a
Isobel Burbidge (elected October 2005)	3	0	1	n/a
Martin Burton	13	1	n/a	n/a
Patrick Gray	10	1	n/a	n/a
Winifred Gray (retired October 2005)	12	1	n/a	n/a
Donald Morrison	14	3	n/a	n/a
Jean Nunn-Price (not re-elected October 2005)	11	1	3	n/a
Colin Nyland	16	3	n/a	3
David Page (not re-elected October 2005)	11	2	n/a	3
Jim Postles	10	2	n/a	n/a
Anne Ransome	15	3	n/a	4
Helen Wiseman	13	3	n/a	n/a

# Governance Report (continued)

<b>WM Directors</b>	Board (post merger) (4 meetings)	Audit (post merger) (1 meeting)	WM Trustees (post merger) (2 meetings)	Remuneration (post merger) (3 meetings)	Regional Board (post merger) (5 meetings)
Doreen Shaw	4	1	2	3	5
John Boot	4	0	2	n/a	4
Irene Edgar	4	0	1	n/a	5
Geoff Hurmson	4	1	2	n/a	5
Barrie Naylor	4	1	1	3	5
Alan Sutton	3	1	2	n/a	4
Michael Swan	3	1	2	3	5
Norman Heywood (stepped down from Main Board October 2005)	2	n/a	n/a	n/a	5
Harold Minton	n/a	n/a	n/a	n/a	5
Derek Watkins	n/a	n/a	n/a	n/a	5

## BOARD ELECTIONS

In October 2005, elections for 5 vacancies amongst the OSG Directors on the Main Board took place. 8 candidates stood for election.

Prior to the merger, elections to the Board of West Midlands Co-operative Society took place in April/May 2005.

The above two elections were organised via a postal ballot of members, co-ordinated by Electoral Reform Services, an independent body that specialises in organising elections on behalf of member based organisations.

At the time of the merger, the directors of the former West Midlands Co-operative Society automatically became directors on the WM Regional Board. Appointments from the WM Regional Board to the Main Board were then effected.

## THE MAIN BOARD

The Main Board is responsible for setting the Society's objectives and strategy, monitoring the delivery by management of that strategy and identifying and managing risk. Importantly, given the distinctive nature of co-operative societies, the Main Board also has a duty to ensure that the Society operates as a bona fide co-operative and adheres to the values and principles unique to such organisations.

The Society's rules prescribe certain duties and responsibilities that are the sole preserve of the Main Board. These include, for example, all matters concerning the determination and general operation of the Society's rules, all aspects of membership policy, approval of all funding arrangements and approval of property acquisitions and disposals above certain thresholds.

The Main Board meets on a regular basis (usually monthly) throughout the year. At its meetings, it receives reports from management on trading and other matters, reviews the financial performance of the Society for the period and cumulatively for the year, and considers papers presented for decision or information. Decisions made are actioned as appropriate by management. In addition, the Main Board discusses strategy and the Society's annual budgets at separate weekend meetings.

The Main Board has delegated the day-to-day management of the Society's activities to the Chief Executive and his management team who are responsible for the execution of the strategy within the framework laid down by the Main Board.

## BOARD COMMITTEES

The Main Board has delegated certain of its responsibilities to a number of committees to help it discharge its duties. Details are set out below.

### Audit Committee

The Audit Committee's work includes the appointment of the Society's external auditors and a review of their work, the review of the Society's system of internal control and its effectiveness (a fuller report on internal control appears later in this annual report), the review of the integrity of the Society's financial statements and a review of the work of the internal Audit & Risk function.

The Committee met 3 times during the year and has 4 scheduled meetings for the 2006/07 financial year. Currently, all members of the Board are also members of the Committee. Neither the Chair, nor the Vice-Chair of the Committee can be the President or a Vice-President of the Society.

# Governance Report (continued)

The Committee has the opportunity to meet the external auditors and also the Society's Head of Audit & Risk without the presence of management during the year. The Chair and Vice-Chair of the Committee also maintain a dialogue with the external auditors and the Head of Audit & Risk between Committee meetings.

## Membership Committees

The Society sees membership as a vital part of building its future as a co-operative. Following the merger, it has strengthened its membership team to support the membership committees that oversee its membership programme.

The intention of this programme is to recruit, engage, develop and involve members in the Society, as well as reaching out to those members who have not traditionally engaged with the Society.

Currently, the Society has two membership committees, corresponding to the membership structures of OSG and WM prior to the merger. In the OSG Region, the Society's membership programme is overseen by the Active Member's Support Group ('AMSG'). Whilst in the WM Region this role is undertaken by the Community & Membership Development Committee ('CMDC').

The AMSG is focused on how the Society can best communicate with its members and how to encourage members to campaign on issues that matter to them at a local, regional and national level. The CMDC is responsible for overseeing both the community activities and membership development process in the WM Region. In time, as progress with the merger settles and a Midcounties membership policy is developed, the remit of each of these committees will be reviewed.

Elections to both the AMSG and the CMDC are held on an annual basis from amongst either the OSG or WM Regional membership (as appropriate). Both committees also have Board appointed positions.

## Remuneration Committee

The Remuneration Committee was established in 2003 with formal terms of reference. These terms were refreshed in October 2005, following the merger.

The Committee is charged with developing, monitoring, and recommending changes to, the policy covering the remuneration and terms and conditions of employment of the Society's Chief Executive, Chief Executive Designate and Strategic Executive.

A fuller report on the activities of the Remuneration Committee appears later in this annual report.

# Internal Control

The Main Board is ultimately responsible for the Society's system of internal control and for reviewing its effectiveness. It has delegated responsibility to the Audit Committee for the latter function.

Set out below is a review of the Society's system of internal control. It should be noted that such a system is designed to manage rather than eliminate the risk of failure to achieve the Society's objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

## FRAMEWORK

The Society has adopted an internal control framework that contains the following key elements:

- an organisational structure with clearly defined lines of responsibility, delegations of authority and reporting requirements;
- policies for expenditure, with set authorisation levels – for example, larger capital projects, acquisitions and disposals require Main Board and/or Regional Board approval;
- a comprehensive system of financial reporting – actual results together with budget comparisons are reported regularly to the Main Board throughout the year;
- Main Board review and approval of the annual budget and plans for each business group;
- a code of business conduct covering relations with customers, members, employees, suppliers, the community and competitors;
- policies and procedures for the reporting and resolution of suspected fraudulent activities;
- an Audit & Risk function charged with, amongst other things, reviewing the Society's system of internal control.

# Internal Control (continued)

## **RISK MANAGEMENT**

The Board and Strategic Executive have primary responsibility for identifying and controlling the key risks facing the Society.

The Society operates a risk management process that aims to identify the key risks in each group. These risks are considered at senior management level and are reviewed by the Audit Committee, and, if necessary, the Main Board. Action is taken to mitigate the risks identified.

## **CONTROL PROCEDURES**

Society control procedures are designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud.

Measures taken include physical controls, segregation of duties and reviews by management, internal audit and the external auditors.

## **MONITORING**

The Society has an established Audit & Risk function which carries out reviews of control procedures on a regular basis having due regard to the key risks identified. Audit reports, which are issued to appropriate levels of management, contain recommendations and action plans to improve controls where weaknesses are found. Follow up visits are made to ensure the plans have been implemented. A summary of significant matters is reported to the Audit Committee.

## **REVIEW PROCESSES**

The processes used by the Audit Committee to review the effectiveness of the Society's system of internal control include the following:

- reviewing the external and internal audit work plans;
- considering reports from internal audit and the external auditors on the system of internal control and any material weaknesses;
- discussing with management the actions taken to resolve issues identified in such reports;
- reviewing the effectiveness of the risk management process.

## **OPINION**

The Audit Committee has reviewed the operation and effectiveness of the Society's internal control system during the year. The Committee considers that there have been no weaknesses that have resulted in any material losses or contingencies which require disclosure.

# Remuneration Report

The Remuneration Committee is pleased to give this report for the year ended 28 January 2006 on behalf of the Board. This is the first time the Society has published such a report. In future years, it is planned to put the report to an advisory vote at the Annual General Meeting of the Society as recommended by the revised Code of Best Practice adopted by Congress in 2005.

## **MANAGEMENT REMUNERATION**

The Remuneration Committee was established in 2003 with formal terms of reference that were refreshed in October 2005, following the merger.

The Committee comprises 6 Directors. The President of the Society acts as the Committee's Chair, and the two Vice-Presidents hold ex-officio positions. The remaining 3 directors are elected from amongst the Main Board on an annual basis. Remuneration Committee meetings are held as appropriate throughout the year.

The current Committee members are:

Vivian Woodell – President  
Steve Allsopp – Vice-President  
Doreen Shaw – Vice-President  
Sheila Allen – Director  
Barrie Naylor – Director  
Mike Swan – Director

The Committee is charged with developing, monitoring and recommending changes to, the policy covering the remuneration and terms and conditions of employment of the Society's Chief Executive, the Chief Executive Designate and the Strategic Executive (collectively the 'Senior Management').

# Remuneration Report (continued)

The Committee is mindful that the Society needs to attract and retain individuals capable of driving the Society forward as a successful co-operative business and that the Society aims to be a fair and responsible employer, by remunerating in line with market rates for organisations of a similar size and complexity and rewarding for performance. The Committee is also mindful that its policies and practices should meet with best practice.

All Committee decisions are approved by the Main Board before being implemented.

At the time of the merger, the Committee engaged external consultants, The Monks Partnership, to recommend salary levels for the Senior Management positions in line with the above policy. Subsequently, the same consultants were used to develop a performance based bonus scheme for both Senior Management and other management positions within the Society. Previous bonus arrangements in both OSG and WM were closed and final payments made.

Remuneration packages for the Senior Management comprise base salary, eligibility for the performance based bonus scheme, benefits-in-kind and pension provision. Details are given below.

The number of members of the Senior Management whose remuneration, excluding pension contributions, fell in each £5,000 bracket was as follows (complete disclosure will be made in the 2007 report):

	2006 number
£30,001 – £35,000	1*
£75,001 – £80,000	1*
£90,001 – £95,000	1
£95,001 – £100,000	2
£165,001 – £170,000	2 (1*)
£285,001 – £290,000	1

\*part year only

## Base Salary

The Committee's policy is to set base salaries which are, broadly speaking, at the median level for organisations of a similar size and complexity within the Retail sector. Base salaries are reviewed annually.

## Performance Bonus Scheme

The bonus scheme introduced following the merger aims to drive improved business performance, through incentivisation on overall Society, individual and business group targets. Members of the Strategic Executive are able to earn a bonus payment of up to 35% of basic annual salary for 2006/07 based on the achievement of performance criteria.

Given the circumstances of the merger and the handover between the Chief Executive and the Chief Executive Designate which is expected in June 2006, individual bonus arrangements for these two positions are in the process of being formulated.

## Benefits-in-kind

The benefits-in-kind available to the Senior Management comprise the provision of a car to an appropriate standard, or a cash alternative, and annual medical checks.

## Pensions

The Society has two pension schemes. All of the Senior Management team except for the Chief Executive Designate and Group General Manager, Commercial Services are members of the Oxford, Swindon & Gloucester Co-operative Society pension scheme, a defined benefit career average scheme. The Chief Executive Designate and Group General Manager, Commercial Services are members of the West Midlands Co-operative Society pension scheme, a defined benefit final salary pension scheme. Proposals have been drawn up for this scheme to change to a defined benefit career average scheme in the summer of 2006.

It is the Society's policy that only base salary is pensionable.

With the changes to the taxation of pension schemes brought in with the advent of A-Day, a policy has been adopted whereby pensions advice with a value of up to £2,000 is made available to any employee whose accumulated pension savings are within 10% of (or over) the Lifetime Allowance. At present, this only affects the Chief Executive and Chief Executive Designate.

## Service Contracts

The following notice periods for Senior Management are in place:

Chief Executive – 12 months

Chief Executive Designate – 3 years from October 2004, rolling 12 months from October 2006

Strategic Executive – all 3 months, except for the Group General Manager, Commercial Services – 6 months

# Remuneration Report (continued)

## Compensation Payment

Since the year end, the position of Chief Operating Officer, Trading has been made redundant. As a result, a payment of £230,000 has been made to Bill Laird, who held this post, as compensation for loss of office (12 months) and in consideration of certain restrictions in relation to future positions he may secure within other organisations.

## Directors' Remuneration

Fees for directors are approved by the Society's members. Following the merger, director fee levels were reviewed and the fees and other arrangements set out below were approved by members at meetings held between 31 October – 3 November 2005.

In addition to the director fees, an attendance allowance of £25 per half day is paid to directors for attendance at pre-approved external meetings and events, for example Congress and Sectional Council meetings. Directors are also reimbursed all reasonable expenses whilst carrying out their duties.

Directors of the former West Midlands Co-operative Society at the time of the merger are entitled to receive a death-in-service payment of two times their annual fee should they die whilst serving as a Main Board or Regional Board director, provided they have remained in office since the merger without a break in service. The current Chair of the West Midlands Regional Board is also entitled to have her funeral expenses paid for by the Society should she die whilst serving on the Main Board or Regional Board.

Fees are increased each October by the change in the national average earnings index over the previous 12 months.

The table below shows the current annual fee payable to each Main Board and Regional Board director.

	£
President	8,250
Vice-Presidents	7,250
Main Board Directors	6,000
Regional Board Directors	4,800

On behalf of the Board of Directors



Vivian Woodell  
Chair, Remuneration Committee

# Independent Auditors' Report to the Members of The Midcounties Co-operative Limited

We have audited the financial statements of The Midcounties Co-operative Limited for the year ended 28 January 2006 which comprise the Group Revenue Account, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Society's members, as a body, in accordance with section 9 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members, as a body, for our audit work, for this report, or for the opinions we have formed.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

As described in the Statement of Directors' Responsibilities on page 5, the Society's directors are responsible for the preparation of the Annual Report and the Financial Statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Act 1965 to 2002 and the Industrial and Provident Societies (Group Accounts) Regulations 1969. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Society has not kept proper accounting records, if we have not received all the information and explanations we require for our audit.

We review whether the statement on pages 5-9 reflects the Society's compliance with paragraphs 31 and 32 of the Co-operative's<sup>UK</sup> Limited's Code of Best Practice ("the Code"), and we report if it does not. We are not required to form an opinion on the effectiveness of the Society's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the statement on paragraphs 31 and 32 of the Code, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## **BASIS OF AUDIT OPINION**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **OPINION**

In our opinion the Group financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group as at 28 January 2006 and of the Group's profit or loss for the year then ended and have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002 and Industrial and Provident Societies (Group Accounts) Regulations 1969.

KPMG LLP  
*Chartered Accountants*  
*Registered Auditor*  
2 Cornwall Street  
Birmingham  
B3 2DL

10 April 2006

# Statement of Accounting Policies

A summary of the more important group accounting policies is set out below.

## **BASIS OF PREPARATION**

The financial statements are prepared on a group basis under the historical cost accounting convention modified to include the revaluation of properties and in accordance with applicable Accounting Standards in the United Kingdom. Certain prior year adjustments have been made as detailed in note 18. Prior year comparatives have been restated accordingly.

In these financial statements the following new accounting standards have been adopted for the first time:

- FRS21 'Events after the Balance Sheet date'
- The presentation requirements of FRS25 'Financial Instruments – Presentation and Disclosure' and
- FRS28 'Corresponding Amounts'

FRS28 'Corresponding Amounts' has had no material effect as it imposes the same requirements for comparatives as already in place.

The impact of FRS21 and FRS25 is disclosed in note 18.

The group financial statements consolidate the financial statements of the Society and all its subsidiaries, as referred to in note 29. The results of businesses acquired during the year are included in the group financial statements from the dates of their acquisition using acquisition accounting. For operational reasons the financial statements of the Society and the retail subsidiaries are prepared to the fourth Saturday in January; those of the property subsidiaries are prepared to 31 January. The financial statements of the Society and the retail subsidiaries are for the 53 weeks ended 28 January 2006 compared with a period of 52 weeks ended 22 January 2005.

The Society has not presented its own Revenue Account or Balance Sheet as permitted by current practice in so far as it applies to group accounts.

## **TRANSFERS OF ENGAGEMENTS ACCEPTED FROM INCOMING SOCIETIES**

Assets and liabilities accepted under a transfer of engagement are restated at fair value, including any adjustments necessary to comply with the accounting policies of the group. The resulting surplus or deficit is taken directly to reserves.

## **TURNOVER**

Turnover includes cash sales, goods and services sold on credit and property rentals receivable, exclusive of sales related taxes such as value added tax. Gross sales also include amounts recognised in respect of sales made on an agency basis, principally relating to travel, with a reduction to the value of commission receivable shown separately in arriving at turnover.

## **GOODWILL**

Purchased goodwill (both positive and negative) arising on business combination in respect of acquisitions before 1 January 1998, when FRS10 Goodwill and Intangible assets was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill written off to reserves is written back through the group revenue account as part of the profit or loss on disposal. The amount of goodwill written off against revenue reserve in 1999 and earlier years in respect of acquisitions less subsequent disposals is £1.4 million.

Purchased goodwill relating to businesses acquired since January 1998 is capitalised. Goodwill, being the difference between the fair value of the net assets acquired and the fair value of the consideration paid, is amortised from the date of acquisition over the estimated useful economic life. Where goodwill is regarded as having an indefinite useful economic life, it is subject to an annual impairment review.

## **IMPAIRMENT OF FIXED ASSETS AND GOODWILL**

Fixed assets and goodwill are subject to review for impairment in accordance with FRS11, Impairment of Fixed Assets and Goodwill. Any impairment is recognised in the group revenue account in the year in which it occurs.

## **DEPRECIATION**

During the year the accounting policy in respect of freehold land and buildings was changed in order to align the policies of the two societies. All freehold land and buildings are now valued annually at open market value. The impact of this is disclosed in note 11.

Depreciation is calculated to write off the original cost or valuation, less estimated residual value, over the estimated useful economic life of the asset on a straight line basis. During the year the estimated residual value of freehold properties has been reviewed. The impact of this review was to reduce the annual depreciation charge in the revenue account by approximately £750,000 per annum.

Buildings:

Freehold	2% per annum
Leasehold	over the unexpired period of the lease
Plant, Fixtures & Fittings:	10% to 33.3% per annum
Vehicles:	12.5% to 33.3% per annum

# Statement of Accounting Policies (continued)

In accordance with accepted accounting standards, depreciation is not charged on land and freehold investment properties.

Freehold land & buildings are professionally revalued annually by qualified valuers.

## **CAPITAL GRANTS**

Capital based grants are included within creditors in the balance sheet and credited to the group revenue account over the estimated useful lives of the assets for which the grant was made.

Revenue based grants are credited to the group revenue account over the periods to which they relate. Revenue based grants of £336,000 (2005: £526,000) were received in the year.

## **ASSETS LEASED TO THE GROUP**

Assets subject to finance leases are included in the group balance sheet at cost and depreciation is based on the group's normal accounting policy.

Finance interest included in the lease payments is charged against profits over the period of the lease. The outstanding capital commitment is analysed between current liabilities (being payable within one year) and long-term liabilities (being payable after one year).

Rentals due under operating leases are charged to the group revenue account on a straight line basis over the life of the lease. The future commitment relating to operating leases is based on the minimum amounts payable.

## **INVESTMENT PROPERTIES**

Investment properties are defined as those which are rented (or are available to rent) to third parties. These properties are restated annually at their open market values and the revalued amounts included within fixed assets. The excess of the revaluation over net book value in historical cost terms is shown as revaluation surplus. In accordance with the Statement of Standard Accounting Practice 19 no charge for depreciation is made on freehold investment properties.

## **STOCKS**

Stocks are stated at the lower of cost and net realisable value. Consignment vehicles in respect of which finance charges are levied are regarded as being effectively under the control of the Society and, in accordance with FRS5, are included in stocks, even though legal title has not passed. The corresponding liability is included in creditors. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation. Provision is made where necessary for obsolete, slow moving and defective stocks.

## **TAXATION**

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax provision is made on an undiscounted basis for all such timing differences except as otherwise required by FRS19.

## **FUNERAL PREPAYMENT PLANS**

Liabilities under the funeral prepayment plans are based on the total commitment at the balance sheet date. Based upon the Society's experience of funerals carried out under its pre-payment plan, the liability has been divided between the current liability for those plans which may be completed within one year and the remainder where the liability is classified as an amount falling due after one year. All moneys received for funeral plans are held in either separate trustee administered bank accounts or invested in individual whole of life insurance policies with the Co-operative Insurance Society Limited.

## **PENSION COSTS**

The group operates two defined benefit pension schemes and a defined contribution scheme. The assets of the schemes are held separately from those of the Society.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

The Society also operates a defined contribution scheme, under the Stakeholder provisions, for all employees ineligible to join or choosing not to join the defined benefit schemes. All costs relating to the defined contribution scheme are charged to the group revenue account as incurred.

# Group Revenue Account

For the 53 weeks ended 28 January 2006

	Note	2006 £'000	2005 £'000 (restated)
<b>GROSS SALES</b>		<b>420,862</b>	350,453
Less agency sales adjustment		<b>30,466</b>	9,422
Less VAT and other sales related taxes		<b>32,210</b>	28,019
		<hr/>	<hr/>
<b>TURNOVER</b>	2	<b>358,186</b>	313,012
Cost of sales		<b>255,448</b>	227,491
		<hr/>	<hr/>
<b>GROSS PROFIT</b>		<b>102,738</b>	85,521
Expenses	3	<b>99,373</b>	79,463
		<hr/>	<hr/>
<b>Trading profit comprises:</b>			
<b>UNDERLYING TRADING PROFIT</b>		<b>6,274</b>	3,445
Exceptional items	5	<b>2,909</b>	(2,613)
		<hr/>	<hr/>
<b>TRADING PROFIT</b>		<b>3,365</b>	6,058
Profit on sale of properties, investments & businesses		<b>13,091</b>	893
		<hr/>	<hr/>
<b>PROFIT BEFORE INTEREST</b>		<b>16,456</b>	6,951
Net interest payable	6	<b>1,448</b>	1,374
Other finance (income)/costs		<b>(31)</b>	91
		<hr/>	<hr/>
<b>PROFIT BEFORE DIVIDENDS AND GRANTS</b>		<b>15,039</b>	5,486
Members dividend	7	<b>1,944</b>	1,165
Grants and other member benefits	8	<b>834</b>	334
		<hr/>	<hr/>
<b>PROFIT BEFORE TAXATION</b>		<b>12,261</b>	3,987
Taxation	9	<b>2,338</b>	2,132
		<hr/>	<hr/>
<b>TRANSFER TO RESERVES</b>	18	<b>9,923</b>	1,855
		<hr/>	<hr/>

The results for 2005 relate to the 52 weeks ended 22 January 2005.

The above include the results of the former West Midlands Co-operative Society Ltd businesses from 25 September 2005, the date of transfer, further details of which can be found in note 1.

The results for 2005 have been restated on adoption of FRS21 (events after the balance sheet date) and FRS25 (Financial instrument disclosures) in these financial statements. The impact of these restatements is explained in note 18.

# Group Balance Sheet

As at 28 January 2006

	Note	2006 £'000	2005 £'000 (restated)
<b>FIXED ASSETS</b>			
Intangible assets	10	4,485	11,575
Tangible assets	11	196,231	107,291
Investments	12	7,497	761
		<u>208,213</u>	<u>119,627</u>
<b>CURRENT ASSETS</b>			
Stocks	13	28,734	20,627
Debtors	14	34,721	13,299
Investments	12	8,430	5,229
Cash at bank and in hand		19,861	1,433
		<u>91,746</u>	<u>40,588</u>
<b>CURRENT LIABILITIES</b>			
Amounts falling due within one year:			
Creditors	15	73,695	35,393
Loans and bank overdraft	16	4,413	12,008
		<u>78,108</u>	<u>47,401</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>13,638</b>	<b>(6,813)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>221,851</b>	<b>112,814</b>
<b>LONG TERM LIABILITIES</b>			
Amounts falling due after more than one year:			
Creditors	15	13,222	4,754
Loans	16	31,738	18,111
		<u>44,960</u>	<u>22,865</u>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>			
Deferred taxation	9	4,858	3,452
<b>NET ASSETS EXCLUDING PENSION FUND LIABILITY</b>		<b>172,033</b>	<b>86,497</b>
<b>NET PENSION LIABILITY</b>	28	<b>25,825</b>	<b>6,119</b>
<b>NET ASSETS INCLUDING PENSION FUND LIABILITY</b>		<b>146,208</b>	<b>80,378</b>
<b>FINANCED BY:</b>			
Share capital	17	30,933	25,866
Revaluation reserve	18	46,954	9,577
Revenue reserve	18	68,321	44,935
<b>MEMBERS' FUNDS</b>		<b>146,208</b>	<b>80,378</b>

# Group Cash Flow Statement

For the 53 weeks ended 28 January 2006

	Note	2006 £'000	2005 £'000
Net cash inflow from operating activities	19	15,851	10,862
Returns on investments and servicing of finance	20	(2,955)	(3,204)
Taxation:			
UK Corporation Tax paid		(1,095)	(1,169)
Capital expenditure & disposals and financial investment	21	19,287	(18,202)
Acquisitions and disposals of businesses	22	(983)	(5,150)
		<hr/>	<hr/>
<b>NET CASH INFLOW/(OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING</b>		<b>30,105</b>	<b>(16,863)</b>
Management of liquid resources	23	(12,791)	4,600
Financing	24	(8,070)	2,863
		<hr/>	<hr/>
<b>INCREASE/(DECREASE) IN CASH</b>	25	<b>9,244</b>	<b>(9,400)</b>
		<hr/>	<hr/>
<b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT</b>			
Increase/(decrease) in cash in the period		9,244	(9,400)
Cash inflow/(outflow) from increase/(decrease) in debt and finance leasing	25	7,464	(2,816)
Cash outflow/(inflow) from increase/(decrease) in liquid resources	23	12,791	(4,600)
		<hr/>	<hr/>
<b>Change in net debt resulting from cash flows</b>		<b>29,499</b>	<b>(16,816)</b>
Net debt acquired on the transfer of engagements of West Midlands Co-operative Society Limited	1	(17,103)	–
		<hr/>	<hr/>
Decrease/(increase) in net debt		12,396	(16,816)
Net debt at 22 January 2005		(28,686)	(11,870)
		<hr/>	<hr/>
<b>Net debt at 28 January 2006</b>	25	<b>(16,290)</b>	<b>(28,686)</b>
		<hr/>	<hr/>

# Group Statement of Total Recognised Gains and Losses

	2006 £'000	2005 £'000 (restated)
Profit for the year	9,923	1,855
Actuarial (loss)/gain on pension schemes (net of deferred tax)	(11,920)	1,509
Unrealised surplus on revaluation of freehold properties: Excess of valuation over book value	43,527	562
<b>Total gains and losses relating to the financial year</b>	<b>41,530</b>	<b>3,926</b>
Prior year adjustment (as explained in note 18)	867	
<b>Total gains and losses recognised since last annual report</b>	<b>42,397</b>	

## Note of Historical Cost Profits and Losses

	2006 £'000	2005 £'000 (restated)
Reported profit before taxation	12,261	3,987
Realisation of property revaluation gains of previous years	6,150	64
Historical cost profit before taxation	18,411	4,051
Historical cost profit for the year retained after taxation	16,073	1,919

## Reconciliation of Movements in Members' Funds

	Note	2006 £'000	2005 £'000 (restated)
Profit for the year		9,923	1,855
Share interest (net of tax)		(717)	(629)
Brought in on transfer of engagements of West Midlands Co-operative Society Limited	1	25,622	–
Movement in share capital	17	(605)	101
Other recognised gains relating to the period		31,607	2,071
Net increase in members' funds		65,830	3,398
Members' funds at start of year as previously reported		78,639	74,984
Prior year adjustment – FRS21 Dividends (note 18)		867	1,178
Prior year adjustment – Accrued share interest (note 18)		872	818
Members' funds at 22 January 2005 restated		80,378	76,980
<b>Members' funds 28 January 2006</b>		<b>146,208</b>	<b>80,378</b>

# Notes to the Financial Statements

## 1. TRANSFER OF ENGAGEMENTS OF WEST MIDLANDS CO-OPERATIVE SOCIETY LIMITED

On 25 September 2005, West Midlands Co-operative Society Limited transferred its engagements to The Midcounties Co-operative Limited. A summary of the separately identifiable assets and liabilities transferred is:

	Book value	Fair value adjustments	Fair value
	£'000	£'000	£'000
Tangible fixed assets	77,224	(3,690)	73,534
Fixed asset investments	4,439	–	4,439
Stock	8,639	(240)	8,399
Debtors and prepayments	16,072	(806)	15,266
Current asset investments	4,441	500	4,941
Cash and bank balances	4,123	–	4,123
Creditors	(54,797)	–	(54,797)
Loans	(21,226)	–	(21,226)
Deferred tax	(1,411)	826	(585)
Net pension liability	(8,472)	–	(8,472)
	<u>29,032</u>	<u>(3,410)</u>	<u>25,622</u>
Share capital	5,672	–	5,672
Revenue reserves	14,336	5,614	19,950
Revaluation Reserve	9,024	(9,024)	–
	<u>29,032</u>	<u>(3,410)</u>	<u>25,622</u>

In accordance with accepted accounting practice goodwill has not been recognised on the transfer of engagements and goodwill of £28m previously shown in the balance sheet of West Midlands Co-operative Society was eliminated. Book values have been aligned to estimated market values as at the date of transfer.

In its last published accounts for the 52 weeks ended 25 September 2004 West Midlands Co-operative Society Limited made a profit after tax of £2.00m.

## 2. TURNOVER

	2006 £'000	2005 £'000 (restated)
Food	<b>270,119</b>	246,943
Motor	<b>54,912</b>	45,255
Funeral	<b>12,758</b>	7,955
Pharmacy	<b>10,451</b>	–
Travel	<b>3,270</b>	1,385
Childcare	<b>1,228</b>	770
Care Homes	<b>907</b>	–
Co-operative I.T. (formerly Pandanet)	<b>730</b>	1,302
Post office commission	<b>1,199</b>	790
Internet domain names (formerly .coop)	<b>395</b>	86
Consultancy	<b>74</b>	73
Retail sales	<b>356,043</b>	304,559
Wholesale sales	–	6,005
Property rentals	<b>2,143</b>	2,448
Turnover	<b>358,186</b>	313,012

Turnover consists entirely of sales made in the United Kingdom.

The transfer of engagements of West Midlands Co-operative Society Limited has impacted turnover by £29.9m in food, £3.9m in funeral, £10.5m in pharmacy, £1.8m in travel, £0.9m in care homes, £0.3m in post offices and £0.4m in property, a total of £47.7m.

It is not practicable to identify the impact of the transfer of engagements below turnover.

# Notes to the Financial Statements

<b>3. EXPENSES</b>	<b>2006</b> <b>£'000</b>	2005 £'000 (restated)
Personnel costs (note 4)	<b>58,455</b>	47,105
less charged to cost of sales	<b>1,250</b>	1,079
	<b>57,205</b>	46,026
Occupancy costs	<b>9,810</b>	8,004
Hire of plant and equipment – operating leases	<b>366</b>	325
Hire of land and buildings – operating leases	<b>3,324</b>	3,189
Depreciation of owned assets	<b>10,093</b>	9,556
Depreciation of assets held under finance leases	<b>167</b>	139
Total depreciation of tangible fixed assets	<b>10,260</b>	9,695
Amortisation of intangible fixed assets	<b>1,899</b>	2,072
Total depreciation and amortisation	<b>12,159</b>	11,767
Fees paid to auditors:		
Audit	<b>176</b>	76
Other	<b>172</b>	71
Directors' fees	<b>83</b>	50
Other expenses	<b>13,613</b>	12,568
Exceptional expenses	<b>2,465</b>	(2,613)
	<b>99,373</b>	79,463
Directors' remuneration		
The total remuneration of the directors for their Board duties was as follows:	<b>2006</b> <b>£'000</b>	2005 £'000
Fees	<b>83</b>	50
The number of directors whose emoluments fell in each £5,000 bracket was as follows:	<b>2006</b> <b>Number</b>	2005 Number
£0 – £ 5,000	<b>17</b>	13
£5,001 – £10,000	<b>2</b>	1
The average number of directors during the year was 16.		
<b>4. EMPLOYEES</b>	<b>2006</b> <b>Number</b>	2005 Number
The average monthly number employed by the group was:		
Full-time	<b>2,693</b>	1,746
Part-time	<b>3,676</b>	2,901
	<b>6,369</b>	4,647
The costs incurred in respect of these employees were:	<b>2006</b> <b>£'000</b>	2005 £'000
Salaries and wages	<b>53,145</b>	42,216
Social security costs	<b>3,400</b>	2,599
Other pension costs included in trading profit (note 28)	<b>1,910</b>	2,290
	<b>58,455</b>	47,105

# Notes to the Financial Statements

## 4. EMPLOYEES (continued)

### Executive remuneration

The total remuneration of the executive management included above was as follows:

	<b>2006</b> <b>£'000</b>	2005 £'000
Salaries	<b>1,262</b>	1,009
Taxable benefits	<b>70</b>	50
Performance related	<b>54</b>	28
	<hr/> <b>1,386</b>	<hr/> 1,087
Pension contributions	<b>196</b>	154
	<hr/> <b>1,582</b> <hr/>	<hr/> 1,241 <hr/>

The number of members of the executive management whose remuneration, excluding pension contributions, fell in each £5,000 bracket was as follows:

	<b>2006</b> <b>Number</b>	2005 Number
£30,001 – £35,000	<b>1</b>	–
£50,001 – £55,000	<b>2</b>	–
£70,001 – £75,000	<b>–</b>	2
£75,001 – £80,000	<b>2</b>	2
£80,001 – £85,000	<b>1</b>	2
£85,001 – £90,000	<b>–</b>	1
£90,001 – £95,000	<b>2</b>	–
£95,001 – £100,000	<b>2</b>	–
£135,001 – £140,000	<b>–</b>	1
£150,001 – £155,000	<b>–</b>	1
£165,001 – £170,000	<b>2</b>	–
£240,001 – £245,000	<b>–</b>	1
£285,001 – £290,000	<b>1</b>	–

The remuneration of the chief executive (who was the highest paid employee for the year) included above was as follows:

	<b>2006</b> <b>£'000</b>	2005 £'000
Salary	<b>264</b>	236
Taxable benefits	<b>9</b>	8
Performance related	<b>13</b>	–
	<hr/> <b>286</b>	<hr/> 244
Pension contributions	<b>31</b>	26
	<hr/> <b>317</b> <hr/>	<hr/> 270 <hr/>

# Notes to the Financial Statements

<b>5. EXCEPTIONAL ITEMS</b>	<b>2006</b>	2005
	<b>£'000</b>	£'000
Exceptional costs	<b>2,309</b>	–
Impairment of fixed assets	<b>600</b>	380
Pension credit	<b>–</b>	(2,993)
	<b>2,909</b>	(2,613)

Exceptional costs are mainly expenses incurred as a result of the transfer of engagements; includes £444,000 attributable to cost of sales.

<b>6. NET INTEREST PAYABLE</b>	<b>2006</b>	2005
	<b>£'000</b>	£'000
Interest receivable (note 12)	<b>(336)</b>	(104)
Interest payable (note 16)	<b>1,784</b>	1,478
	<b>1,448</b>	1,374

Interest payable includes stocking charges of £202,579 (2005: £187,664)

<b>7. MEMBERS DIVIDEND</b>	<b>2006</b>	2005
	<b>£'000</b>	£'000
		(restated)
Members' dividend	<b>1,210</b>	832
Community dividend	<b>295</b>	146
Co-operative development	<b>439</b>	146
Co-operative Action	<b>–</b>	41
	<b>1,944</b>	1,165

<b>8. GRANTS AND OTHER MEMBER BENEFITS</b>	<b>2006</b>	2005
	<b>£'000</b>	£'000
		(restated)
Active Members' Support Group grant	<b>636</b>	211
Staff involvement grant	<b>140</b>	69
Co-operative Party grant	<b>58</b>	54
	<b>834</b>	334

<b>9. TAXATION</b>	<b>2006</b>	2005
	<b>£'000</b>	£'000
<b>(a) Revenue account – analysis of charge for the period</b>		
Current taxation:		
UK corporation tax of the period	<b>2,486</b>	2,340
Adjustment in respect of prior periods	<b>(1,263)</b>	(1,125)
Total current tax	<b>1,223</b>	1,215
Deferred taxation:		
Origination and reversal of timing differences	<b>(1,074)</b>	(51)
Adjustment in respect of prior periods	<b>2,189</b>	968
Total deferred tax (note 9(c))	<b>1,115</b>	917
<b>Tax on profit</b>	<b>2,338</b>	2,132

# Notes to the Financial Statements

## 9. TAXATION (continued)

### (b) Factors affecting tax charge for period

The tax assessed for the period is different to the standard rate of corporation tax in the UK of 30%.

The differences are explained below:

	2006 £'000	2005 £'000 (restated)
Profit before tax	<b>12,261</b>	3,987
Profit before tax multiplied by standard rate of corporation tax in the UK of 30%	<b>3,678</b>	1,196
Effects of:		
Expenses not deductible for tax purposes (primarily goodwill amortisation and building depreciation)	<b>1,136</b>	1,228
Depreciation in excess of capital allowances	<b>777</b>	44
Short term timing differences	<b>297</b>	140
Profit on sale of properties subject to indexation and rollover relief	<b>(3,402)</b>	(268)
Adjustments to tax charge in respect of previous periods	<b>(1,263)</b>	(1,125)
<b>Current tax charge for period (note 9(a))</b>	<b>1,223</b>	1,215

### (c) Balance sheet

	2006 £'000	2005 £'000
<b>Corporation tax payable</b>	<b>985</b>	1,714
<b>Provision for deferred taxation:</b>		
Accelerated capital allowances	<b>727</b>	1,046
Short term timing differences	<b>4,131</b>	2,406
	<b>4,858</b>	3,452
Provision at start of period	<b>3,452</b>	3,422
Deferred tax charge in revenue account for period (note 9(a))	<b>1,115</b>	917
Movement of deferred tax included in net pension liability (note 28)	<b>(294)</b>	(887)
Transfer of engagements	<b>585</b>	–
<b>Provision at end of period</b>	<b>4,858</b>	3,452

### (d) Circumstances affecting future tax charge

No deferred tax liability is provided in respect of those properties which have been revalued because of the availability of indexation and other reliefs to reduce the capital gain. Unprovided deferred tax relating to property valuations is not readily quantifiable.

# Notes to the Financial Statements

## 10. INTANGIBLE FIXED ASSETS

	<b>Purchased goodwill</b>
<b>Cost</b>	<b>£'000</b>
At 22 January 2005	20,365
Acquisition (note 22)	747
Disposals	(7,369)
<b>At 28 January 2006</b>	<b>13,743</b>
<b>Amortisation</b>	
At 22 January 2005	8,790
Charge for the year	1,899
Disposals	(1,431)
<b>At 28 January 2006</b>	<b>9,258</b>
<b>Net book value 2006</b>	<b>4,485</b>
Net book value 2005	11,575

## 11. TANGIBLE FIXED ASSETS

	<b>Land &amp; buildings</b>	<b>Investment properties</b>	<b>Plant, fixtures &amp; fittings</b>	<b>Vehicles</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost or valuation</b>					
At 22 January 2005	79,354	17,275	53,054	3,380	153,063
Transfer of engagements of West Midlands Co-operative Society Limited	51,369	12,779	9,046	340	73,534
Additions	5,742	371	6,580	3,505	16,198
Revaluation	30,099	2,836	–	–	32,935
Disposals	(15,820)	(11,630)	(8,179)	(3,180)	(38,809)
<b>At 28 January 2006</b>	<b>150,744</b>	<b>21,631</b>	<b>60,501</b>	<b>4,045</b>	<b>236,921</b>
<b>Depreciation</b>					
At 22 January 2005	14,678	–	30,012	1,082	45,772
Provided this year	591	–	8,926	743	10,260
Disposals	(1,573)	–	(2,730)	(447)	(4,750)
Revaluation	(10,592)	–	–	–	(10,592)
<b>At 28 January 2006</b>	<b>3,104</b>	<b>–</b>	<b>36,208</b>	<b>1,378</b>	<b>40,690</b>
<b>Net book value 2006</b>	<b>147,640</b>	<b>21,631</b>	<b>24,293</b>	<b>2,667</b>	<b>196,231</b>
Net book value 2005	64,676	17,275	23,042	2,298	107,291

# Notes to the Financial Statements

## 11. TANGIBLE FIXED ASSETS (continued)

	Land & buildings		Investment properties	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
The net book values comprise:				
At cost or valuation:				
Freehold	132,044	54,943	21,631	17,275
Long leasehold	9,555	8,376	–	–
Short leasehold	6,041	1,357	–	–
	<u>147,640</u>	<u>64,676</u>	<u>21,631</u>	<u>17,275</u>
		2006		2005
		£'000		£'000
The net book value of properties comprises:				
<b>At cost less depreciation</b>				
Leasehold properties		15,596		9,733
<b>At valuation</b>				
Freehold land & buildings		132,044		54,943
Freehold investment properties		21,631		17,275
		<u>169,271</u>		<u>81,951</u>
		2006		2005
		£'000		£'000
The amounts included at valuation restated under the historical cost convention are:				
<b>Historical cost</b>				
Investment properties		13,642		7,698
Land & buildings		122,372		79,354
		<u>136,014</u>		<u>87,052</u>
<b>Depreciation</b>				
Land & buildings		13,697		14,678
		<u>13,697</u>		<u>14,678</u>
<b>Net book value</b>		<u>122,317</u>		<u>72,374</u>

The valuation in January 2006 was prepared on an open market basis by Philip Tapper and Co., Chartered Surveyors, VSL and Partners, Chartered Surveyors and Richard Holmes FRICS, The Society's property manager, in accordance with RICS Appraisal and Valuation Manual.

There were assets in the course of construction at 28 January 2006 of £5.0m (2005 £2.6m).

Freehold land with a cost of £29.2m (2005: £11.6m) has not been depreciated during the year.

# Notes to the Financial Statements

## 11. TANGIBLE FIXED ASSETS *(continued)*

### Finance leases

Included in fixed assets are the following amounts relating to assets leased under finance leases:

	Plant, fixtures & fittings
	£'000
<b>Cost</b>	
At 22 January 2005	1,628
Transfer of engagements of West Midlands Co-operative Society Limited	438
Disposals	(487)
<b>At 28 January 2006</b>	<b>1,579</b>
<b>Depreciation</b>	
At 22 January 2005	1,452
Provided this year	167
Disposals	(487)
<b>At 28 January 2006</b>	<b>1,132</b>
<b>Net book value 2006</b>	<b>447</b>
Net book value 2005	176

## 12. INVESTMENTS

	Fixed		Current		Interest receivable	
	2006	2005	2006	2005	2006	2005
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>						
Co-operative Group – ordinary shares	1,561	728	–	–	51	51
Other (I & P Societies)	59	18	–	–	2	3
Funeral prepayment plans	5,797	–	8,427	5,226	–	–
Mortgages	15	15	–	–	1	1
Other investments	65	–	3	3	–	–
	<b>7,497</b>	761	<b>8,430</b>	5,229	<b>54</b>	55
Other					282	49
					<b>336</b>	104

Moneys received in respect of funeral prepayment plans are invested under the terms of custodian trustee agreements with the State Street Bank and, from 1 January 2002, individual whole of life insured arrangements with the Co-operative Insurance Society Limited ("CIS"). Interest earned on such investments is re-invested. An appropriate proportion of the investments (including accrued interest) is withdrawn when each funeral plan is invoked by the client's representative. Only the amount shown in note 15 as falling due within one year, £1,466,000 (2005: £523,000), is expected to be realised within one year.

# Notes to the Financial Statements

<b>13. STOCKS</b>	<b>2006</b>	2005
	<b>£'000</b>	£'000
Work in progress	<b>45</b>	136
Consignment stock	<b>6,222</b>	4,940
Goods for resale	<b>22,467</b>	15,551
	<b>28,734</b>	20,627

<b>14. DEBTORS</b>	<b>Falling due within one year</b>	
	<b>2006</b>	2005
	<b>£'000</b>	£'000
Credit sales accounts	<b>23,653</b>	3,998
Other debtors	<b>8,788</b>	6,794
VAT	<b>323</b>	–
Prepayments	<b>1,957</b>	2,507
	<b>34,721</b>	13,299

<b>15. CREDITORS</b>	<b>Falling due within one year</b>		<b>Falling due after more than one year</b>	
	<b>2006</b>	2005	<b>2006</b>	2005
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Trade creditors	<b>53,795</b>	21,735	–	–
Corporation tax	<b>985</b>	1,714	–	–
Other taxation and social security	<b>1,183</b>	1,393	–	–
Accrued charges	<b>11,045</b>	5,454	–	–
Dividend and grants	<b>2,159</b>	540	–	–
Funeral prepayment plans	<b>1,466</b>	523	<b>13,222</b>	4,731
Other creditors	<b>3,062</b>	4,034	–	23
	<b>73,695</b>	35,393	<b>13,222</b>	4,754

Trade creditors includes £6,222,000 (2005: £4,940,000) in respect of commitments to purchase vehicles on consignment. The corresponding assets are included in stocks. This stock is held on consignment until the earlier of the vehicle being registered or the period specified in the agreement with the franchisor having elapsed.

Funeral prepayment plan moneys are held in both trustee administered bank accounts and CIS whole of life insurance policies. As at 28 January 2006, the assets of the scheme amounted to £14,224,000 (2005: £5,226,000) (see note 12).

# Notes to the Financial Statements

## 16. LOANS

	Falling due within one year		Falling due after more than one year		Interest payable	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Savings stamp club	31	34	-	-	-	-
Obligations under finance leases (a)	417	158	1,049	55	51	21
Bank loans (b)	3,965	4,086	30,689	18,056	1,492	1,033
Other	-	-	-	-	241	193
Bank overdraft (c)	-	7,730	-	-	-	231
	<b>4,413</b>	<b>12,008</b>	<b>31,738</b>	<b>18,111</b>	<b>1,784</b>	<b>1,478</b>

- (a) Terms are fixed between five and seven years with a fixed rate of 6.6% per annum or variable rates linked to London Interbank Offered Rate (LIBOR).
- (b) Bank loans and overdraft are secured by a legal charge on certain of the group's properties. The Society has entered into agreements that fix the interest rate on £5 million until April 2006, a further £3 million until October 2009, a further £4 million until October 2010 and £3 million until April 2011. The Society has also entered into an agreement that fixes the interest rate on the reducing balance of a £12 million loan until full payment in June 2015.
- (c) Repayable on demand. Interest rates are linked to base rate.

Loan amounts falling due:	Finance leases		Other loans	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
within one year	417	158	3,996	11,850
between one and two years	388	48	10,220	2,511
between two and five years	661	7	6,913	10,533
after five years	-	-	13,556	5,012
	<b>1,466</b>	<b>213</b>	<b>34,685</b>	<b>29,906</b>

## 17. SHARE CAPITAL

	2006 £'000	2005 £'000
At 22 January 2005 as previously reported	24,994	24,947
Reclassification of accrued share interest (note 18)	872	818
Restated balance at start of year	25,866	25,765
Share capital brought in on transfer of engagements of West Midlands Co-operative Society Limited	5,672	-
Contributions	9,164	9,924
Interest	1,024	872
Withdrawals	(10,793)	(10,695)
<b>At 28 January 2006</b>	<b>30,933</b>	<b>25,866</b>

- (i) Share capital is comprised entirely of equity shares of £1 each (as defined by UITF 39).
- (ii) Shares currently attract interest at rates between 2% and 5.6% per annum.
- (iii) Shares are withdrawable on periods of notice from one week and longer dependent on the amount involved. The right to withdraw may by resolution of the Board be suspended either wholly or partially and either indefinitely or for a fixed period.
- (iv) Each member is entitled to one vote irrespective of the number of shares held.

# Notes to the Financial Statements

## 17. SHARE CAPITAL (continued)

- (v) In the event of a solvent winding up of the Society, the rules state that a surplus remaining after all liabilities, including paid up share capital, have been settled would not be distributed to the members of the Society but shall be:
- (a) transferred to one or more societies in membership of Co-operatives<sup>UK</sup> Limited having the same or similar rule provisions as regards surplus distribution as this rule, as may be determined by the members; or
- (b) if not so transferred shall be paid or transferred to Co-operatives<sup>UK</sup> Limited.
- (vi) Dividends to members are paid by way of vouchers redeemable against purchases or deposited into a share account or donated to specific charities. Dividends are based on purchases made by members at a rate proposed by the Board and subject to approval at a members' meeting.
- (vii) The Society abides by a code of practice which requires it to provide a statement to its shareholders of the nature of their investment and any change affecting it. The position that a shareholder of this Society occupies is no different from that of a shareholder in any other corporate body in the sense that, if the Society fails, not all or any of their investment may be returned to them. Investments are withdrawable without penalty. The Society, unlike banks and building societies, is not subject to prudential supervision by the Financial Services Authority. If you have any questions regarding the code please address them to the secretary at the Society's registered address as shown on the back cover of this annual report.

## 18. RESERVES

	Revenue reserve £'000	Revaluation reserve £'000
At 24 January 2004 as previously reported	40,958	9,079
Prior year adjustment		
Remove members dividend provision (net of tax)	1,178	-
	<hr/>	<hr/>
Restated balance at 24 January 2004	42,136	9,079
Profit for the year	1,855	-
Share Interest (net of tax)	(629)	-
Unrealised surplus on revaluation of properties	-	562
Realised on disposal of investment properties	64	(64)
Actuarial gain on pension scheme (net of deferred tax)	1,509	-
	<hr/>	<hr/>
Restated balance at 22 January 2005	44,935	9,577
Reserves brought in on transfer of engagements of West Midlands Co-operative Society Limited	19,950	-
Profit for the year	9,923	-
Share Interest (net of tax)	(717)	-
Unrealised surplus on revaluation of properties	-	43,527
Realised on disposal of investment properties	6,150	(6,150)
Actuarial loss on pension scheme (net of deferred tax)	(11,920)	-
	<hr/>	<hr/>
	68,321	46,954

### Prior year adjustments

- a Members dividend and grants are now recognised when they are approved by members as required by FRS21. Prior year comparatives have been restated resulting in a decrease in 2005 profit before tax of £444,000 and an increase in net assets at 22 January 2005 of £867,000.
- b In accordance with latest guidance, members share interest (net of tax) is shown as a movement on revenue reserves. Comparatives have been restated resulting in an increase in 2005 profit before tax of £898,000. There is no impact on net assets.
- c Accrued share interest has been reclassified from creditors to share capital resulting in an increase in net assets of £872,000 at 22 January 2005.

# Notes to the Financial Statements

<b>19. RECONCILIATION OF TRADING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Trading profit	<b>3,365</b>	6,058
Pension charges/(credits) to trading profit	<b>1,836</b>	(703)
Pension contributions	<b>(2,842)</b>	(2,343)
Exceptional charge (non cash)	<b>600</b>	380
Grants and donations	<b>(600)</b>	(338)
Depreciation & amortisation	<b>12,159</b>	11,767
Loss on sale of tangible fixed assets	<b>24</b>	76
Decrease/(increase) in stocks	<b>397</b>	(1,901)
Increase in debtors	<b>(6,156)</b>	(474)
Increase/(decrease) in creditors	<b>7,068</b>	(1,660)
<b>Net cash inflow from operating activities</b>	<b>15,851</b>	10,862
<b>20. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Interest received	<b>336</b>	104
Interest paid	<b>(1,727)</b>	(1,457)
Share interest	<b>(979)</b>	(844)
Interest element of finance lease rentals	<b>(26)</b>	(21)
Members' dividend paid	<b>(559)</b>	(986)
<b>Net cash outflow for returns on investments and servicing of finance</b>	<b>(2,955)</b>	(3,204)
<b>21. CAPITAL EXPENDITURE &amp; DISPOSALS AND FINANCIAL INVESTMENT</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Purchase of tangible fixed assets	<b>(16,067)</b>	(23,014)
Sale of tangible fixed assets	<b>35,354</b>	4,707
Sale of fixed asset investments	<b>-</b>	105
<b>Net cash inflow/(outflow) for capital expenditure &amp; disposals and financial investment</b>	<b>19,287</b>	(18,202)

# Notes to the Financial Statements

## 22. ACQUISITIONS AND DISPOSALS OF SUBSIDIARY UNDERTAKINGS AND BUSINESSES

	Book value £'000	Fair value adjustment £'000	Fair value £'000
<b>Acquisitions:</b>			
Tangible fixed assets	192	(61)	131
Stock	105	-	105
	<u>297</u>	<u>(61)</u>	<u>236</u>
Goodwill	686	61	747
Purchase price	<u>983</u>	<u>-</u>	<u>983</u>

In line with our policy of reviewing all assets and liabilities of acquired businesses, we have aligned tangible fixed assets to estimated market values as at the date of acquisition.

Prior to the transfer of engagements businesses with a net book value of £17.7m were sold (on an arms length basis) to West Midlands Co-operative Society Limited at net book value. On 9 January 2006 the Care homes business was sold, after costs the disposal value equated to net book value.

The results and cash flows of the acquired businesses have not been disclosed separately on grounds of immateriality.

## 23. MANAGEMENT OF LIQUID RESOURCES

	2006 £'000	2005 £'000
(Increase)/decrease in short term deposits	(12,791)	4,600
<b>Net cash (outflow)/inflow from management of liquid resources</b>	<u>(12,791)</u>	<u>4,600</u>

## 24. FINANCING

	2006 £'000	2005 £'000
Issue of share capital	10,188	10,742
Withdrawal of share capital	(10,793)	(10,695)
Capital element of finance lease rentals	(230)	(152)
Other loans (repaid)/advanced	(7,235)	2,968
<b>Net cash (outflow)/inflow from financing</b>	<u>(8,070)</u>	<u>2,863</u>

# Notes to the Financial Statements

<b>25. ANALYSIS OF NET DEBT</b>	At Jan 2005	WMCS transfer of engagements £'000	Cash flow £'000	At Jan 2006 £'000
Cash at bank and in hand	1,433	4,123	1,514	<b>7,070</b>
Bank overdraft	(7,730)	–	7,730	–
	<u>(6,297)</u>	<u>4,123</u>	<u>9,244</u>	<u><b>7,070</b></u>
Short term deposits	–	–	12,791	<b>12,791</b>
	<u>(6,297)</u>	<u>4,123</u>	<u>22,035</u>	<u><b>19,861</b></u>
Debts due after one year	(18,056)	(19,717)	7,084	<b>(30,689)</b>
Debts due within one year	(4,120)	(26)	150	<b>(3,996)</b>
Finance leases	(213)	(1,483)	230	<b>(1,466)</b>
	<u>(22,389)</u>	<u>(21,226)</u>	<u>7,464</u>	<u><b>(36,151)</b></u>
<b>Total</b>	<u>(28,686)</u>	<u>(17,103)</u>	<u>29,499</u>	<u><b>(16,290)</b></u>
<b>Analysis of cash at bank and in hand as shown in the balance sheet</b>			<b>2006</b>	2005
			<b>£'000</b>	£'000
Cash in hand			<b>2,061</b>	1,433
Bank balances			<b>5,009</b>	–
Short term deposits			<b>12,791</b>	–
			<u><b>19,861</b></u>	<u>1,433</u>

## 26. OPERATING LEASES

At 28 January 2006 the Group had annual commitments under non-cancellable leases as follows:

	<b>2006</b>	<b>Other</b>	2005	<b>Other</b>
	<b>Land &amp; buildings £'000</b>	<b>£'000</b>	Land & buildings £'000	£'000
Operating leases expiring:				
Within one year	<b>402</b>	–	258	–
In the second to fifth year inclusive	<b>1,016</b>	<b>366</b>	975	325
Over five years	<b>3,706</b>	–	1,536	–
	<u><b>5,124</b></u>	<u><b>366</b></u>	<u>2,769</u>	<u>325</u>

The leases of land and buildings are subject to rent reviews.

## 27. CAPITAL COMMITMENTS

	<b>2006</b>	2005
	<b>£'000</b>	£'000
Expenditure contracted but not provided for	<u><b>2,815</b></u>	<u>245</u>

# Notes to the Financial Statements

## 28. RETIREMENT BENEFITS

The Midcounties Co-operative operates two defined benefit schemes (the Oxford, Swindon & Gloucester Co-operative Society Limited Employees' Pension Scheme and the West Midlands Co-operative Society Limited Employees' Superannuation Fund) and a defined contribution scheme. Contributions to the defined contribution scheme were £16,000 in the year.

Full actuarial valuations of the schemes were carried out at 31 December 2003 and 25 September 2004 and updated to 28 January 2006 by qualified independent actuaries.

- (i) The Oxford, Swindon & Gloucester Co-operative Society Limited Employees' Pension Scheme:
- a) The latest actuarial valuation of the Oxford, Swindon & Gloucester Co-operative Society Limited Employees' Pension Scheme took place on 31 December 2003. The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the scheme for FRS17 purposes were:

	2006	2005	2004
Rate of increase in salaries	4.40%	4.20%	4.30%
Rate of increase in pensions in payment	2.90%	2.70%	2.80%
Rate of increase in pensions in deferment	2.90%	2.70%	2.80%
Discount rate	4.70%	5.20%	5.30%
Inflation assumption	2.90%	2.70%	2.80%

The Midcounties Co-operative contributed 12.0% of pensionable wages to the scheme in the period to 28 January 2006.

The assets in the scheme and the expected rates of return (\*) were:

	Long-term rate of return expected 2006	2006 £'000	Long-term rate of return expected 2005	2005 £'000	Long-term rate of return expected 2004	2004 £'000
Equities	7.1%	52,598	7.1%	37,784	7.3%	34,443
Bonds	4.1%**	17,034	4.6%	16,199	4.8%	13,121
Total market value of assets		69,632		53,983		47,564
Present value of scheme liabilities		(90,600)		(62,724)		(61,415)
(Deficiency) in the scheme		(20,968)		(8,741)		(13,851)
Related deferred tax asset***		6,290		2,622		4,155
Net pension (liability)		(14,678)		(6,119)		(9,696)

\*The rates quoted above are the expected net rates of return after allowances for expenses

\*\*The expected rates of return on the bond portfolio are assumed to be 4.5% corporate bonds, 4.1% fixed interest gilts & 3.85% index linked gilts

\*\*\*This assumes a Society corporation tax rate of 30%

b) Analysis of amount charged/(credited) to trading profit

	2006 £'000	2005 £'000
Current service cost	1,640	2,290
Past service credit – exceptional item	–	(2,993)
	1,640	(703)

# Notes to the Financial Statements

## 28. RETIREMENT BENEFITS *(continued)*

c)	Analysis of amount charged to other finance costs					
			<b>2006</b>	2005		
			<b>£'000</b>	£'000		
	Expected return on pension scheme assets		3,551	3,209		
	Interest on pension scheme liabilities		(3,374)	(3,300)		
	Net cost		<u>177</u>	<u>(91)</u>		
d)	Movement in scheme deficit during the year:					
			<b>2006</b>	<b>2005</b>		
			<b>£'000</b>	<b>£'000</b>		
	Deficit in Scheme at beginning of the year		(8,741)	(13,851)		
	Movement in year:					
	Current service cost		(1,640)	(2,290)		
	Contributions		2,476	2,343		
	Past service credit		–	2,993		
	Other finance costs		177	(91)		
	Actuarial (loss)/gain		(13,240)	2,155		
	Deficit in Scheme at end of year		<u>(20,968)</u>	<u>(8,741)</u>		
e)	Analysis of amount recognised in Statement of Total Recognised Gains and Losses (STRGL)					
			<b>2006</b>	<b>2005</b>		
			<b>£'000</b>	<b>£'000</b>		
	Actual return less expected return on pension scheme assets		10,012	1,259		
	Experience gains and losses arising on the scheme liabilities		(9,575)	2,271		
	Changes in assumptions underlying the present value of the scheme liabilities		(13,677)	(1,375)		
	Actuarial gain recognised in STRGL		(13,240)	2,155		
	Deferred tax		3,972	(646)		
	Net gain recognised in STRGL		<u>(9,268)</u>	<u>1,509</u>		
f)	History of Experience Gains and Losses		<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
			<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	Actual return less expected return on pension scheme assets:					
		10,012	1,259	5,992	(11,912)	
	% of scheme assets	14.00%	2.00%	13.00%	31.00%	
	Experience (losses)/gains on scheme liabilities:					
		(9,575)	2,271	1,464	1,600	
	% of the present value of the scheme liabilities	11.00%	4.00%	2.00%	3.00%	
	Total amount recognised in statement of total recognised gains and losses:					
		(13,240)	2,155	2,551	(14,427)	
	% of the present value of the scheme liabilities	15.00%	3.00%	4.00%	27.00%	

# Notes to the Financial Statements

## 28. RETIREMENT BENEFITS (continued)

- (ii) The West Midlands Co-operative Society Limited Employees' Superannuation Fund:  
The fund is closed to new entrants. It should therefore be noted that under the projected unit method that is required under FRS17 the current service cost will increase as the members of the Fund approach retirement.
- a) The latest actuarial valuation of the West Midlands Co-operative Society Limited Employees' Superannuation Fund took place on 25 September 2004. The principal assumptions used by the independent qualified actuaries in updating the latest valuations of the schemes for FRS17 purposes were:

	2006	2005	2004
Rate of increase in salaries	4.40%	4.20%	3.90%
Rate of increase in pensions in payment	2.90%	2.70%	2.80%
Discount rate	4.70%	4.90%	5.50%
Inflation assumption	2.90%	2.70%	2.90%

The assets in the scheme and the expected rates of return were:

	Long-term rate of return expected 2006	2006 £'000	Long-term rate of return expected 2005	2005 £'000	Long-term rate of return expected 2004	2004 £'000
Equities	7.1%	12,368	7.3%	11,506	7.8%	9,751
Property	6.1%	341	6.3%	316	5.3%	–
Government bonds	3.9%	12,718	4.1%	12,125	4.8%	13,057
Corporate bonds	4.5%	2,695	4.7%	2,573	4.8%	–
Other	4.5%	–	4.5%	254	5.3%	1,221
Total market value of assets		<b>28,122</b>		26,774		24,029
Present value of scheme liabilities		<b>(44,046)</b>		(38,877)		(31,496)
(Deficiency) in the scheme		<b>(15,924)</b>		(12,103)		(7,467)
Related deferred tax asset*		<b>4,777</b>		3,631		2,240
Net pension (liability)		<b>(11,147)</b>		(8,472)		(5,227)

\*This assumes a Society corporation tax rate of 30%

b) Analysis of amount charged to trading profit	2006 £'000	2005 £'000
Current service cost	254	604
c) Analysis of amount charged to other finance costs	2006 £'000	2005 £'000
Expected return on pension scheme assets	495	1,435
Interest on pension scheme liabilities	(641)	(1,729)
Net cost	(146)	(294)

Comparative figures are shown for illustrative purposes only. 2006 figures represent the four months from the transfer of engagement. 2005 figures represent the twelve months to September 2005.

# Notes to the Financial Statements

## 28. RETIREMENT BENEFITS *(continued)*

d)	Movement in scheme deficit during the period:			<b>2006</b>	<b>2005</b>
				<b>£'000</b>	<b>£'000</b>
	Deficit in Scheme at beginning of the period			(12,102)	(7,468)
	Movement in period:				
	Current service cost			(254)	(604)
	Contributions			366	706
	Other finance costs			(146)	(294)
	Actuarial loss			(3,788)	(4,442)
	Deficit in Scheme at end of period			<u>(15,924)</u>	<u>(12,102)</u>
e)	Analysis of amount recognised in Statement of Total Recognised Gains and Losses (STRGL)			<b>2006</b>	<b>2005</b>
				<b>£'000</b>	<b>£'000</b>
	Actual return less expected return on pension scheme assets			983	1,351
	Experience gains and losses arising on the scheme liabilities			80	(1,133)
	Changes in assumptions underlying the present value of the scheme liabilities			(4,851)	(4,660)
	Actuarial loss recognised in STRGL			<u>(3,788)</u>	<u>(4,442)</u>
	Deferred tax			1,136	1,333
	Net loss recognised in STRGL			<u>(2,652)</u>	<u>(3,109)</u>
f)	History of Experience Gains and Losses	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	Actual return less expected return on pension scheme assets:	983	1,351	798	1,417
	% of scheme assets	3.50%	5.00%	3.30%	6.50%
	Experience (losses)/gains on scheme liabilities:	80	(1,133)	(332)	(223)
	% of the present value of the scheme liabilities	0.20%	2.90%	(1.10%)	0.80%
	Total amount recognised in statement of total recognised gains and losses:	(4,851)	(4,442)	88	(1,592)
	% of the present value of the scheme liabilities	(11.00%)	(11.40%)	0.30%	(7.30%)

# Notes to the Financial Statements

## 29. WHOLLY OWNED SUBSIDIARIES

As at 28 January 2006, the Group consisted of The Midcounties Co-operative Limited and the wholly owned subsidiaries and companies listed below.

	<b>Principal Activity</b>
J Whitmore Limited	Retail
Kenmare Estates Limited	Property Management
MC Co-operative I.T. Limited	Information Services
The Midcounties Co-operative Domains Limited	Retail
The Midcounties Co-operative Investments Limited	Property Management
The Midcounties Co-operative Properties Limited	Property Management
The Midcounties Co-operative Trading Limited	Retail
West Midlands Co-operative Chemists Limited	Retail

The following were dormant throughout the year:

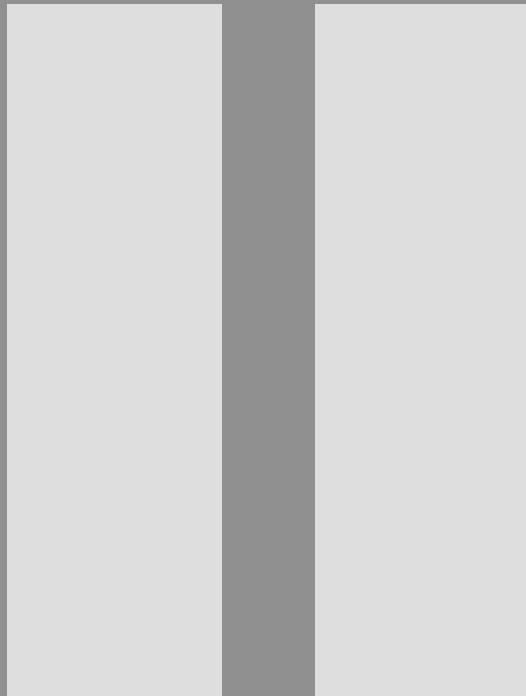
A W Bruce Limited	Motorworld Garages Limited
Codsall Travel Centre Limited	Motorworld Leasing Limited
Co-op Direct Limited	Motovine Limited
Co-op Holiday Supermarket Limited	Reeves & Pain Limited
Co-op Travel Direct Limited	S & M (Wholesalers) Limited
Co-operative Energy Limited	Sabreheights Limited
Debt Recoveries (Oxford) Limited	The Midcounties Developments Limited
F G Hopkins (Wolverhampton) Limited	The Midcounties Estates Limited
George Webb & Son Limited	Thomas Ely Limited
Gloucester Co-operative Pharmacies Limited	Tilley & Daniells Limited
Holiday Cybernet Limited	Tilley & Daniells (Birmingham) Limited
Holidays-in-heaven.com Limited	Tilley & Daniells (Gornal) Limited
Hopkins Moorhouse Limited	Tilley & Daniells (Pensnett) Limited
Hubcentre Limited	Tilley & Daniells (Woodsetton) Limited
Imagine Co-operative Childcare Limited	West Midlands Asian Funeral Services Limited
Lichpharm Limited	West Midlands Co-op Foodstores (Shropshire) Limited
Midcounties Leasing Limited	Woodstates Limited
Motorworld (Oxford) Limited	

The Society has taken advantage of the exemption in FRS8 not to disclose transactions with wholly owned subsidiaries.

## 30. RELATED PARTIES

As a retail co-operative society, the Society has many transactions with other co-operative societies. These are all commercial and at arm's length. The most significant of these relates to the Society's membership of the Co-operative Retail Trading Group ("CRTG") by which purchases of stock for resale are made through the Co-operative Group Limited ("tCG") on terms negotiated with third party suppliers by CRTG on behalf of its members. The value of such purchases (net of rebates and dividend but including VAT) for the year ended 28 January 2006 was £182 million (2005: £170.0 million) and, the amount owed to tCG as at that date was £12.9 million (2005: £9.1 million). It is considered however, that tCG is not a related party within the definition of FRS8 Related Party Disclosures.

The Society has a contract for telecommunication services with The Phone Co-op Limited, a co-operative organisation whose chief executive is Vivian Woodell, the Society president. The contract is at arm's length and the value of services including VAT provided for the year ended 28 January 2006 was £85,541 (2005: £122,446). The Phone Co-op has a community membership account with the Society. The balance on this account at 28 January 2006 was £206,885 (2005: £220,034) and interest earned during the year amounted to £9,649 (2005: £9,955). The Society has a share account with The Phone Co-op. As at 28 January 2006 the balance was £10,454. During the year, the Society received interest of £387 and dividend income of £1,467.



The Midcounties Co-operative  
New Barclay House  
234 Botley Road  
Oxford  
OX2 0HP

Tel: 01865 249241

Freephone Members' Hotline:  
0800 435902

Website: [www.midcounties.coop](http://www.midcounties.coop)

Email: [members@midcounties.coop](mailto:members@midcounties.coop)

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