



open  
honest  
rewarding  
trustworthy  
championing  
responsible  
ethical  
caring

and very proud...

summary  
**annual report**  
2006

# it's not just words ►

Hello and welcome to this year's summary annual report. This summary reports on an exciting, action-packed and challenging year for the Society – a year which saw the formation of The Midcounties Co-operative. In it, you will find lots of information on the new Society, a look at the achievements over the past year and how they reflect our co-operative values in practice. There is also an overview of the results and the financial performance from your Board of Directors.

But before you read on, we would like you to take another look at the words on the front cover of this summary. These words are not just there to look pretty – they are words that are important to us as a co-operative. We aim to be open and honest in all our practices, we want to be rewarding to members, colleagues and customers, we want to be known as trustworthy, to be seen to be championing appropriate ethical causes and to be viewed as both responsible and caring in what we do.

In short, we want to be a co-operative of which you can be very, very proud indeed. With your support this is what we are working to achieve.

# introducing... a co-operative for the future ►

On 24 September 2005, The Midcounties Co-operative was created by the merger of Oxford, Swindon & Gloucester Co-operative Society and West Midlands Co-operative Society. The Society is now firmly established as the fourth largest co-operative society in the UK.

The merger brought together two societies which were trading strongly and which had, at their hearts, a belief in the values and principles that make a successful, co-operative business. The merger was the biggest event of the last 12 months and the whole process was an enormous one. The great effort of all those involved cannot be overstated and it is a lasting tribute to everyone involved that the society has emerged in the strong position it has. We are now a Society with a current membership of 189,000 and participating members of both former societies voted almost unanimously for the merger to take place.

## in your area

The Society now trades across an area which spans from Buckinghamshire to the Forest of Dean and from Swindon to Shrewsbury as is shown on the map below. The diversity of this area means we trade in both urban and rural areas reaching a wide range of communities.





service

### at your service

The Society is a major business with several different trading groups. Our largest business is food and we now operate 150 food retail stores, ranging from large supermarkets to small village stores. Our policy of continually updating our stores and bringing in the latest in retail technology has made us one of the most forward-thinking co-operative businesses. We have 35 pharmacies and are proud that we have embraced the important role that pharmacies play within the community today by developing the community pharmacy model. We run 33 Co-op Travel outlets, of which two are travel superstores offering our members and customers the best of service and the largest range of holiday choice in the areas in which they trade. We have an on-line travel business which has put us at the forefront of this fast developing trend in the holiday business. The Society now runs 68 funeral homes, where giving the best possible service is our number one aim. We have eight motor sites, which trade as Motorworld and feature Volvo, VW, Mazda, Mitsubishi and Hyundai dealerships. Our childcare business, Imagine Co-operative Childcare, currently operates six nurseries and has launched a new fast-growing childcare voucher scheme.

### part of the community

Although we are a large organisation we are still firmly rooted in our co-operative values and principles. As an organisation owned by local people in our local communities, we know that we are part of those communities and that we have an important role to play in supporting them. Each year we return a large proportion of our profits back to local people through initiatives such as our highly popular Co-operative Community Dividend scheme.

We are a co-operative business at the heart of the community – welcome to The Midcounties Co-operative.



community

# building our new co-operative

Last year provided us with major competitive and economic challenges, including unprecedented levels of competition in food, depressed demands for cars and travel and surging cost increases for items such as electricity. It has taken a great deal of hard work, commitment and, above all, a true belief in our co-operative future for The Midcounties Co-operative to emerge proudly from the former Oxford, Swindon & Gloucester Society and the West Midlands Society.



### food

Trading in this market was ferociously competitive owing to the very aggressive expansion and marketing activities of our major competitors. Despite this, we are now serving one million customers every week in our food retail outlets. We know how important it is to give them the best possible service and last year we made good our commitment to invest in the communities in which we trade. We opened new stores, in Wootton, Oxfordshire and Croughton, Northamptonshire.

We also delivered our promise to return to locations where we have previously traded by launching new convenience stores in Witney and Wheatley in Oxfordshire. The year brought some tough commercial decisions such as the sale of the supermarket at Cam, Gloucestershire and the closure of stores at Orlit Estate, Oxford, Seymour Road, Gloucester and Winchcombe. However, the proceeds from sales are reinvested back into the business not least in the refurbishment of some 17 stores. There has been a lot to do to fully integrate people and systems following the merger, but we have emerged with the approach of 'one team, one business' truly in place.

### motor

Nationally, demand for new vehicle sales declined by 5.5% for 2005 compared with 2004. We were not immune from this trend, which led to an erosion of margins as manufacturers fought hard to maintain their share of registrations. Overall we sold 1733 new cars and 1825 used cars compared with 1398 new and 1604 used the previous year. We were especially pleased to retain our Investors in People accreditation, even under the new, tougher monitoring. It will now provide a framework for continuous improvement which will benefit customers and colleagues alike. Pleasingly, we acquired new Mazda dealerships in Swindon and Newbury, and since our year end a Volvo and Hyundai dealership in Wolverhampton.



## personnel service



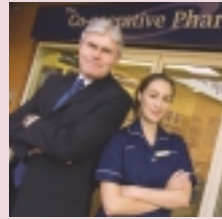
## travel

Despite finding itself in a cut-throat and volatile market, the Travel group continued to develop its services and its staff. This focus led to public recognition, when we were voted again as Travel Agent of the Year in the Walsall People's Choice awards. We were pleased to open a new travel unit in Sedgley near Dudley and to launch a new on-line flight booking service, called Co-operative Flights. We are working hard to develop our on-line travel business, in line with a very clear market trend for more travel bookings to take place over the internet. Trade with members is also most important and the launch of a travel club for members has been well received. The group also introduced foreign exchange facilities into all branches in the southern region.



## funeral

The year started very strongly for the group with funeral numbers being well ahead of forecast. However, they reduced as the year progressed in line with a decline in the death rate. We invested heavily in premises and vehicles to maintain the levels of service that our customers have grown to expect. Much work has taken place to bring together the systems from the northern and southern regions and this has included the relaunch of the well respected pre-paid funeral plan. A new funeral home was opened in Sedgely in September and our memorials business in Highworth near Swindon was relocated. Many staff achieved their diplomas and certificates in management, as we sought to support colleagues in their personal development plans and activities.



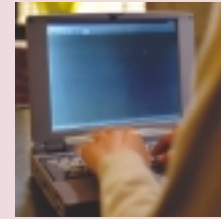
## pharmacy

Pharmacies provide an important service to the community and investment in this area is important. The programme to convert branches to the new Co-operative Pharmacy image, provides new, improved local services and has seen the introduction of consultation rooms where advice can be given about giving up smoking, the use of medicines and where customers can speak privately to a pharmacist. The first day of trading for The Midcounties Co-operative was a happy occasion, with a new pharmacy being opened in Swindon. This was the first pharmacy to be opened in the southern region. A new pharmacy has been acquired in Wolverhampton, and the Blakenall pharmacy in Walsall has moved to a centre which also houses the doctors' surgery – again highlighting the key role of pharmacies in the community.



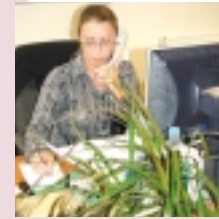
## childcare

Childcare group has continued to improve its services both locally and on a national basis. All our nurseries have received a good or satisfactory rating from inspections carried out by the Office for Standards in Education (OFSTED) and, in our own survey, there was an overall 92% satisfaction rating from parents and carers. More childcare places have been taken up and the group has won a contract to operate a nursery at the major regional hospital in Oxford. The new Childcare Voucher business was launched in April 2005 and now has over 100 client contracts. It is early days yet but we have won some important, large customers which is an encouraging pointer for the future of this new business.



## domains

We may be known as The Midcounties Co-operative but our Domains group is reaching out to the world. Now rebranded as domains.coop, it has sold over 1,500 domain names to co-operatives across the globe and has renewed the contract to operate the .coop domain name registry. Last year saw the launch of new partnerships with co-operatives in the USA, Latin America and South East Asia, as well as here in the UK. In September domains.coop exhibited at the International Co-operative Alliance General Assembly in Colombia.



## co-operative IT

Co-operative IT's main focus this year has been on servicing the Society's internal information technology (IT) needs and it is a testament to the co-operative way in which our groups work together that so much has been achieved. The development of the intranet system was a major initiative to improve group communications and was extended successfully into the southern region at the time of the merger. Major challenges have included the implementation of Chip and Pin and rolling out a new retail till system. As with all our groups, the merger created a number of significant challenges and opportunities for IT colleagues and it has taken a lot of hard work to integrate systems and to ensure a continuity of service.



## property

Within a large and diverse organisation such as ours, the Property group plays an important part, not least in relation to major sales. Last year the sale of Cam, Threeways House in Oxford and Didcot brought in proceeds of nearly £30 million. During the year, it also completed a number of significant projects on behalf of our trading groups. For food it has been successful in gaining planning approval for further developments at Wotton-under-Edge in Gloucestershire, Long Hanborough in Oxfordshire, Codsall near Wolverhampton and Stourport in Worcestershire. The group also leased the new store at Wootton in Oxfordshire and the new motor dealership in Newbury.



## personnel services

The Midcounties Co-operative is a people business and we have encouraged and supported many colleagues in their training needs. Personnel Services group has designed a duty management programme for staff in food, which 166 colleagues have now completed. This means better trained colleagues in our branches. However, the group's main priority for the year was unquestionably to support the merger and to ensure that all the things that matter to our 6,285 colleagues were thought through and solutions implemented. All of this work made a very strong contribution to the smooth and successful progress of the merger to date.

# finance

## finance

The Finance group has faced a number of challenges as a result of the merger. It has had to bring together two accounting systems and redistribute some financial functions between Oxford and Walsall. Considerable effort has also been given to aligning the accounting policies of the two businesses. The group achieved these actions and it can now focus on increasing the support it provides to other groups in the Society in the coming year.



## membership

Members, colleagues, community and customers are the important words here. In the southern region, nine new members were elected to the Active Members' Support Group. This group is now focused on how we communicate with members and how we encourage them to campaign on issues that matter to them at a local, regional and national level. Colleague members are focusing on a consistent member benefits message, and work is being done to invigorate the member groups. In September a major conference was held on health – an example of members getting together locally to focus on issues of national concern. In the northern area, work has begun to recruit and engage new members and to provide involvement opportunities for existing members. New materials are currently being produced and a programme of events is being finalised.

Members have continued to reap great benefits from the superdividend scheme with 97% of vouchers redeemed from the first voucher payout. There are now more than 117,000 members using their superdividend cards and, in the annual members' survey, 50% of members stated that the card was of real value to them. Our members have also shown that they care about local communities by donating more than £12,000 in the form of their superdividend vouchers to charity. Members in the northern region are now able to enjoy the benefits of superdividend following its roll out in February 2006.



# membership

## community

Our absolute commitment to work with the community has put the Society in the top ten of the PerCent Club list, a national list of businesses that put the most of their profits back into the community. Our return of 12.4% meant the Society was shown to return the highest percentage of its profits, amongst retailers, easily beating the major multiples.

Support for the communities that we serve has continued to develop. The flagship Co-operative Community Dividend Scheme was successfully relaunched. Across the society a total of £113,844 was donated. The list of groups helped ranged from a talking newspaper for the blind to a transport initiative for unemployed people in rural areas. Colleagues donated voluntarily a total of 1,932 hours of their time and a bursary to



The Outward Bound Trust enabled 80 children to attend a residential centre in Wales. The chance to spread the co-operative message was seized as we supported 14 festival events, attended by an estimated 42,000 people.

We have been leading the way in supporting individuals and communities to help themselves by setting up or developing co-operative enterprises, through our continued funding of Co-operative Futures. It has helped us

to put together this year's Co-op Directory which has been widely circulated to encourage co-operators to trade with other co-operatives.

The Society also supported the Co-operative Party, which actively lobbied candidates to adopt policies promoting co-operatives in the 2005 elections. The Party has developed a new strategy to fulfil its aims to advance co-operative enterprise in the sphere of politics.



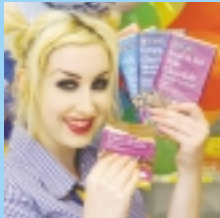
# community

# campaigning



## campaigning

We continue to campaign about issues that our members have told us are important to them. Last year, we concentrated on the issues of health, community, Local Harvest and Fairtrade, using stores, events and carefully designed literature to inform members, customers and the wider community. Our Local Harvest campaign has been praised by the leading national countryside charity Rural Revival as being one of the best in the country and we continue to increase the number of local products available in our stores. In our surveys, 94% of members said they wanted more local produce and our campaign has certainly delivered.



As a co-operative retailer we believe we should be informing people about healthy lifestyle choices. Our Honest to Goodness campaign highlighted healthy eating issues including child obesity and the problems it can lead to. Over the year we worked with schools and ran interactive events in stores to get the message across in a balanced and positive way. As part of the national brand trial in Thame, we conducted a customer survey which confirmed that issues surrounding health and young children were indeed the issues that our members and customers agreed we should be tackling.

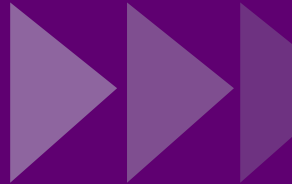
We believe that our co-operative purpose is to work towards a better, fairer world, and our continued commitment to supporting Fairtrade is a testament to this. We are now focusing on hard hitting messages to raise awareness of the need for a fairer trading system, and to show members and customers how they can make a difference. During Fairtrade Fortnight we ran a road show which visited 11 of our stores and engaged with over 6,000 people, including local school children and youth groups.

## proud to be a Co-op

In Thame and Kidderminster our retail, travel, pharmacy and funeral groups all came together to take part in a pioneering, national project to trial a new co-operative identity. This new identity may mean that co-operatives across the country will be united in the future in the way they appear and how they trade, thus strengthening our presence in the retail market. As part of the trial our branches in the two towns were given a new look, inside and out, with the focus being on communicating co-operative values and providing the best of service. The results of the trial will be seen later this year.



# measuring our performance



## democratic participation

As a co-operative business, we must ensure that we always uphold the co-operative values and principles that underpin our operations. As part of this we are now reporting on our social and co-operative performance using a standard set of indicators required by Co-operatives UK. This system is being adopted by co-operatives across the country.



## member economic involvement

Trade with our members accounted for 22.1% of the Society's total sales of £421m.

We aim to increase member sales through the introduction of **superdividend** to the Northern region.



## member democratic participation

In 2005, a total of 24,902 members voted in the Society's elections. This represents 6.0% of our total members and 13.2% of our current members, a slight decrease on the previous year. Attendance at members' meetings was 1,148 compared with 664 in 2004, this increase was particularly due to the interest in the proposed merger.



## participation of members and colleagues in training and education

The average amount of training received per active member is 43 minutes. This is based on an active membership figure of 7,810. The average learning hours per colleague, based on 6,285 employees, is 5.1 hours per employee per year.

# economic involvement



gender & ethnicity  
absentee rates



staff injury and absentee rates

The total number of incidents reported was 516. The total number reported under RIDDOR (Reporting of Injuries Diseases and Dangerous Occurrences Regulations) was 17. The average number of absence days per full-time employee is 14.82.

staff profile – gender and ethnicity

At the year end the Society employed a total of 6,285 colleagues, consisting of 2,158 males (34.3%) and 4,127 females (65.7%). There were a total of 436 women in management grades (52.6% of total management).

Currently 316 colleagues have an ethnic minority background. This represents 5.0% of the total colleagues employed by the Society.

customer satisfaction

Our statistics over the year show that 90.2% of our customers are satisfied with the services that the Society provides. This figure is derived from customer satisfaction surveys conducted by all trading groups and represents the average score weighted by the relative size of each trading group.

customer satisfaction



investment decisions

ethical issues

consideration of ethical issues in procurement and investment decisions



As a regional consumer co-operative, engaging almost exclusively with UK businesses, the Society does not directly face the full range of ethical issues associated with procurement and investment decisions. It is however committed to working with businesses that have clear policies for the sound sourcing of products.

The Society is a member of the Co-operative Retail Trading Group, which is a member of the Ethical Trading Initiative (ETI) and is working to both ETI and International Labour Organisation (ILO) principles and standards. The Society also sources products and services from a number of other UK co-operatives.

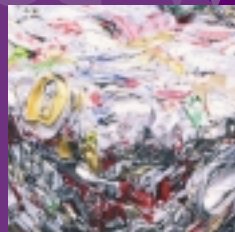
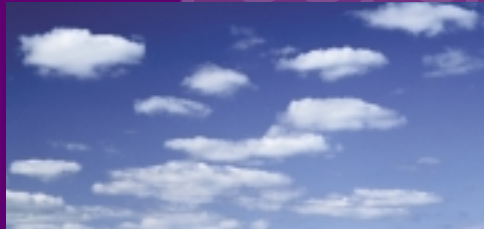
At a local level, the Society is committed to promoting the sale of Fair Trade products across its trading area and has in place a Local Harvest

programme that supports businesses within the Society's trading area. The Society has also been represented on steering groups in a number of towns seeking to achieve Fair Trade status within its region.

The Society's small number of long-term investments are held in other UK co-operative businesses and it is committed to promoting the wider acceptance of the mutual business model. The Society is a founder member of the Black Country Reinvestment Society, a community development finance institution that provides loan funding for social enterprises across the Black Country and has recently subscribed for shares in Westmill Wind Farm Co-operative Limited.

# investment in community

# recycled waste



## investment in community and co-operative initiatives

The total investment across the region during the year in community and co-operative initiatives was £687,573 which represents 5.6% of profit before taxation. This figure is derived from the total time, resources and money donated and invested. The co-operative element of this amount, which supports the promotion and development of other co-operatives, was £142,500 or 1.2% of profit before taxation.

## net carbon dioxide emissions arising from operations

During the financial year, the Society generated 31,817 tonnes of CO<sub>2</sub> from energy used for all on-site operations excluding transportation. This is the first year that this figure has been measured and reported and is being used to set a benchmark for future years.

## proportion of waste recycled/reused

The Society will be appointing a new energy and environment manager to look at this. Surveys conducted prior to the merger suggest that the combined Society generates 19,046 tonnes of waste and that 50% of this is reused or recycled.

# co-operative initiatives

# directors' report

The last year has been one of great opportunities and great challenges; of highs and lows but also one of great determination. The co-operative we report on here is not the one we reported on 12 months ago but one forged from two societies, both successful in their own right. They have come together to form The Midcounties Co-operative – a co-operative for the future that is firmly built on co-operative values and principles.

## 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 we experienced 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.

We have incurred significant non-recurring costs in preparing for and implementing the merger. Overall, 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 level. Allowing for the loss of trade from disposals in 2005 would show that the underlying trading profit increased by some 30%.

During the year, we 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

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

Turnover consists entirely of sales made in the United Kingdom.

The transfer of engagements of West Midlands Co-operative Society Limited has increased 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.

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.

# the year in brief

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 (OSG) and £26m is the value of net assets transferred from the former West Midlands Co-operative Society (WMCS). 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 WMCS. 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.

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 WMCS. 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. More details on the Society's accounts are shown on pages 20 to 23, or you can request a copy of the full Annual Report and Financial Statements by telephoning 0800 435902 free or by visiting [www.midcounties.coop](http://www.midcounties.coop).

The major event of the year was, of course, the merger which is reported in detail on pages three and four. This was a major achievement and one that we have fully supported throughout. We would like to take this opportunity to thank our colleagues for their support and commitment, and thank our members for their vision and their support in what has been a very important year for the Society.

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.



## moving ahead

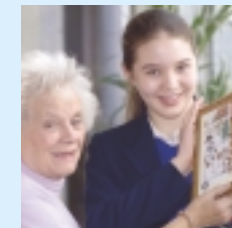
It has been a challenging and, at times, difficult year. However, we are now looking forward to the coming year when we can make our co-operative society one which our members and colleagues will be proud of.



From left to right

Back row: Patrick Gray, Martin Burton, Isobel Burbidge, Geoff Hurmson, Jim Postles, Anne Ransome, Donald Morrison, Helen Wiseman, Michael Swan, Alan Sutton, Colin Nyland, John Boot, Barrie Naylor.

Front row: Irene Edgar, Bob Burlton (chief executive), Doreen Shaw (vice president), Vivian Woodell (president), Steve Allsopp (vice president), Ben Reid (chief executive designate), Shelia Allen.



On behalf of the Board of Directors

*Vivian Woodell*     *D M Shaw*     *S.P. Allsopp*

Vivian Woodell - President

Doreen Shaw - Vice President

Steve Allsopp - Vice President

moving ahead

# and finally...

## it's farewell from him... and hello from him!

In June Bob Burlton will step down from the role of chief executive. Under his leadership, this Society has become one of the most well respected, forward thinking and successful societies in the country and, above all, one that has retained co-operative values at its heart.

Bob became chief executive of the Oxford & Swindon Society in 1987, a society that many said was beyond rescue. Never one to walk away from a challenge, Bob led the Society back to profitability and then through a merger with the failing Gloucester & Severnside Society. The newly formed Society grew from strength to strength and last year, following the successful merger with West Midlands Co-operative Society, The Midcounties Co-operative was formed.

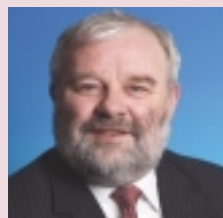
The Society has grown to be the fourth largest in the country, one that is seen as the foremost example of MOCA (marketing our co-operative advantage) in the world and as a pioneer of leading edge technologies. The Society has led the way in its commitment to support its communities and to engage its members. The table shows figures which reflect how far the Society has come.

	1986	2005
Sales inc VAT (£M)	104	421
Trading Profit (£000) exc one-offs	2	6,274
Net Profit (£000)	(622)	15,039
Colleagues	2027	6,800
Share Capital (£M)	2.2	30.9
Net Assets (£M)	14.9	146.2

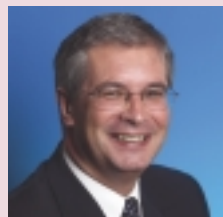
Bob has always shown his commitment to the co-operative movement nationally and has held many positions over the years, including that of chair of Co-operatives<sup>UK</sup>, president of Congress in 1999 and member of the Co-operative Commission 2000-2001. He is currently chair of the Co-operative Group and Co-operative Financial Services, and world president of the Consumer Co-operatives sector of the International Co-operative Alliance. He will devote more time to these roles after June. Bob has always believed that the Society should be a successful, co-operative, business with the emphasis on all three words. The fact that it can now be described in those words owes much to Bob's leadership – a successful, co-operative entrepreneur, with the emphasis firmly on co-operative.

Stepping into the role of chief executive is Ben Reid, chief executive of the former West Midlands Co-operative Society since 1992 and current chair of Co-operatives<sup>UK</sup>. Ben first joined West Midlands in 1988 as deputy chief executive having previously worked for both Leicestershire and Ilkeston Societies. During his time with West Midlands, it was transformed from a loss making business to a profitable, forward thinking Society with committed staff and good community links.

Ben is a well respected figure and was named as Midlands Business Leader of the Year in 2005. He holds the positions of chair of the Walsall Urban Regeneration Company and chair of Business in the Community, Regional Leadership Team. Ben also has extensive links with the business and regeneration communities in Walsall and the Black Country. Ben is looking forward to taking The Midcounties Co-operative through new challenges and successes in the coming years.



Bob Burlton



Ben Reid

# auditors' statement

## Statement of the independent auditors to members of The Midcounties Co-operative Limited

We have examined the members' summary annual report.

This statement is made solely to the Society's members as a body, in accordance with our terms of engagement dated 23 January 2006. Our work has been undertaken so that we might state to the Society's members those matters we are required to state to them in such a statement 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 work, for this statement, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the members' summary annual report in accordance with applicable United Kingdom law. Our responsibility is to report to you our opinion on the consistency of the financial summary on pages 20-22 with the full Annual Report. We also read the other information contained in the members' summary annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statements.

### Basis of opinion

We conducted our work having regard to Bulletin 1999/6 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom. Our report on the Society's full Annual Report describes the basis of our audit opinion on those financial statements.

### Opinion

In our opinion the amounts included in the financial summary are consistent with the full Annual Report of The Midcounties Co-operative Limited for the year ended 28 January 2006.

KPMG LLP  
Chartered Accountants  
Registered Auditor  
Birmingham  
10 April 2006

# financial statements

## group revenue account

for the 53 weeks ended 28 January 2006

	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
<b>Turnover</b>	<b>358,186</b>	313,012
Cost of sales	<b>255,448</b>	227,491
<b>Gross profit</b>	<b>102,738</b>	85,521
Expenses	<b>99,373</b>	79,463
Trading profit comprises:		
<b>Underlying trading profit</b>	<b>6,274</b>	3,445
Exceptional items	<b>2,909</b>	(2,613)
<b>Trading profit</b>	<b>3,365</b>	6,058
Profit on sale of properties, investments & businesses	<b>13,091</b>	893
<b>Profit before interest</b>	<b>16,456</b>	6,951
Net interest payable	<b>1,448</b>	1,374
Other finance (income)/costs	<b>(31)</b>	91
<b>Profit before dividends and grants</b>	<b>15,039</b>	5,486
Members dividend	<b>1,944</b>	1,165
Grants and other member benefits	<b>834</b>	334
<b>Profit before taxation</b>	<b>12,261</b>	3,987
Taxation	<b>2,338</b>	2,132
<b>Transfer to reserves</b>	<b>9,923</b>	1,855

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 Limited businesses from 25 September 2005, the date of transfer. The results for 2005 have been restated on adoption of FRS 21 (Events after the balance sheet date) and FRS 25 (Financial instrument disclosures) in these financial statements.

## group balance sheet

as at 28 January 2006

	2006 £'000	2006 £'000	2005 £'000 (restated)	2005 £'000 (restated)
<b>Fixed assets</b>				
Intangible assets		<b>4,485</b>		11,575
Tangible assets		<b>196,231</b>		107,291
Investments		<b>7,497</b>		761
		<b>208,213</b>		119,627
<b>Current assets</b>				
Stocks	<b>28,734</b>		20,627	
Debtors	<b>34,721</b>		13,299	
Investments	<b>8,430</b>		5,229	
Cash at bank and in hand	<b>19,861</b>		1,433	
	<b>91,746</b>		40,588	
<b>Current liabilities</b>				
Amounts falling due within one year:				
Creditors	<b>73,695</b>		35,393	
Loans and bank overdraft	<b>4,413</b>		12,008	
	<b>78,108</b>		47,401	
<b>Net current assets/(liabilities)</b>		<b>13,638</b>		(6,813)
<b>Total assets less current liabilities</b>		<b>221,851</b>		112,814
<b>Long term liabilities</b>				
Amounts falling due after more than one year:				
Creditors	<b>13,222</b>		4,754	
Loans	<b>31,738</b>		18,111	
		<b>44,960</b>		22,865
<b>Provisions for liabilities and charges</b>				
Deferred taxation		<b>4,858</b>		3,452
<b>Net assets excluding pension fund liability</b>		<b>172,033</b>		86,497
<b>Net pension liability</b>		<b>25,825</b>		6,119
<b>Net assets including pension fund liability</b>		<b>146,208</b>		80,378
<b>Financed by:</b>				
Share capital		<b>30,933</b>		25,866
Revaluation reserve		<b>46,954</b>		9,577
Revenue reserve		<b>68,321</b>		44,935
<b>Members' funds</b>		<b>146,208</b>		80,378

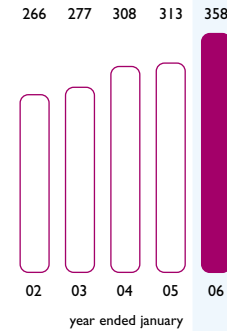
# group cash flow statement

for the 53 weeks ended 28 January 2006

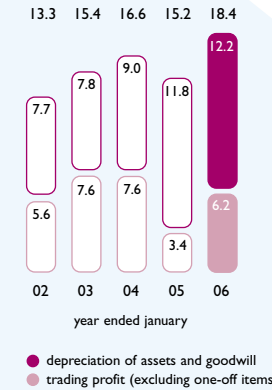
	2006 £'000	2005 £'000
Net cash inflow from operating activities	15,851	10,862
Returns on investments and servicing of finance	(2,955)	(3,204)
Taxation:		
UK Corporation Tax paid	(1,095)	(1,169)
Capital expenditure & disposals and financial investment	19,287	(18,202)
Acquisitions and disposals of businesses	(983)	(5,150)
<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	(12,791)	4,600
Financing	(8,070)	2,863
<b>Increase/(decrease) in cash</b>	<b>9,244</b>	<b>(9,400)</b>
<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 & finance leasing	7,464	(2,816)
Cash outflow/(inflow) from increase/(decrease) in liquid resources	12,791	(4,600)
<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	(17,103)	-
Decrease/(increase) in net debt	12,396	(16,816)
Net debt at 22 January 2005	(28,686)	(11,870)
<b>Net debt at 28 January 2006</b>	<b>(16,290)</b>	<b>(28,686)</b>

# performance - 5 year comparisons

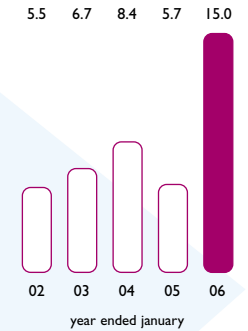
turnover £m  
(restated)



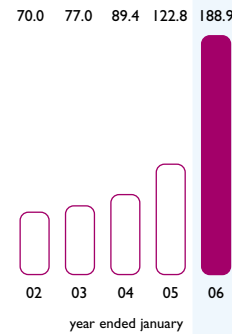
underlying trading profit\*



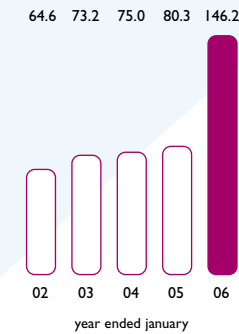
profit before distributions £m\*



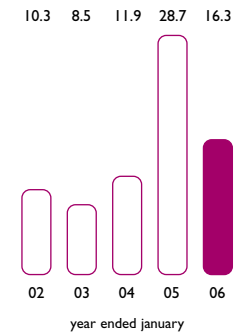
number of current members ('000s)



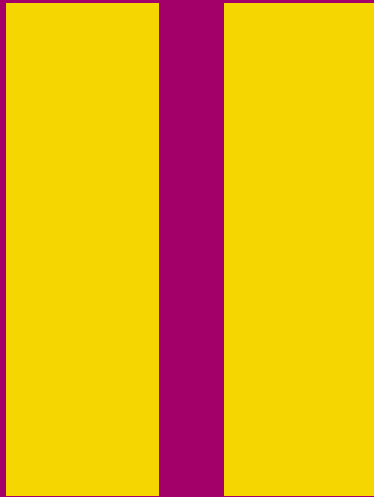
net assets £m\*



net debt £m



\* figures for 2002 to 2004 have not been restated for FRS 21. Figures for 2002 and 2003 have not been restated for FRS 17.



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