

The Midcounties Co-operative

# ANNUAL REPORT 2007

For the 52 weeks ended 27 January 2007



*"To create a better, fairer world"*

The **co-operative**

# The Midcounties Co-operative

## What is 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.

*The International Co-operative Alliance statement on the Co-operative Identity, Manchester 2005*

Co-operatives subscribe to certain values and principles enshrined by the International Co-operative Alliance.

## 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.

- 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

## The Midcounties Co-operative

The Midcounties Co-operative is a consumer co-operative, subscribing to co-operative values and principles. Our main activities are in retailing, with food, motor, funeral, pharmacy, travel, childcare and post office outlets. We are also engaged in property management and own the '.coop' domain name business.

Our aim is to be a successful consumer co-operative working towards creating a better, fairer world, and to enhance the lives of our colleagues, members, customers, and the communities we serve.

We trade across an area which covers Buckinghamshire to the Forest of Dean and Swindon to Shrewsbury as shown below. The diversity of this area allows us to reach a wide range of communities which we are proud to serve.



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# Directors and Advisors

## DIRECTORS

Vivian Woodell - president  
Steve Allsopp - vice-president  
Doreen Shaw - vice-president  
Martin Alder  
Sheila Allen  
Martin Burton  
Irene Edgar  
Patrick Gray  
Geoff Hurmson  
Barrie Naylor  
Jean Nunn-Price - elected October 2006  
Jim Postles  
Anne Ransome  
Alan Sutton  
Michael Swan  
Helen Wiseman  
John Boot - retired October 2006  
Isobel Burbidge - retired October 2006  
Donald Morrison - retired October 2006  
Colin Nyland - retired October 2006

## REGISTERED OFFICE

Co-operative 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

## WEST MIDLANDS REGIONAL BOARD

Doreen Shaw - chair  
John Boot  
Irene Edgar  
Norman Heywood  
Geoff Hurmson  
Margaret Jarvis  
Barrie Naylor  
Alan Sutton  
Michael Swan  
Derek Watkins



*back row left-right;  
Ben Reid, Geoff Hurmson, Steve Allsopp,  
Patrick Gray, Vivian Woodell, Alan Sutton,  
Irene Edgar*

*front row left-right;  
Doreen Shaw, Martin Burton, Michael Swan,  
Helen Wiseman, Anne Ransome,  
Barrie Naylor, Jim Postles*

# Senior Management Executive

## SENIOR MANAGEMENT EXECUTIVE

Ben Reid - Chief Executive

Kevin Brown - Group General Manager, Support Services

Bob Burlton - Strategic Projects Executive

Paul Byrne - Group General Manager, Pharmacy

Peter Couchman - Group General Manager, Co-operative Membership & Community Support

Andy Cresswell - Group General Manager, Food Retail

Simon Fisher - Group General Manager, Funeral

Richard Holmes - Group General Manager, Property Professional Services

Geoff Hurmson - Group General Manager, Travel

Alan Miller - Group General Manager, Information Services

Edward Parker - Secretary & Head of Governance

Trish Poole - Group General Manager, Personnel Services

Steve Ridler - Group General Manager, Commercial Services

Richard Shepherd - Group General Manager, Motors



# Directors' Report

The Directors have pleasure in presenting the Society's annual report and audited financial statements for the 52 weeks ended 27 January 2007. This represents the first full year for the Society following the merger of the former Oxford, Swindon & Gloucester and West Midlands co-operative societies in September 2005.

## The Co-operative Difference

It has been a busy and challenging year in which a considerable amount of work has been done to consolidate the two businesses. All our groups have risen to this challenge meeting it with resourcefulness and innovation. Highlights of our activities during the last 12 months can be found on pages 8-11. You will see from these that, despite the challenges presented by the merger, it has been a year of expansion and investment.

We would like to pay tribute to the work of all our groups. The trading groups have produced a strong trading performance in the face of ever increasing competition, whilst the support groups have had a demanding year integrating and improving systems to keep the Society operating in an efficient and cost effective way. We are very pleased to report that many of our groups have achieved the Investors in People accreditation under the new, much higher standards and we are confident that our other groups will join them this year.

The new Society has re-affirmed its commitment to be a successful co-operative business. Throughout all our work the principles that set us apart from other businesses have shone through. We continue to be in the top five retailers in the country when it comes to supporting our local communities – as shown by our placing in the national PerCent club list, and we are proud that all our groups are involved with their communities. Our colleagues have given over 3,200 hours of their time to provide hands on help within their communities and our flagship Co-operative Community Dividend scheme continues to make a real difference by supporting projects which benefit so many people.

We have also continued to seek to improve the lives of people in other countries by giving our full support to Fairtrade products. Last year our "Choose it for them" campaign was deliberately hard-hitting and the rise in sales of Fairtrade products endorsed this approach. Our trading groups are now working more closely together to ensure a consistent and focused message to our campaigning, the first results of which were seen in the new year, when our food and pharmacy groups both campaigned on health issues using a common approach. Results were encouraging and we will be looking to take this further during the year ahead.

Our support for local food has also grown with the Local Harvest Scheme expanding to include more suppliers and products. We were particularly delighted with the success of the members' conference, which focused on Local Sourcing and showed just how passionately members care about these issues. In addition, we have continued to support the promotion of other forms of co-operative enterprises with our ongoing support for Co-operative Futures, the Black Country Reinvestment Society and Westmill Windfarm.

The Society now has 447,394 members. Of this number, over 155,000 are known to be actively supporting us by shopping in our stores. During the year, an additional 29,194 members joined the Society and in total £633,067 was returned to members in the form of dividend.

We are currently working with the Co-operative Group with a view to being able to use our dividend cards in their stores and vice versa. If we can achieve this we believe it will represent a major step forward in providing a unified co-operative face to members and customers. This, combined with an exciting new programme of events, such as an online forum where members can share their initiatives, concerns and ideas, should make 2007 a rewarding one for our members.

The creation of the new co-operative brand took several important steps forwards during the year. The Society has now committed to rolling out the brand, a process that will take some time, but we are pleased that a number of food, funeral, travel and pharmacy branches have already been converted with very positive results.

This year's election brought together a new Board of Directors. We would like to thank the directors who were not successful in being re-elected for all their loyal service to the Society. We hope they too will be proud of what they have helped to achieve.

Finally, we were delighted to announce the acquisition of the Stars chain of convenience stores and news shops shortly after Christmas. The acquisition completed on 2 March 2007 and has brought a further 150 convenience stores and newsagents into the Society, together with some 3,000 new colleagues. This provides an exciting opportunity to take forward our retail business and broaden the Society's reach.

We look forward to the year ahead and to building on the successes that have been achieved this year. There is no doubt the retailing climate will be challenging but we are confident that our strategy of improved performance aligned to engaging our membership, is one that will deliver real results. Once again, we would like to thank you for your continued support and involvement in The Midcounties Co-operative.

# Directors' Report (continued)

## Financial review

Comparison of this year's results with those from last year is very difficult, as last year, which covered a period of 53 weeks, comprised eight months of trading for the Oxford, Swindon & Gloucester society and four months for the merged Midcounties society. Nonetheless, it is clear from the results that the Society has made very good progress through the year.

Overall, gross sales including VAT were £597m compared with £421m in the previous year. Turnover (excluding VAT and agency sales adjustment) was £465m compared with £358m for the previous year. The underlying trading profit for the year (excluding one-off costs and profits) was £9.6m. The equivalent figure in the previous year was £6.3m, although these two figures are not directly comparable.

During the year the Society incurred significant non-recurring costs in implementing the merger. These are included in a charge of £2.9m for exceptional costs. The financial statements also reflect an exceptional credit of £7.6m in respect of past service costs for the Society's two defined benefit pension schemes relating to changes to benefits made during the year.

Trading profit for the year after non-recurring items was £14.3m compared with £3.4m in the previous year.

The Society generated profits from the sale of properties and businesses totalling £0.6m during the year. Net interest payable and other finance costs for the year amounted to £2.0m.

The overall effect of the above is that profit before dividends and grants was £13.0m compared with £15.0m in the previous year.

Owing to a change in accounting standards in 2005, the sums reported for distributions for the previous year represent allocations of profits spanning two years. In comparison, the sums reported as distributions for the year to January 2007 only include the interim dividend payment approved by members in November 2006. Distributions include the dividend paid to members, the money returned to local communities and the funding given for co-operative development.

The Society transferred £8.3m to reserves at the end of the year compared with £9.9 million for the previous year.

When looking at the Society's balance sheet, net assets have increased to £163.7m from £146.2m. Of this increase, £5.2m relates to uplifts in the valuation of Society properties. Members' share capital fell by £1.0m during the year to £29.9m as a result of net withdrawals by members. The revaluation reserve increased from £47.0m to £50.5m and revenue reserves increased from £68.3m to £83.3m.

The Society enjoyed a strong cash flow from operations during the year, generating a cash inflow of £18.0m. Expenditure on capital projects and acquisitions resulted in a net cash outflow for the year of £15.4m. Dividend and share interest payments to members, together with interest paid on borrowings, represented a cash outflow of £4.3m. £1.0m of cash was repaid to members as a result of net withdrawals of share capital and the Society made taxation payments of £0.9m.

The result of the above cash flows was an increase in net debt of £3.5m to £19.8m. This represents a gearing ratio of 12.1%, which gives the Society significant scope to develop the business in the future.



The co-operative

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# Directors' Report (continued)

## TRADING HIGHLIGHTS

### Retail

Trading continued to be very difficult throughout 2006, with pricing becoming increasingly competitive. However, by focusing on ethical trade and our store standards we have continued to serve over one million customers a week. Our co-operative difference remained a key business driver through the year. We supported Fairtrade in more stores than ever during Fairtrade Fortnight and continued to serve more rural communities throughout our trading area than any other retailer. We have also worked closely with the Village Retail Services Association (ViRSA) to support a number of local community stores.

We have partnerships with 29 Local Harvest suppliers and are pleased to provide our members and customers with quality, locally sourced goods, at the same time as supporting local businesses. This year we are looking to support our existing suppliers in increasing both their presence and product offering within this market. During the year we also introduced a new range of 'Healthy Living' products packaged under the new 'co-operative' brand.

It is essential that the standards of our store environments are maintained, so we were pleased to have refurbished a number of our stores during the period. These included Didcot and Cowley, which both adopted the new 'co-operative' brand fascia, bringing our total re-branded stores to nine. Other highlights were the launch of new stores on the Cowley Road in Oxford and at Long Hanborough in Oxfordshire, a new build constructed to the latest environmental standards which has been a great success, and the refurbishment of our Chilled Distribution Centre to enable an improved service to our stores.

### Post Offices

We have added two new offices to our portfolio - one, a newsagent and post office in Long Hanborough and the other, the relocation of a Crown office into our Cowley store. This is our first new style open plan post office and has been well received by both customers and our post office team. We now have 35 post offices, with an income of almost £2 million a year, and are becoming a significant regional presence in the post office market.

We are pleased that the group's profitability has improved during the period, indicating that our strategy of supporting post offices within our local communities generates real benefits for all concerned.

### Motors

The new car market reduced by 5% nationally over the year. However, Motorworld's new car sales grew 6.7% on a like-for-like basis - a commendable result. We also saw real increases in the sales of used cars and increased demands for our service facilities. All in all, a positive year. Our Mazda Dealerships exceeded their targets for 2006 and Motorworld Swindon and Oxford were the top performers in the region for Quarter 4.

Motorworld Volkswagen at Iffley Road in Oxford, topped the area league for 2006 on the Volkswagen Balance Scorecard, achieving 89%. The Volkswagen team worked hard in 2006 to implement tighter and more robust processes across the business and we were pleased that this was recognised with Motorworld Volkswagen in Oxford and Kidlington both being awarded the Volkswagen Quality Management status.



# Directors' Report (continued)

The new Volvo C30 sports coupe arrived in our showrooms in early December and is part of Volvo's campaign to change perceptions of the Volvo brand and appeal to a younger target market. Customer reaction has been very positive and we look forward to this interest being converted into sales in the coming year. This sense of excitement was reinforced by the success of the Mazda MX-5 Roadster, where demand continues to outstrip supply. It does feel that we are set for a very positive 2007 with the exciting range of new cars at our disposal.

## Travel

We have continued to expand and develop our services. We purchased new branches at Finchfield and Wall Heath, near Wolverhampton, and acquired eight branches from Midlands Co-operative, including key locations in Cheltenham, Evesham, Hereford, Worcester and West Bromwich. In addition, new foreign exchange bureaux have been installed in a number of branches. Other developments have included the relocation of the travel branch into the centre of Gloucester, which has reopened as a Travel Ultra, and the launch of a new system, called Escape, which allows us to respond to the changing demands of our customers more efficiently.

We have also developed new business opportunities. We are now the official travel partner of Wolverhampton Wanderers Football Club and have agreed an affinity arrangement with Cannock Golf Club, which runs a holiday club for its members. We have also been using a promotional car supplied by Motorworld in a joint scheme to promote the Society's motor and travel businesses.

Working closely with the community has always been a priority for us and this year saw the appointment of our first community champion, who has already been involved in running activities in a number of schools. We anticipate this new resource will allow us to develop our community activities further during the coming year.

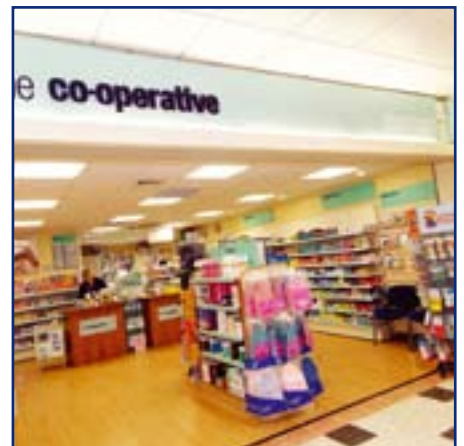
## Pharmacy

We were pleased to acquire pharmacies at Middleton Cheney and in Gloucester from local pharmacists, and also to acquire three pharmacies from the Co-operative Group at Chipping Norton, Gainscross and Lydney. We were also delighted to retain our Investor in People award in September, underlining our commitment to colleague development and training.

A new dispensary computer system was installed in all our pharmacies. This is key to ensuring that we can deliver the new requirements of the pharmacy contract. We also delivered 1,823 Medicines Use Reviews, an impressive total considering this was the first year that this new NHS service has been available.

Our links with the community have always been an integral part of the way we like to work and it is encouraging to report that pharmacy colleagues gave over 800 hours of community volunteer and support time to a variety of community projects through the year.

We also developed a healthy living programme for primary schools to support Government targets for tackling childhood obesity. Based around the character Healthy Hound, children learn about making healthy choices through fun activities. During 2007 our colleagues will deliver this programme to forty schools.



# Directors' Report (continued)

## Funeral

We have worked hard during the year to integrate our operations, the key objective being to maintain the highest possible standards for members and clients whilst introducing a consistent approach to administration. In September we were pleased to achieve the new standards required by Investors in People, which is a clear indication of the success of this integration.

During the year the Board supported a significant investment programme with major refurbishments at funeral homes in Banbury, Oxford and Gloucester and the opening of a new funeral home in Coleford in the Forest of Dean. In addition, we invested further in our Masonry Division with a refurbishment of Highworth Memorials near Swindon. In all, we invested over £1 million this year, a very significant sum.

We now have sixty nine funeral homes, of which seven are branded under the new 'co-operative' brand.

Our vehicles are the most visible representation of our standards. To this end we replaced four ceremonial vehicles in Banbury and one in St Mark's Road, Wolverhampton, to ensure the highest of standards are maintained.

## Childcare

Our Imagine Nurseries have continued to make steady progress in a highly competitive market where schools are increasingly making early years facilities available themselves. The nurseries we opened under the government's Neighbourhood Nursery initiative are now at the end of the period of grant support and are well on the way to sustainability.

We opened a new 96 place nursery at Oxford's John Radcliffe Hospital towards the end of the year. The nursery was purpose built as part of the construction of the new west wing of the hospital. A number of staff and children transferred to the nursery from the Radcliffe Infirmary and the facilities are already attracting enquiries from staff in other parts of the hospital complex.

Our Childcare Voucher business that also trades under the Imagine name achieved strong growth. The number of clients increased from 100 at the start of the year to almost 300 by the year end, and the business now provides childcare vouchers to over 5,400 working parents and regularly redeems vouchers from over 3,500 registered carers and nurseries.

In May the combined childcare businesses achieved Investor in People (IiP) recognition under the new, higher standards. There is a great deal of work required to establish the processes that form the foundations of the IiP standard and therefore this was a particular challenge for such a new group of businesses and a reflection of the commitment of all concerned.

## Domains & Co-operative IT

We continue to provide registry support to the .coop domain name, which is used by co-operatives all around the world. In 2006, domains.coop made good progress, selling almost 5,000 domain name years, including over 1,000 new registrations, despite a number of gaps in its worldwide network of sales partners.

During the year we made a number of changes to our operations, including bringing all computer facilities in-house, to improve efficiency and the service provided to customers.



# Directors' Report (continued)

The focus in 2007 will be on establishing strong relationships with potential sales partners to complete the coverage of the globe and realise the untapped potential of co-operators on the Internet.

Within our Co-operative IT business we continued to provide our well regarded development and support services to the Financial Services Authority and to Cadbury Schweppes. Elsewhere in the group, we transferred our content management environment business to a team of employees to take forward under independent ownership, whilst retaining a 20% stake.



*Motorworld's Volkswagen Kidlington dealership which was awarded Volkswagen Quality Management status in 2006*



# Directors' Report (continued)

## KEY SOCIAL AND CO-OPERATIVE PERFORMANCE INDICATORS

We believe it is important to measure our performance against our co-operative values and principles. Co-operatives across the country have adopted a standard set of key social and co-operative performance indicators to do this. Our results for the year are set out below.

### Member economic involvement

Trade with our members accounted for 18% of the Society's total sales.

We aim to increase member sales through cross marketing, the introduction of the new dividend card and scheme, and through our member engagement programme.

### Member democratic participation

In 2006 a total of 24,787 members voted in the Society's elections. This represented 17.9% of members entitled to vote. Attendance at members' meetings was 826 compared with 1,148 in 2005 (the increase in 2005 being due to the interest in the proposed merger). At the quarterly members' meeting in November 2006 members voted to change the democratic structure of the Society from four quarterly meetings to two meetings - the AGM and a series of half yearly meetings.

### Participation of members and colleagues in training and education learning hours

The average amount of training received per active member is 51 minutes per year. This is based on an active membership figure of 8,625. The Active Members' Support Group and the membership team are working together to ensure that members receive the maximum benefit from the training programme on offer.

The average learning hours per colleague is four hours.

### Staff injury and absentee rates

The total number of incidents reported during the year was 684. The total number reported under RIDDOR (Reporting of Injuries Diseases and Dangerous Occurrences Regulations) was 14.

The average number of absence days per full-time employee was five days.

### Staff profile – gender and ethnicity

We employed a total of 6,400 colleagues at the end of January 2007, consisting of 2,187 males (34%) and 4,213 females (66%). There are a total of 281 women in management grades (45%). Currently 257 colleagues have an ethnic minority background (4%).

### Customer satisfaction

Our statistics over the year show that 87.6% 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.

### Consideration of ethical issues in procurement and investment decisions

The majority of our procurement is done through our membership of the Co-operative Retail Trading Group (CRTG). We have supported the ethical buying policies of CRTG and have welcomed the publication of the Co-operative Group's Sustainability Report which makes a full and open declaration of its auditing of suppliers, the issues discovered and corrected.

We have also made a number of decisions regarding the sourcing of products and services. These include:

- ensuring that the benefits of Fairtrade products are promoted as well as the products themselves;
- seeking to work with local suppliers through our Local Harvest scheme;
- sourcing all our electricity from renewable energy sources;
- switching the majority of our stationery printing to recycled paper;
- appointing an Ethical Trading Manager in our retail group to co-ordinate the stocking and promotion of ethical products.

We continue to provide grants and investments to a number of organisations connected with the creation and promotion of new co-operative enterprises.

# Directors' Report (continued)

## Investment in community and co-operative initiatives

Our investment across the region in community and co-operative initiatives during the year amounted to £619,051 which represents 5.0% of profit before taxation. The 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 £99,000 or 0.8% of profit before taxation.

## Net carbon dioxide emissions arising from operations

Our carbon footprint at the end of the financial year was 18.96 tonnes of CO<sub>2</sub> per £1m of turnover. This has reduced significantly from 61.75 tonnes of CO<sub>2</sub> per £1m turnover at the end of the previous year. The main contributing factor being that all of our electricity is now sourced from renewable sources through a joint contract negotiated in conjunction with the Co-operative Group.

## Proportion of waste recycled/reused

At the end of the financial year we were recycling 50% of our waste. This includes the recycling of packaging materials through the Retail Distribution Centre. In addition, we recycle printer cartridges, paper and drinks cans from our business support centres.

## SUPPLIER PAYMENT POLICY & EQUAL OPPORTUNITIES

It is our policy to agree the terms of payment as part of the commercial arrangement negotiated with suppliers and then pay according to those terms once we receive an accurate invoice. Trade creditor days for the year under review were 27 days. This represents the ratio, expressed in days, between the amounts we are invoiced by our suppliers in the year and the amounts due at the year end to trade creditors.

We have also continued our policy of equal opportunities including the employment of people with disabilities. We ensure full and fair consideration is given to applications for employment where a disability is advised, having regard to particular aptitudes and abilities.

*Members voting at the 2006 AGM -  
democracy lies at the heart of all co-operative enterprises*



# Directors' Report (continued)

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND FINANCIAL STATEMENTS

The Directors are responsible for preparing the Directors' Report and the 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 Society and of the profit or loss of the Society 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; and
- 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.

The Directors are responsible for the maintenance and integrity of the Society 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

The Financial Statements are signed on behalf of the Board of Directors pursuant to Section 3A of the Friendly and Industrial and Provident Societies Acts 1968.

On behalf of the Board.



Vivian Woodell – president



Steve Allsopp – vice-president



Doreen Shaw – vice-president



Ben Reid – chief executive



Edward Parker – secretary

# Governance Report

## OVERVIEW

The Board is pleased to report on the governance policies and practices within the Society for the year ended 27 January 2007.

This report is published in accordance with the Code of Best Practice adopted by Congress in May 2005. The Code, which established a set of overarching governance principles together with 'key' and 'supporting' provisions, applies to all members of Co-operatives<sup>UK</sup> (the apex body for co-operative enterprises in the UK).

The Board has a responsibility to ensure that the Society complies with those recommendations in the Code that are appropriate to its circumstances and to report to members thus, and where this is not the case, to explain to members the reasons why. This report serves to discharge the Board of those obligations.

In order to assess the Society's level of compliance with the Code, the Board reviewed the Code's requirements in detail during the year. In broad terms, the Board believes the Society's governance arrangements are appropriate for an organisation of its size, nature and complexity, although there are a number of areas of the Code, detailed later in this report, where the Society does not comply.

The following sections in this report cover the key areas of governance as set down in the Code. The first section deals with membership, the heart of any co-operative enterprise. The second section concerns the Society's Board, a natural area for focus, given the power vested in the Board and the fundamental role it plays in setting the course of the Society. The third section covers internal control, providing assurance to members that this critical area receives sufficient attention. A formal statement of compliance follows. This sets out where the Society does not comply with the provisions of the Code. Finally, there is a separate Remuneration Report, detailing the Society's policies and practices in relation to the remuneration of its Directors and Senior Management Executive.

The Board is conscious that governance and related compliance matters can be difficult to convey, particularly within the confines of a formal report. As such, the Board would welcome questions and comments from members on this report at the Society's Annual General Meeting, or otherwise. In case of the latter, interested members should contact the Secretary in the first instance (contact details can be found on the back cover of this report).

A copy of the Code is available from the Secretary, or at [www.goodgovernance.coop/live/cme1013.htm](http://www.goodgovernance.coop/live/cme1013.htm).

## MEMBERSHIP MATTERS

Membership stands at the heart of any true co-operative enterprise and is vital to building the future of the Society.

Following the merger, the Society's membership team was strengthened in order to support the membership committees that oversee its membership programme. The work of these committees is detailed below. 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 engaged with the Society previously. In addition, the Society has more traditional member engagement channels – principally, the Annual General Meeting and the half yearly meetings. These are publicised through the Society's membership magazine, *The Difference*, on posters in all trading outlets, and at [www.midcounties.coop](http://www.midcounties.coop).

During the year the Society combined the work of the member services function, the dividend team and the member call centre in order to provide an improved service to members and more effective management of the membership register.

### Membership Committees

The Society has two membership committees, corresponding to the membership structures of the former Oxford, Swindon & Gloucester ('OSG') and West Midlands ('WM') societies prior to the merger. In the OSG Region the Society's membership programme is overseen by the Active Member's Support Group ('AMSG'). 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 processes in the WM Region.

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

The Board is seeking to develop a combined membership strategy that runs across the Society and a working group has recently been established to take this forward.

# Governance Report (continued)

## THE BOARD

This section provides detail on the Society's Board, its duties and responsibilities, how it is structured and the way it works. There is also detail on the Board's committees and the Regional Board.

### Society structure

It is helpful to remind members of the structure of the Society. Following the merger, the Society was split into two regions – the Oxford, Swindon & Gloucester Region (the OSG Region) and the West Midlands Region (the WM Region). The latter has a Regional Board with certain delegated powers, although there is no equivalent in the former.

### The Board - duties and responsibilities

The Board is responsible for setting the Society's objectives and strategy, monitoring the delivery by management of that strategy, and identifying and managing risk. In addition, and given the distinctive nature of co-operative societies, the Board 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. All Directors on the Board, which collectively is responsible for the success of the Society, are equally responsible in law for the Board's decisions and are bound by the overriding fiduciary duty to act in good faith in pursuit of the best interests of the Society as a whole.

The Society's rules prescribe certain duties and responsibilities that are the sole preserve of the Board. In addition, the Board has a formal schedule of matters reserved for its decision. The rules and the schedule include, for example, all matters concerning the determination and general operation of the Society's rules, all aspects of membership policy, the appointment and removal of the Chief Executive and the Secretary, approval of all funding arrangements and approval of property acquisitions and disposals above certain thresholds.

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

### Board procedures

The Board meets on a monthly basis 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. Papers are circulated in advance to give Directors the opportunity to prepare for meetings, and the minutes of all Board meetings are circulated to Directors for their review. Decisions made are actioned as appropriate by management.

In addition, the Board discusses and approves strategy and the Society's annual budgets at separate meetings and meets in private session without the presence of management as and when required.

### Independent advice

All Directors of the Society have access to the advice and services of the Society's Secretary. Furthermore, the Society's rules prescribe that one-third of the Board can request independent professional advice, funded by the Society, on questions relating to the governance of the Society or the conduct of its affairs.

### Board training and evaluation

The Board has set up a working group to review Board training, performance evaluation and induction to ensure robust and effective procedures are put in place for the future.

### Board size

There are sixteen Directors on the Society's Board. Ten Directors are elected by and from the members of the OSG Region (OSG Directors) and six are appointed by and from the WM Regional Board (WM Directors).

### Terms of office

The standard term of office on the Board is three years, although at present terms of office on the Board vary between one and three years, as transitional arrangements resulting from the merger are worked through. In addition, the Society's Rules prescribe that all Directors on the Board are required to resign in 2009 and, subject to meeting eligibility criteria, are free to stand for election again. However, in order to ensure continuity within the boardroom, a rule change is to be proposed at a Special Meeting to be held on 19 May 2007 that removes this requirement.

The Rules also prescribe that a director may be removed from office at any time by a two-thirds majority of the votes cast at a special meeting.

# Governance Report (continued)

## The President and Vice-Presidents

The Board is chaired by the President who is supported by two Vice-Presidents (one from each Region). The President is elected by the Board each year. The OSG and WM Vice-Presidents are elected by the OSG and WM Directors respectively each year. The President leads the Board in the determination of the Society's strategy and in the achievement of its objectives.

The President cannot be an employee of the Society and cannot act for more than six years. However, at the time of the merger a transitional rule change was approved that allowed the then President, whose term of office as President was due to expire at the time, to serve for an additional two years (if elected) in order to ensure continuity in the boardroom following the merger. The President is serving his second such additional year.

## Board independence

To ensure the Board retains its independence, the Society's rules prescribe that a director, their partner or close family cannot be engaged in a managerial capacity for any business which competes in a material way with the Society or for any supplier (other than a co-operative or social enterprise) that is reliant to a material extent on the Society. In addition, no more than six directors on the Board can be current employees or in receipt of a pension from the Society, and directors must resign their position at the next election following their 68th birthday, although in both cases, transitional arrangements, applicable to the former directors of West Midlands Co-operative Society now serving on the Board, are in place for a period of five years from the date of the merger.

The Secretary maintains a register to record any conflicts of interest that may arise for Directors and the Senior Management Executive of the Society. Formal updates to the register are requested at the end of each year, and individuals are charged with informing the Secretary at the first opportunity of any conflicts should they arise in the interim. The register is open to inspection by members and is reviewed by the Board once a year. In addition, at each Board meeting, directors are asked to declare any interests they may have in relation to the business on the agenda.

The Board believes the above measures serve to ensure the independence of directors and management is safeguarded.

## Directors' occupations

The table below lists the occupations of the current Board and Regional Board Directors.

| Name            | Occupation               | Name            | Occupation                            |
|-----------------|--------------------------|-----------------|---------------------------------------|
| Martin Alder    | Environmental consultant | Barrie Naylor   | Retired                               |
| Sheila Allen    | Retired teacher          | Jean Nunn-Price | Trainee solicitor                     |
| Steve Allsopp   | Resource manager         | Jim Postles     | Retired                               |
| John Boot       | Retired                  | Anne Ransome    | Trainer                               |
| Martin Burton   | Retail systems manager   | Doreen Shaw     | Retired                               |
| Irene Edgar     | Retired                  | Alan Sutton     | Accountant                            |
| Patrick Gray    | Economist                | Michael Swan    | Pharmacist                            |
| Geoff Humson    | Travel general manager   | Derek Watkins   | Retired                               |
| Norman Heywood  | Retired                  | Helen Wiseman   | HR consultant                         |
| Margaret Jarvis | Retired teacher          | Vivian Woodell  | Chief Executive of<br>The Phone Co-op |

The following Directors also hold other directorships:

- Martin Alder is a director of a number of organisations involved in renewable energy development and environmental issues, in particular, Wind Direct Limited. He is also a director of Co-operative Press Limited and Chair of Gloucestershire Land for People, a community land trust.
- Steve Allsopp is a director of Thamesdown Transport Limited, a council owned bus company.
- Patrick Gray is a director of Oxford Research Limited, an economic development consultancy.

# Governance Report (continued)

## Elections and director induction

Elections to the Board are conducted by way of postal ballots of all current members. The Society uses Electoral Reform Services, an independent body that specialises in running elections on behalf of member based organisations. Details of candidates are sent to members to help them cast their vote at the time of each election.

Elections for the OSG Directors onto the Board are held once a year in the autumn by and from members of the OSG Region. In 2006 there were 13 candidates standing for 10 vacancies.

Current arrangements for the induction of new directors involve meetings with the Society's Secretary and members of the Senior Management Executive. It is planned to introduce a formal induction programme for new directors in the year ahead, building on existing procedures.

## Board attendance record

The table below lists the attendance record of directors at Board, Regional Board and Committee meetings for the year under review. The figures show the number of meetings each director actually attended, against the number of meetings they were eligible to attend (this latter figure is shown in brackets):

| Director        | Board meetings | Audit & Risk Committee meetings | Remuneration Committee meetings | Regional Board meetings |
|-----------------|----------------|---------------------------------|---------------------------------|-------------------------|
| Sheila Allen    | 12(13)         | 2(3)                            | 6(6)                            |                         |
| Martin Alder    | 8(13)          | 3(4)                            |                                 |                         |
| Steve Allsopp   | 13(13)         | 3(3)                            | 6(6)                            |                         |
| John Boot       | 4(10)          | 1(2)                            |                                 | 7(11)                   |
| Isobel Burbidge | 9(10)          | 2(3)                            |                                 |                         |
| Martin Burton   | 11(13)         | 2(3)                            |                                 |                         |
| Irene Edgar     | 9(13)          | 1(3)                            |                                 | 11(11)                  |
| Patrick Gray    | 11(13)         | 0(3)                            |                                 |                         |
| Norman Heywood  |                |                                 |                                 | 10(11)                  |
| Geoff Humson    | 12(13)         | 2(3)                            |                                 | 10(11)                  |
| Margaret Jarvis |                |                                 |                                 | 8(11)                   |
| Donald Morrison | 9(10)          | 2(3)                            |                                 |                         |
| Barrie Naylor   | 12(13)         | 3(4)                            | 5(6)                            | 10(11)                  |
| Jean Nunn-Price | 3(3)           | 1(1)                            |                                 |                         |
| Colin Nyland    | 10(10)         | 3(3)                            |                                 |                         |
| Jim Postles     | 10(13)         | 1(3)                            |                                 |                         |
| Anne Ransome    | 10(13)         | 4(4)                            |                                 |                         |
| Doreen Shaw     | 13(13)         | 4(4)                            | 6(6)                            | 11(11)                  |
| Alan Sutton     | 12(13)         | 3(3)                            |                                 | 11(11)                  |
| Michael Swan    | 13(13)         | 4(4)                            | 5(6)                            | 10(11)                  |
| Derek Watkins   |                |                                 |                                 | 11(11)                  |
| Helen Wiseman   | 12(13)         | 3(3)                            |                                 |                         |
| Vivian Woodell  | 13(13)         | 3(3)                            | 6(6)                            |                         |

# Governance Report (continued)

## The Regional Board

The Regional Board has delegated powers to approve acquisitions, disposals and other transaction up to certain limits. It is also charged with developing membership activity in the WM Region. There are ten directors on the Regional Board, all elected by and from the members of the WM Region for three year terms. In May 2006 there were insufficient candidates standing for election to the Regional Board, thus those who stood were appointed unopposed. The Chair of the Regional Board is elected each year by and from the Directors on the Regional Board.

The Regional Board met eleven times in the year under review. Copies of the minutes of Regional Board meetings are made available to the Board for information.

It is planned to propose a rule change at a Special Meeting to be held on 19 May 2007 that seeks to disband the Regional Board as from October 2007. If this proposal is approved then direct elections for the WM Directors onto the Board by and from members of the WM Region will be held at the same time as elections for the OSG Directors onto the Board.

## BOARD COMMITTEES

The Board has delegated certain of its responsibilities to the Audit & Risk and Remuneration Committees, in order to help discharge its duties. Details of the Audit & Risk Committee are set out below. A full report on the Remuneration Committee is set out in the Remuneration Report on pages 23 to 26.

### THE AUDIT & RISK COMMITTEE

#### Remit

The Audit & Risk Committee's remit includes monitoring the integrity of the Society's financial statements, reviewing the effectiveness of the Society's internal control and risk management systems, monitoring and reviewing the work of the Society's external auditors and assessing their independence, and monitoring and reviewing the work of the Society's Audit & Risk function, including an assessment of the resources available to that function and the appointment or removal of the head of the function. The Committee is also charged with reviewing the Society's whistleblowing procedures.

Significant decisions by the Committee are referred to the Board for consideration.

#### Terms of reference

During the year the Board revised the Committee's terms of reference. The revised terms specify a Committee of at least four and no more than six directors (previously the entire Board were members of the Committee). Terms of office on the Committee are for two years, which may be extended for two further two year periods. The terms specify that the President of the Society cannot be a member of the Committee, nor can any directors who are also current employees of the Society or who have been thus within the previous 12 months.

#### Committee members

The current members of the Committee are:

Martin Alder – Chair  
Michael Swan – Vice-Chair  
Barrie Naylor  
Jean Nunn-Price  
Anne Ransome  
Doreen Shaw

The Society's Secretary acts as secretary to the Committee. The Group General Manager, Commercial Services and the Head of Audit & Risk attend the Committee's meetings.

#### Meetings

The Committee met four times during the year under review and has four scheduled meetings for the 2007/08 financial year. The Board is apprised of the Committee's proceedings at the next Board meeting following a Committee meeting. The Committee's minutes are also made available to the Board.

At least once each year the Committee has the opportunity to meet the external auditors and the Society's Head of Audit & Risk without the presence of management. In addition the Chair of the Committee maintains a dialogue with the external auditors and the Head of Audit & Risk between Committee meetings.

# Governance Report (continued)

## Auditor independence

To ensure auditor independence and objectivity is safeguarded, the Committee has a policy of monitoring any non-audit work undertaken by the Society's auditors. All non-audit engagements costing over £10,000 require formal approval by the Committee. In addition, should the value of non-audit work undertaken exceed the annual audit fee, then all subsequent non-audit related engagements require formal approval. During the year under review, non-audit work undertaken by the Society's auditors amounted to £80,000.

In addition the Society and its auditors have both adopted a policy whereby the audit engagement partner does not conduct the Society's audit for more than five years.

## Training

The Committee is to review its training and induction requirements during the forthcoming year to ensure robust mechanisms are put in place for the medium term.

## INTERNAL CONTROL

The Code of Best Practice charges the Board of Directors to review the effectiveness of the Society's system of internal control and to report formally on this review each year to members. The review should cover all material controls, including financial, operational and compliance controls and risk management. This section of the report sets out the Society's approach to internal control and the measures taken to review its effectiveness.

It should be noted that the Society's system of internal control 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.

### Internal control framework

The Board is ultimately responsible for the Society's system of internal control and for reviewing its effectiveness. In discharging these responsibilities the Board 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 Board approval;
- a comprehensive system of financial reporting – actual results together with budget comparisons are reported regularly to the Board throughout the year;
- Board review and approval of the annual budget and plans for each business group and support function;
- 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;
- a risk management process designed to monitor the major risks affecting the Society;
- an Audit & Risk function charged with reviewing the Society's system of internal control.

### Control procedures

Society control procedures are designed to ensure complete and accurate accounting of financial transactions and to limit the potential exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties, and reviews of processes by management, internal audit and the external auditors. In addition, it is Society policy that all board directors are also directors of the Society's trading subsidiaries, to ensure sufficient control is maintained.

### Risk management

The Board and the Senior Management Executive have primary responsibility for identifying and controlling the key risks facing the Society. In this regard, the Society operates a risk management process that aims to identify the key risks in each business group and support function. The risks are reviewed by the Senior Management Executive twice a year and by the Audit & Risk Committee at each of its meetings. Where weaknesses in controls are identified, action is taken at appropriate levels within the Society to implement control mechanisms, so as to mitigate the risks identified. Matters are reported to the Board as appropriate.

# Governance Report (continued)

## Monitoring

The Society's Audit & Risk function carries out independent reviews of operational and financial control procedures and the Society's risk management system. A risk-based approach is used to identify areas for attention. Reports containing recommendations and action plans to improve controls are issued to management. Follow-up reviews are made to ensure actions have been implemented. A summary of significant matters is reported to each meeting of the Audit & Risk Committee.

## Review processes

The processes used by the Audit & Risk 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 the Audit & Risk function and the external auditors on the system of internal control;
- discussing with management the actions taken to resolve issues identified in such reports;
- reviewing the effectiveness of the risk management process.

## Opinion

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

*The Society's funeral home in Banbury was refurbished during the year and rebranded with the new 'co-operative' branding*



# Governance Report (continued)

## STATEMENT OF COMPLIANCE

To help members assess the Society's governance arrangements, the Society is required to specify those elements of the Code with which it does not comply. This section covers this requirement. The matters listed will be kept under review by the Board.

Members should note that the Society is required to complete a compliance questionnaire, drawn up by Co-operatives<sup>UK</sup>, to enable a formal assessment of its compliance with the Code by Co-operatives<sup>UK</sup>. This questionnaire will be available to members on request. Those interested should contact the Secretary.

### Board size

The Board comprises sixteen directors. However, the Code recommends a maximum of fifteen directors. The number of directors on the Board is set in the Society's Rules and reflects the situation agreed at the time of the merger of the former Oxford, Swindon & Gloucester and West Midlands societies. It has been agreed to review the Rules in full in 2008. The number of directors on the Board will be included in this review.

### Society President

The Code recommends that the Society's President should not hold office for more than six years. However, at the time of the merger, a transitional rule change was approved that allowed the then President whose term of office as President was due to expire at the time, to serve for an additional 2 years (if elected) in order to ensure consistency in the boardroom following the merger. The President is serving his second such additional year.

### Search and selection committee

The Board has not set up a Search and Selection Committee (for the recruitment of potential directors) as recommended under the Code, as it believes that the current membership structures and processes it has in place are sufficient to attract candidates with the requisite abilities and co-operative credentials to stand for election to the Board.

### Professional external directors

The Society's Rules do not allow the co-option of professional external directors. The Board does not believe co-option is appropriate for a bona fide co-operative that believes in the principle of democratic member control. Should expert opinion be required by the Board, independent to that provided by management, the Board is content to engage external professionals on an as needs basis.

### Audit & Risk Committee membership

The Audit & Risk Committee does not contain at least one member with recent and relevant financial experience as recommended under the Code. The Directors of the Society are elected by and from the Society's members and currently no eligible director has the specific experience. Members of the Audit & Risk Committee are aware of this issue and will be addressing the matter through a training programme to be put in place during the forthcoming year.

### Board appraisal and evaluation

The Board has not undertaken a formal annual evaluation of its performance and has not conducted a skills audit. A working group has been set up to review these requirements and make recommendations to the Board.

On behalf of the Board.



Vivian Woodell  
President



Ben Reid  
Chief Executive



Edward Parker  
Secretary

# Remuneration Report

## OVERVIEW

The Board is pleased to present its Remuneration Report to members for the year ended 27 January 2007.

This report, which is published in accordance with the Code of Best Practice adopted by Congress in May 2005, aims to provide members with an overview of the Society's remuneration policies and practices for its Senior Management Executive, together with details of their remuneration and pension benefits. The report also provides details of the fees and other benefits available to the Society's directors.

The report will be presented at the Annual General Meeting on 19 May 2007 and be subject to an advisory vote by members.

### Remuneration policy

During the year, as part of the integration of the former Oxford, Swindon & Gloucester and West Midlands societies, the Board considered the overall reward strategy it wished to adopt for the remuneration and terms and conditions of employment of the Senior Management Executive. A policy of remunerating at the median level for organisations of a similar size and complexity within the retail sector was considered the most appropriate starting point from which to develop a robust strategy for the long term future of the Society.

The Board plans to develop this further, prior to delegating responsibility to the Remuneration Committee to take this forward.

### The Remuneration Committee

The Society's Remuneration Committee was established in 2003 with formal terms of reference set by the Board. These were refreshed in October 2005 following the merger.

The Committee acts within the overarching reward policy set by the Board and is charged with developing, monitoring and recommending changes to this policy as regards the remuneration and terms and conditions of employment of the Senior Management Executive.

The Committee comprises six directors. The President and two Vice-Presidents of the Society hold ex-officio positions, whilst the remaining three Committee positions are elected from amongst the directors on the Board on an annual basis. Directors who are current employees of the Society cannot serve on the Committee. The President acts as the Committee's Chair.

The current Committee members are:

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

The Committee holds meetings throughout the year as appropriate. In the year under review the Committee met six times. The minutes of all Committee meetings are made available to the Board and all Committee decisions are endorsed by the Board before implementation.

The Society's Secretary acts as secretary to the Committee. Representatives from management, in particular the Chief Executive and the Group General Manager, Personnel Services, are invited to attend as and when required. However, no executive can be present when their own remuneration is discussed.

### External advice

To assist with its work and to ensure the Committee receives independent advice, the Committee has retained The Monks Partnership, an established firm of remuneration consultants. Advice from Monks is sought on all significant matters considered by the Committee. In addition, where necessary, the Committee engages external lawyers for advice and guidance.

# Remuneration Report (continued)

## SENIOR MANAGEMENT REMUNERATION

Remuneration packages for the Senior Management Executive comprise basic salary, participation in the Society's incentive scheme, benefits-in-kind and pension provision

### Basic salary

Basic salaries are set around the median level for organisations of a similar size and complexity within the retail sector. They are reviewed every other year with the next such review due to take place in 2008. Details for the Senior Management Executive are given below (the notes form an integral part of the table):

| Name             | Employment commenced | Basic Salary<br>£ | Incentive Payment<br>£ | Benefits-in-kind<br>£ | 2006/07 total<br>emoluments £ | 2005/06<br>emoluments £ |
|------------------|----------------------|-------------------|------------------------|-----------------------|-------------------------------|-------------------------|
| Kevin Brown      | 6 March 1999         | 47,103            | 17,293                 | 5,996                 | 70,392                        | n/a                     |
| Bob Burlton      | 15 June 1987         | 284,644           | 0                      | 11,619                | 296,263                       | 285,523                 |
| Paul Byrne       | 27 August 1991       | 48,662            | 17,116                 | 2,729                 | 68,507                        | n/a                     |
| Peter Couchman   | 9 May 1994           | 91,622            | 18,281                 | 7,061                 | 116,964                       | 91,634                  |
| Andy Cresswell   | 8 April 2002         | 72,965            | 20,600                 | 3,454                 | 97,019                        | n/a                     |
| Simon Fisher     | 23 June 1997         | 42,288            | 14,270                 | 3,309                 | 59,867                        | n/a                     |
| Roy Frodsham     | 23 October 2000      | 69,803            | 33,835                 | 6,250                 | 109,888                       | n/a                     |
| Richard Holmes   | 1 November 1990      | 51,611            | 12,065                 | 5,334                 | 69,010                        | n/a                     |
| Geoff Hurmson    | 1 January 1982       | 54,401            | 7,828                  | 3,074                 | 65,303                        | n/a                     |
| Bill Laird       | 4 May 1999           | 29,858            | n/a                    | 1,960                 | 31,818                        | 168,690                 |
| Graham Lymn      | 15 April 1985        | 31,574            | n/a                    | 3,327                 | 34,901                        | n/a                     |
| Alan Miller      | 3 February 2000      | 106,892           | 21,524                 | 8,760                 | 137,176                       | 98,328                  |
| Edward Parker    | 6 January 2003       | 91,622            | 13,395                 | 9,213                 | 114,230                       | 34,263                  |
| Trish Poole      | 29 July 1985         | 106,892           | 18,798                 | 9,294                 | 134,984                       | 97,919                  |
| Ben Reid         | 1 March 1982         | 309,000           | 98,880                 | 15,129                | 423,009                       | 130,242                 |
| Steve Ridler     | 1 May 2000           | 160,649           | 26,355                 | 26,907                | 213,911                       | 59,524                  |
| Richard Shepherd | 25 January 1988      | 45,317            | 7,727                  | 6,569                 | 59,613                        | n/a                     |

### Notes

#### General

- Kevin Brown, Paul Byrne, Andy Cresswell, Simon Fisher, Roy Frodsham, Richard Holmes, Geoff Hurmson and Richard Shepherd joined the Senior Management Executive on 18 June 2006. The payments disclosed are from that date. No changes were made to their remuneration packages on joining the Senior Management Executive. Roy Frodsham left the Senior Management Executive at the end of the financial year.
- Bill Laird left the Society on 6 April 2006. The payments disclosed are for the period 29 January 2006 - 6 April 2006.
- Graham Lymn joined the Senior Management Executive on 18 June 2006 and left the Society on 30 November 2006. The payments disclosed are for that period.

#### Basic salary

- basic salary is the amount paid during the year.
- as part of the terms of the merger, it was agreed that the basic salaries of a number of positions within the Society would be protected until such time as the median salaries ('notional' salaries) for positions of a similar nature within a comparator group reached the protected levels. This was applied to the salaries of Ben Reid and Kevin Brown for the year under review. The protected levels are £376,267 for the year and £47,626 (for the period reported) respectively. The current notional salaries are disclosed in the table.

#### Incentive payment

- payments shown relate to the financial year 2006/07.
- Bob Burlton waived his incentive payment.

#### Benefits-in-kind

- Steve Ridler's benefits in kind include relocation costs of £15,609.
- Alan Miller, Edward Parker and Trish Poole receive a car cash allowance rather than a car. The current annual value of the cash allowance is disclosed as a benefit-in-kind.

#### 2005/06 emoluments

- emoluments for 2005/06 are shown for those executives who were members of the Strategic Executive (now the Senior Management Executive) at the time of the merger on 25 September 2005. Ben Reid, Edward Parker and Steve Ridler joined the Strategic Executive at that time, thus their emoluments disclosed are for the period 25 September 2005 - 28 January 2006. The remaining disclosures are for the financial year 2005/06.

### Incentive scheme

The Society's annual incentive scheme aims to drive improved business performance, through incentivisation on overall Society targets, personal objectives and group targets.

Members of the Senior Management Executive can earn an incentive payment of up to a maximum of either 25% or 35% of basic salary dependent on role. Threshold performance for each element in the scheme pays 20% of the maximum bonus achievable, and on-target performance pays 40%. Stretch performance is required to achieve the maximum payment.

# Remuneration Report (continued)

All payments are self-funded. When calculating targets in relation to the financial elements of the scheme, significant unbudgeted exceptional costs and windfalls are excluded.

Due to the circumstances of the merger and the handover of the Chief Executive role between Bob Burlton and Ben Reid effective 18 June 2006 individual arrangements were set for the year based on Society and personal objectives. Bob Burlton was entitled to a payment of up to 35% of basic salary and Ben Reid was entitled to payment of up to 42.5% of 'notional' salary.

The Board is considering the adoption of a long-term incentive plan for the three year period 2007/08 – 2009/10. However, no final decision has been made in this regard.

## Benefits-in-kind

The benefits-in-kind available to the Senior Management Executive comprise the provision of a car or a cash alternative, an annual medical check, and relocation and pension advice costs (if applicable).

## Pensions

During the year, all members of the Senior Management Executive except for Roy Frodsham were members of either one of the Society's two pension schemes – the Oxford, Swindon & Gloucester Co-operative Society pension scheme and the West Midlands Co-operative Society pension scheme. Both of these schemes are defined benefit career average schemes with similar terms as to benefits provided and contributions payable by members. Normal retirement is at age 65. Details are given below:

| Name             | Age at 27 January 2007 | Completed years of pensionable service at 27 January 2007 | Total accrued pension at 27 January 2007 (£ pa) | Increase in accrued pension during the period 28 January 2006 - 27 January 2007 (£ pa) |
|------------------|------------------------|---|---|--|
| Kevin Brown      | 44                     | 7   | 11,472  | 1,564  |
| Bob Burlton      | 58                     | 19  | 97,336  | 17,296   |
| Paul Byrne       | 50                     | 6   | 10,200  | 1,740  |
| Peter Couchman   | 46                     | 12  | 16,235  | 2,077  |
| Andy Cresswell   | 37                     | 4   | 10,070  | 1,954  |
| Simon Fisher     | 42                     | 9   | 13,298  | 1,424  |
| Richard Holmes   | 56                     | 15  | 19,385  | 2,064  |
| Geoff Hurmson    | 52                     | 17  | 27,217  | 2,116  |
| Alan Miller      | 43                     | 2   | 4,914   | 1,863  |
| Edward Parker    | 39                     | 4   | 5,144   | 1,833  |
| Trish Poole      | 46                     | 21  | 37,062  | 8,151  |
| Ben Reid         | 52                     | 18  | 150,002   | 10,606   |
| Steve Ridler     | 46                     | 6   | 19,905  | 8,334  |
| Richard Shepherd | 44                     | 14  | 14,200  | 1,635  |

## Notes

- it is the Society's policy that only basic salary is pensionable.

- the Society has a policy that those with over 25 years service in either pension scheme can retire penalty free from age 60, at the discretion of the Society. The Society has agreed that Bob Burlton can retire penalty free from age 60.

- following the changes to the taxation of pension schemes brought in with the advent of A-Day in April 2006, a policy was adopted whereby pensions advice is made available to any employee whose accumulated pension savings fall within 10% of (or over) the Lifetime Allowance. Any payments so made are treated as a benefit-in-kind. In addition, the Society has adopted a policy whereby any scheme member whose accumulated pension savings exceed the Lifetime Allowance can opt out of the Society pension scheme of which they are a member and receive a salary supplement of 16% in lieu. The level of this supplement is reviewed annually. No executive has taken this option.

- the table above discloses information as required under the Code of Best Practice. More detailed (and complex) tables as required under the Listing Rules and the Directors' Remuneration Regulations which are applicable to plcs, are available on request from the Secretary.

# Remuneration Report (continued)

## Service Contracts

The following notice periods for the Senior Management Team are in place:

- Chief Executive – 12 months
- Senior Management Executive – all 3 months, except for the Group General Manager, Commercial Services – 6 months

## Compensation payments

During the year, the positions of Chief Operating Officer, Trading, and General Manager Funeral Group, Southern were made redundant. Compensation payments of £230,000 and £109,000 were made respectively following negotiation with the individuals concerned and their union representatives.

In addition, the position of General Manager, Food was also made redundant. A compensation payment of £79,511 was made in accordance with the redundancy terms negotiated with NACO as a result of the merger.

## DIRECTOR FEES AND BENEFITS

The Rules of the Society require the fees and benefits available to directors to be approved by members. These were last approved shortly after the merger in November 2005. The fee levels proposed were designed to reflect the level of responsibility the role of a director in a co-operative society carries, whilst recognising the co-operative traditions of fairness and equity.

At the time, members also agreed to increase director fees in October each year by the percentage change in the national average earnings index over the previous 12 months. The relevant figure was 4.1% for October 2006. The following annual fees were payable to directors during the year under review:

|                           | Annual fee approved<br>November 2005 | Annual fee as from<br>October 2006 |
|---------------------------|--------------------------------------|------------------------------------|
| President                 | £8,250                               | £8,588                             |
| Vice-Presidents           | £7,250                               | £7,547                             |
| Board Directors           | £6,000                               | £6,246                             |
| Regional Board Directors* | £2,000                               | £2,082                             |

### Note

\*At the time of the merger, it was agreed that Regional Board directors who served on the Board of West Midlands Co-operative Society prior to the merger, but who were not appointed to the Board of the Society following the merger, should be paid a fee of £4,800 per year (£4,997 from October 2006) until their term of office expires.

The Board has set up a working group to review the level of fees paid to directors, with a view to making proposals to the AGM on 19 May 2007. The working group's brief encompasses consideration of the overall level of fees paid and additional payments to those directors who sit on the Society's principal committees.

In addition to the receipt of director fees, the Society's Staff Discount scheme is made available to directors and their partners, and 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 incurred 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 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 Board or Regional Board.

A number of directors are also members of either the Oxford, Swindon & Gloucester Co-operative Society pension scheme or the West Midlands Co-operative Society pension scheme, given that they either are or have been employees of the Society.

On behalf of the Board



Vivian Woodell  
President

# Independent Auditors' Report

## TO THE MEMBERS OF THE MIDCOUNTRIES CO-OPERATIVE LIMITED

We have audited the financial statements of The Midcounties Co-operative Limited for the year ended 27 January 2007 which comprise the Group Revenue Account, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses, the Note of Historical Cost Profits and Losses, the Reconciliation of Movements in Members' Funds 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, or 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 14, the Society's directors are responsible for the preparation of the Annual Report and 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 Acts 1965 to 2006 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 and if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report 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 Society'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 financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Society as at 27 January 2007 and of the Society'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 2006 and Industrial and Provident Societies (Group Accounts) Regulations 1969.

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

2 April 2007

# 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.

The group financial statements consolidate the financial statements of the Society and all its subsidiaries, as referred to in note 28. 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 52 weeks ended 27 January 2007 compared with a period of 53 weeks ended 28 January 2006.

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 includes 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 FRS 10 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 FRS 11, Impairment of Fixed Assets and Goodwill. Any impairment is recognised in the group revenue account in the year in which it occurs.

## **FIXED ASSETS AND DEPRECIATION**

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.

|                             |  |
|-----------------------------|--|
| 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 group revenue account over the estimated useful lives of the assets for which the grant was made.

Revenue based grants are credited to group revenue account over the periods to which they relate. Revenue based grants of £143,000 (2006: £336,000) 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.

*Mamie Goalby, the Society's Membership Development Co-ordinator, with children from Castle School, Bloxwich during Fairtrade Fortnight - the Society has been a long-standing supporter of Fairtrade*



# Statement of Accounting Policies (continued)

## 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 FRS 5, are included in stocks, even though legal title has not passed. The corresponding liability is included in creditors. In addition, commitments to repurchase vehicles subject to lease arrangements (which confer rights and obligations similar to those attached to owned assets with the corresponding liability reflected in creditors) are also included in stocks. 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 FRS 19.

*The Society's new store at Long Hanborough in Oxfordshire, designed to the latest environmental standards*



# Statement of Accounting Policies (continued)

## 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. Contributions to the defined contribution scheme are charged to the Revenue account as incurred.

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.

*Pharmacy Group's Healthy Hound spreads the word about healthy living*



# Group Revenue Account

For the 52 weeks ended 27 January 2007

|  | Note | 2007<br>£'000 | 2006<br>£'000 |
|--|------|---------------|---------------|
| <b>GROSS SALES</b>                                     |      | 596,571       | 420,862       |
| Less agency sales adjustment                           |      | 91,980        | 30,466        |
| Less VAT and other sales related taxes                 |      | 39,457        | 32,210        |
|  |      | <hr/>         | <hr/>         |
| <b>TURNOVER</b>  | 1    | 465,134       | 358,186       |
| Cost of sales  |      | 334,408       | 255,448       |
|  |      | <hr/>         | <hr/>         |
| <b>GROSS PROFIT</b>                                    |      | 130,726       | 102,738       |
| Expenses   | 2    | 116,386       | 99,373        |
|  |      | <hr/>         | <hr/>         |
| <b>UNDERLYING TRADING PROFIT</b>                       |      | 9,629         | 6,274         |
| Exceptional items                                      | 4    | 4,711         | (2,909)       |
|  |      | <hr/>         | <hr/>         |
| <b>TRADING PROFIT</b>                                  |      | 14,340        | 3,365         |
| Profit on sale of properties, investments & businesses |      | 631           | 13,091        |
|  |      | <hr/>         | <hr/>         |
| <b>PROFIT BEFORE INTEREST</b>                          |      | 14,971        | 16,456        |
| Net interest payable                                   | 5    | 1,856         | 1,448         |
| Other finance costs/(income)                           |      | 142           | (31)          |
|  |      | <hr/>         | <hr/>         |
| <b>PROFIT BEFORE DIVIDENDS AND GRANTS</b>              |      | 12,973        | 15,039        |
| Members dividend                                       | 6    | 541           | 1,944         |
| Grants and other member benefits                       | 7    | 33            | 834           |
|  |      | <hr/>         | <hr/>         |
| <b>PROFIT BEFORE TAXATION</b>                          |      | 12,399        | 12,261        |
| Taxation   | 8    | 4,083         | 2,338         |
|  |      | <hr/>         | <hr/>         |
| <b>PROFIT FOR THE YEAR AND TRANSFER TO RESERVES</b>    | 17   | 8,316         | 9,923         |
|  |      | <hr/>         | <hr/>         |

The results for 2006 relate to the 53 weeks ended 28 January 2006.

# Group Balance Sheet

As at 27 January 2007

|   | Note | £'000         | 2007<br>£'000  | 2006<br>£'000  |
|---|------|---------------|----------------|----------------|
| <b>FIXED ASSETS</b>                           |      |               |                |                |
| Intangible assets                             | 9    |               | 7,062          | 4,485          |
| Tangible assets                               | 10   |               | 201,588        | 196,231        |
| Investments                                   | 11   |               | 9,172          | 7,497          |
|   |      |               | <u>217,822</u> | <u>208,213</u> |
| <b>CURRENT ASSETS</b>                         |      |               |                |                |
| Stocks  | 12   | 31,511        |                | 28,734         |
| Debtors                                       | 13   | 37,494        |                | 34,721         |
| Investments                                   | 11   | 8,051         |                | 8,430          |
| Cash at bank and in hand                      |      | 13,345        |                | 19,861         |
|   |      | <u>90,401</u> |                | <u>91,746</u>  |
| <b>CURRENT LIABILITIES</b>                    |      |               |                |                |
| Amounts falling due within one year:          |      |               |                |                |
| Creditors                                     | 14   | 79,649        |                | 73,695         |
| Loans and bank overdraft                      | 15   | 760           |                | 4,413          |
|   |      | <u>80,409</u> |                | <u>78,108</u>  |
| <b>NET CURRENT ASSETS</b>                     |      |               | <b>9,992</b>   | <b>13,638</b>  |
| <b>TOTAL ASSETS LESS</b>                      |      |               |                |                |
| <b>CURRENT LIABILITIES</b>                    |      |               | <b>227,814</b> | <b>221,851</b> |
| <b>LONG TERM LIABILITIES</b>                  |      |               |                |                |
| Amounts falling due after more than one year: |      |               |                |                |
| Creditors                                     | 14   | 14,357        |                | 13,222         |
| Loans   | 15   | 32,425        |                | 31,738         |
|   |      |               | <u>46,782</u>  | <u>44,960</u>  |
| <b>PROVISIONS FOR LIABILITIES AND CHARGES</b> |      |               |                |                |
| Deferred taxation                             | 8(c) |               | 4,252          | 4,858          |
|   |      |               | <u>4,252</u>   | <u>4,858</u>   |
| <b>NET ASSETS EXCLUDING PENSION FUND</b>      |      |               |                |                |
| <b>LIABILITY</b>                              |      |               | <b>176,780</b> | <b>172,033</b> |
| <b>NET PENSION LIABILITY</b>                  | 27   |               | <b>13,073</b>  | <b>25,825</b>  |
| <b>NET ASSETS INCLUDING PENSION FUND</b>      |      |               |                |                |
| <b>LIABILITY</b>                              |      |               | <b>163,707</b> | <b>146,208</b> |
| <b>FINANCED BY:</b>                           |      |               |                |                |
| Share capital                                 | 16   |               | 29,910         | 30,933         |
| Revaluation reserve                           | 17   |               | 50,527         | 46,954         |
| Revenue reserve                               | 17   |               | 83,270         | 68,321         |
|   |      |               | <u>163,707</u> | <u>146,208</u> |
| <b>MEMBERS' FUNDS</b>                         |      |               | <b>163,707</b> | <b>146,208</b> |

# Group Cash Flow Statement

For the 52 weeks ended 27 January 2007

|  | Note | 2007<br>£'000   | 2006<br>£'000 |
|--|------|-----------------|---------------|
| Net cash inflow from operating activities  | 18   | 18,032          | 15,851        |
| Returns on investments and servicing of finance  | 19   | (4,261)         | (2,955)       |
| Taxation:  |      |                 |               |
| UK Corporation Tax paid  |      | (927)           | (1,095)       |
| Capital expenditure & disposals and financial investment                                       | 20   | (10,682)        | 19,287        |
| Acquisitions and disposals of businesses   | 21   | (4,689)         | (983)         |
|  |      | <hr/>           | <hr/>         |
| <b>NET CASH (OUTFLOW) / INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING</b>         |      | (2,527)         | 30,105        |
| Management of liquid resources   | 22   | 8,410           | (12,791)      |
| Financing  | 23   | (3,989)         | (8,070)       |
|  |      | <hr/>           | <hr/>         |
| <b>INCREASE IN CASH</b>  | 24   | <b>1,894</b>    | 9,244         |
|  |      | <hr/>           | <hr/>         |
| <b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT</b>                                 |      |                 |               |
| Increase in cash in the period   |      | 1,894           | 9,244         |
| Cash inflow from increase in debt and finance leasing  | 24   | 2,966           | 7,464         |
| Cash (outflow)/inflow from (decrease)/increase in liquid resources                             | 22   | (8,410)         | 12,791        |
|  |      | <hr/>           | <hr/>         |
| <b>Change in net debt resulting from cash flows</b>  |      | (3,550)         | 29,499        |
| Net debt acquired on the transfer of engagements of West Midlands Co-operative Society Limited |      | -               | (17,103)      |
|  |      | <hr/>           | <hr/>         |
| (Increase)/decrease in net debt  |      | (3,550)         | 12,396        |
| Net debt at 28 January 2006  |      | (16,290)        | (28,686)      |
|  |      | <hr/>           | <hr/>         |
| <b>Net debt at 27 January 2007</b>   | 24   | <b>(19,840)</b> | (16,290)      |
|  |      | <hr/>           | <hr/>         |

The figures for 2006 relate to the 53 weeks ended 28 January 2006.

# Group Statement of Total Recognised Gains and Losses

For the 52 weeks ended 27 January 2007

|  | 2007          | 2006          |
|--|---------------|---------------|
|  | £'000         | £'000         |
| Profit for the year  | 8,316         | 9,923         |
| Actuarial gain/(loss) on pension schemes (net of deferred tax) | 6,292         | (11,920)      |
| Reassessment of fair values (see note 17)                      | (500)         | -             |
| Unrealised surplus on revaluation of freehold properties:      |               |               |
| Excess of valuation over book value                            | 5,220         | 43,527        |
|  | <hr/>         | <hr/>         |
| <b>Total gains and losses relating to the financial year</b>   | <b>19,328</b> | <b>41,530</b> |
|  | <hr/>         | <hr/>         |

## Note of Historical Cost Profits and Losses

For the 52 weeks ended 27 January 2007

|   | 2007   | 2006   |
|---|--------|--------|
|   | £'000  | £'000  |
| Reported profit on ordinary activities before taxation        | 12,399 | 12,261 |
| Realisation of property revaluation gains of previous years   | 1,647  | 6,150  |
|   | <hr/>  | <hr/>  |
| Historical cost profit on ordinary activities before taxation | 14,046 | 18,411 |
|   | <hr/>  | <hr/>  |
| Historical cost profit for the year retained after taxation   | 9,963  | 16,073 |
|   | <hr/>  | <hr/>  |

## Reconciliation of Movements in Members' Funds

For the 52 weeks ended 27 January 2007

|  | note | 2007           | 2006           |
|--|------|----------------|----------------|
|  |      | £'000          | £'000          |
| Profit for the year  |      | 8,316          | 9,923          |
| Share interest (net of tax)  |      | (806)          | (717)          |
| Brought in on transfer of engagements of<br>West Midlands Co-operative Society Limited |      | -              | 25,622         |
| Reduction in share capital   | 16   | (1,023)        | (605)          |
| Other recognised gains relating to the period  |      | 11,012         | 31,607         |
|  |      | <hr/>          | <hr/>          |
| Net increase in members' funds   |      | 17,499         | 65,830         |
|  |      | <hr/>          | <hr/>          |
| Members' funds at 28 January 2006  |      | 146,208        | 80,378         |
|  |      | <hr/>          | <hr/>          |
| <b>Members' funds at 27 January 2007</b>   |      | <b>163,707</b> | <b>146,208</b> |
|  |      | <hr/>          | <hr/>          |

The figures for 2006 relate to the 53 weeks ended 28 January 2006.

# Notes to the Financial Statements

| 1. TURNOVER            | 2007<br>£'000         | 2006<br>£'000         |
|------------------------|-----------------------|-----------------------|
| Food                   | 325,390               | 270,119               |
| Motor                  | 72,395                | 54,912                |
| Funeral                | 20,166                | 12,758                |
| Pharmacy               | 31,867                | 10,451                |
| Travel                 | 7,420                 | 3,270                 |
| Childcare              | 2,304                 | 1,228                 |
| Care Homes             | -                     | 907                   |
| Co-operative IT        | 695                   | 730                   |
| Post Office commission | 1,791                 | 1,199                 |
| Internet domain names  | 345                   | 395                   |
| Consultancy            | 100                   | 74                    |
| Retail sales           | <u>462,473</u>        | <u>356,043</u>        |
| Property rentals       | 2,661                 | 2,143                 |
| Turnover               | <u><u>465,134</u></u> | <u><u>358,186</u></u> |

Turnover consists entirely of sales made in the United Kingdom.

In the prior year the transfer of engagements of West Midlands Co-operative Society Limited impacted on 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.

| 2. EXPENSES                                      | 2007<br>£'000         | 2006<br>£'000        |
|--|-----------------------|----------------------|
| Personnel costs (note 3)                         | 74,287                | 58,455               |
| less charged to cost of sales                    | <u>1,385</u>          | <u>1,250</u>         |
|  | 72,902                | 57,205               |
| Occupancy costs                                  | 12,735                | 9,810                |
| Hire of plant and equipment – operating leases   | 429                   | 366                  |
| Hire of land and buildings – operating leases    | 5,472                 | 3,324                |
| Depreciation of owned assets                     | 10,149                | 10,093               |
| Depreciation of assets held under finance leases | <u>101</u>            | <u>167</u>           |
| Total depreciation of tangible fixed assets      | 10,250                | 10,260               |
| Amortisation of intangible fixed assets          | 1,468                 | 1,899                |
| Total depreciation and amortisation              | 11,718                | 12,159               |
| Fees paid to auditors:                           |                       |                      |
| Audit  | 157                   | 176                  |
| Other  | 80                    | 172                  |
| Directors' fees                                  | 131                   | 83                   |
| Other expenses                                   | 17,473                | 13,613               |
| Exceptional items (note 4)                       | <u>(4,711)</u>        | <u>2,465</u>         |
|  | <u><u>116,386</u></u> | <u><u>99,373</u></u> |

# Notes to the Financial Statements

## 2. EXPENSES (continued)

Directors' remuneration

The total remuneration of the directors for their Board duties was as follows:

|      | 2007<br>£'000 | 2006<br>£'000 |
|------|---------------|---------------|
| Fees | <u>131</u>    | <u>83</u>     |

The number of directors whose emoluments fell in each £5,000 bracket was as follows:

|                  | 2007<br>Number | 2006<br>Number |
|------------------|----------------|----------------|
| £0 – £ 5,000     | -              | 17             |
| £5,001 – £10,000 | <u>16</u>      | <u>2</u>       |

The average number of directors during the year was 16.

## 3. EMPLOYEES

The average monthly number employed by the group was:

|           | 2007<br>Number | 2006<br>Number |
|-----------|----------------|----------------|
| Full-time | 3,718          | 2,693          |
| Part-time | <u>2,562</u>   | <u>3,676</u>   |
|           | <u>6,280</u>   | <u>6,369</u>   |

The costs incurred in respect of these employees were:

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| Salaries and wages                                       | 67,337        | 53,145        |
| Social security costs                                    | 4,341         | 3,400         |
| Other pension costs included in trading profit (note 27) | <u>2,609</u>  | <u>1,910</u>  |
|  | <u>74,287</u> | <u>58,455</u> |

## 4. EXCEPTIONAL ITEMS

|  | 2007<br>£'000 | 2006<br>£'000  |
|--|---------------|----------------|
| Exceptional costs                        | (1,644)       | (2,309)        |
| Impairment and right-off of fixed assets | (1,250)       | (600)          |
| Pension credit                           | <u>7,605</u>  | <u>-</u>       |
|  | <u>4,711</u>  | <u>(2,909)</u> |

Exceptional costs are mainly expenses incurred as a result of the transfer of engagements. No expenses were attributable to cost of sales during the year (2006: £444,000).

## 5. NET INTEREST PAYABLE

|                               | 2007<br>£'000 | 2006<br>£'000 |
|-------------------------------|---------------|---------------|
| Interest receivable (note 11) | (560)         | (336)         |
| Interest payable (note 15)    | <u>2,416</u>  | <u>1,784</u>  |
|                               | <u>1,856</u>  | <u>1,448</u>  |

Interest payable includes stocking charges of £235,427 (2006: £202,579)

# Notes to the Financial Statements

|  |              |              |
|--|--------------|--------------|
| <b>6. MEMBERS DIVIDEND</b>                                     | <b>2007</b>  | <b>2006</b>  |
|  | <b>£'000</b> | <b>£'000</b> |
| Members' dividend  | 541          | 1,210        |
| Community dividend   | -            | 295          |
| Co-operative development                                       | -            | 439          |
|  | <u>541</u>   | <u>1,944</u> |
| <br>   |              |              |
| <b>7. GRANTS AND OTHER MEMBER BENEFITS</b>                     | <b>2007</b>  | <b>2006</b>  |
|  | <b>£'000</b> | <b>£'000</b> |
| Active Members' Support Group grant                            | 33           | 636          |
| Staff involvement grant  | -            | 140          |
| Co-operative Party grant                                       | -            | 58           |
|  | <u>33</u>    | <u>834</u>   |
| <br>   |              |              |
| <b>8. TAXATION</b>   | <b>2007</b>  | <b>2006</b>  |
|  | <b>£'000</b> | <b>£'000</b> |
| <b>(a) Revenue account – analysis of charge for the period</b> |              |              |
| Current taxation:  |              |              |
| UK corporation tax of the period                               | 1,895        | 2,486        |
| Adjustment in respect of prior periods                         | 26           | (1,263)      |
| Total current tax  | <u>1,921</u> | <u>1,223</u> |
| <br>   |              |              |
| Deferred taxation:   |              |              |
| Origination and reversal of timing differences                 | 2,583        | (1,074)      |
| Adjustment in respect of prior periods                         | (421)        | 2,189        |
| Total deferred tax (note 8(c))                                 | <u>2,162</u> | <u>1,115</u> |
| <b>Tax on profit</b>   | <u>4,083</u> | <u>2,338</u> |

# Notes to the Financial Statements

## 8. TAXATION (continued)

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

The tax assessed for the period is lower (2006: lower) than the standard rate of corporation tax in the UK of 30%.

The differences are explained below:

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| Profit before tax  | 12,399        | 12,261        |
| Profit before tax multiplied by standard rate of corporation tax in the UK of 30%                    | 3,720         | 3,678         |
| Effects of:  |               |               |
| Expenses not deductible for tax purposes (primarily goodwill amortisation and building depreciation) | 774           | 1,136         |
| Depreciation in excess of capital allowances   | 438           | 777           |
| Short term timing differences  | (3,021)       | 297           |
| Profit on sale of properties subject to indexation and rollover relief                               | (16)          | (3,402)       |
| Adjustments to tax charge in respect of previous periods   | 26            | (1,263)       |
| <b>Current tax charge for period (note 8(a))</b>   | <b>1,921</b>  | <b>1,223</b>  |

### (c) Balance sheet

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| Corporation tax payable (note 14)                                    | 1,623         | 985           |
| Provision for deferred taxation:                                     |               |               |
| Accelerated capital allowances                                       | (13)          | 727           |
| Short term timing differences  | 4,265         | 4,131         |
|  | <b>4,252</b>  | <b>4,858</b>  |
| Provision at start of period   | 4,858         | 3,452         |
| Deferred tax charge in revenue account for period (note 8(a))        | 2,162         | 1,115         |
| Movement of deferred tax included in net pension liability (note 27) | (2,768)       | (294)         |
| Transfer of engagements  | -             | 585           |
| <b>Provision at end of period</b>                                    | <b>4,252</b>  | <b>4,858</b>  |

### (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

## 9. INTANGIBLE FIXED ASSETS

|                            | Purchased goodwill |
|----------------------------|--------------------|
| Cost                       | £'000              |
| At 28 January 2006         | 13,743             |
| Acquisition (note 21)      | 4,259              |
| Disposals                  | (144)              |
| Impairment                 | (120)              |
| <b>At 27 January 2007</b>  | <b>17,738</b>      |
| <b>Amortisation</b>        |                    |
| At 28 January 2006         | 9,258              |
| Charge for the year        | 1,468              |
| Disposals                  | (50)               |
| <b>At 27 January 2007</b>  | <b>10,676</b>      |
| <b>Net book value 2007</b> | <b>7,062</b>       |
| Net book value 2006        | 4,485              |

## 10. TANGIBLE FIXED ASSETS

|                            | Land & buildings | Investment properties | Plant, fixtures & fittings | Vehicles     | Total          |
|----------------------------|------------------|-----------------------|----------------------------|--------------|----------------|
| Cost or valuation          | £'000            | £'000                 | £'000                      | £'000        | £'000          |
| At 28 January 2006         | 150,744          | 21,631                | 60,501                     | 4,045        | 236,921        |
| Additions                  | 6,059            | 2,187                 | 5,863                      | 2,707        | 16,816         |
| Transfers                  | 3,506            | (3,506)               | -                          | -            | -              |
| Revaluation                | 4,154            | 928                   | -                          | -            | 5,082          |
| Disposals                  | (2,324)          | (436)                 | (3,896)                    | (3,143)      | (9,799)        |
| Impairment                 | (152)            | -                     | (100)                      | -            | (252)          |
| <b>At 27 January 2007</b>  | <b>161,987</b>   | <b>20,804</b>         | <b>62,368</b>              | <b>3,609</b> | <b>248,768</b> |
| <b>Depreciation</b>        |                  |                       |                            |              |                |
| At 28 January 2006         | 3,104            | -                     | 36,208                     | 1,378        | 40,690         |
| Provided this year         | 646              | -                     | 8,864                      | 740          | 10,250         |
| Disposals                  | (173)            | -                     | (2,952)                    | (497)        | (3,622)        |
| Revaluation                | (138)            | -                     | -                          | -            | (138)          |
| <b>At 27 January 2007</b>  | <b>3,439</b>     | <b>-</b>              | <b>42,120</b>              | <b>1,621</b> | <b>47,180</b>  |
| <b>Net book value 2007</b> | <b>158,548</b>   | <b>20,804</b>         | <b>20,248</b>              | <b>1,988</b> | <b>201,588</b> |
| Net book value 2006        | 147,640          | 21,631                | 24,293                     | 2,667        | 196,231        |

# Notes to the Financial Statements

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

|                               | Land & buildings |                | Investment properties |               |
|-------------------------------|------------------|----------------|-----------------------|---------------|
|                               | 2007<br>£'000    | 2006<br>£'000  | 2007<br>£'000         | 2006<br>£'000 |
| The net book values comprise: |                  |                |                       |               |
| At cost or valuation:         |                  |                |                       |               |
| Freehold                      | 148,047          | 132,044        | 20,804                | 21,631        |
| Long leasehold                | 6,412            | 9,555          | -                     | -             |
| Short leasehold               | 4,089            | 6,041          | -                     | -             |
|                               | <u>158,548</u>   | <u>147,640</u> | <u>20,804</u>         | <u>21,631</u> |

|   | 2007<br>£'000  | 2006<br>£'000  |
|---|----------------|----------------|
| The net book value of properties comprises: |                |                |
| <b>At cost less depreciation</b>            |                |                |
| Leasehold properties                        | 10,501         | 15,596         |
| <b>At valuation</b>                         |                |                |
| Freehold land & buildings                   | 148,047        | 132,044        |
| Freehold investment properties              | 20,804         | 21,631         |
|   | <u>168,851</u> | <u>153,675</u> |
|   | <u>179,352</u> | <u>169,271</u> |

|  | 2007<br>£'000  | 2006<br>£'000<br>(restated) |
|--|----------------|-----------------------------|
| The amounts included at valuation restated under the historical cost convention are: |                |                             |
| <b>Historical cost</b>   |                |                             |
| Investment properties  | 15,501         | 16,538                      |
| Land & buildings   | 116,061        | 101,751                     |
|  | <u>131,562</u> | <u>118,289</u>              |
| <b>Depreciation</b>  |                |                             |
| Land & buildings   | 13,238         | 11,568                      |
| <b>Net book value</b>  | <u>118,324</u> | <u>106,721</u>              |

The valuation in January 2007 was prepared on an open market basis by VSL and Partners, Chartered Surveyors and Richard Holmes FRICS, the Society's Group General Manager, Property Professional Services in accordance with RICS Appraisal and Valuation Manual.

The historical cost analysis for 2006 has been restated to exclude leasehold properties.

There were assets in the course of construction at 27 January 2007 of £5.5m (2006 £5.0m).

Freehold land with a cost of £32.1m (2006: £29.2m) has not been depreciated during the year.

There has been no transfer between revenue reserves and revaluation reserves for the difference between depreciation on historical cost and revalued properties on the grounds of immateriality.

# Notes to the Financial Statements

## 10. 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 28 January 2006         | 1,579                      |
| Disposals                  | (2)                        |
| <b>At 27 January 2007</b>  | <b>1,577</b>               |
| <br>                       |                            |
| <b>Depreciation</b>        |                            |
| At 28 January 2006         | 1,132                      |
| Provided this year         | 101                        |
| Disposals                  | (2)                        |
| <b>At 27 January 2007</b>  | <b>1,231</b>               |
| <br>                       |                            |
| <b>Net book value 2007</b> | <b>346</b>                 |
| Net book value 2006        | 447                        |

## 11. INVESTMENTS

| Cost                                    | Fixed         |               | Current       |               | Interest receivable<br>(note 5) |               |
|---|---------------|---------------|---------------|---------------|---------------------------------|---------------|
|   | 2007<br>£'000 | 2006<br>£'000 | 2007<br>£'000 | 2006<br>£'000 | 2007<br>£'000                   | 2006<br>£'000 |
| Co-operative Group<br>– ordinary shares |               |               |               |               |                                 |               |
| Other (I & P Societies)                 | 1,647         | 1,561         | -             | -             | 51                              | 51            |
| Funeral prepayment plans                | 59            | 59            |               |               | -                               | 2             |
| Mortgages                               | 7,386         | 5,797         | 8,048         | 8,427         | -                               | -             |
| Other investments                       | 15            | 15            | -             | -             | 1                               | 1             |
|   | 65            | 65            | 3             | 3             | -                               | -             |
| Other                                   | 9,172         | 7,497         | 8,051         | 8,430         | 52                              | 54            |
|   |               |               |               |               | 508                             | 282           |
|   |               |               |               |               | 560                             | 336           |

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 14 as falling due within one year, £1,593,000 (2006: £1,466,000), is expected to be realised within one year.

# Notes to the Financial Statements

| 12. STOCKS                     | 2007<br>£'000 | 2006<br>£'000 |
|--------------------------------|---------------|---------------|
| Work in progress               | 135           | 45            |
| Consignment stock              | 5,327         | 6,222         |
| Goods for resale               | 24,498        | 22,467        |
| Vehicle repurchase commitments | 1,551         | -             |
|                                | <u>31,511</u> | <u>28,734</u> |

| 13. DEBTORS           | Falling due within<br>one year |               |
|-----------------------|--------------------------------|---------------|
|                       | 2007<br>£'000                  | 2006<br>£'000 |
| Credit sales accounts | 26,248                         | 23,653        |
| Other debtors         | 8,248                          | 8,788         |
| VAT                   | -                              | 323           |
| Prepayments           | 2,998                          | 1,957         |
|                       | <u>37,494</u>                  | <u>34,721</u> |

| 14. CREDITORS                      | Falling due within<br>one year |               | Falling due after<br>more than one year |               |
|------------------------------------|--------------------------------|---------------|---|---------------|
|                                    | 2007<br>£'000                  | 2006<br>£'000 | 2007<br>£'000                           | 2006<br>£'000 |
| Trade creditors                    | 56,777                         | 53,795        | -                                       | -             |
| Corporation tax                    | 1,623                          | 985           | -                                       | -             |
| Other taxation and social security | 1,235                          | 1,183         | -                                       | -             |
| Accrued charges                    | 9,033                          | 11,045        | -                                       | -             |
| Vehicle repurchase commitments     | 1,551                          | -             | -                                       | -             |
| Dividend and grants                | 1,349                          | 2,159         | -                                       | -             |
| Funeral prepayment plans           | 1,593                          | 1,466         | 14,357                                  | 13,222        |
| Other creditors                    | 6,488                          | 3,062         | -                                       | -             |
|                                    | <u>79,649</u>                  | <u>73,695</u> | <u>14,357</u>                           | <u>13,222</u> |

Trade creditors includes £5,327,000 (2006: £6,222,000) 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 specific 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 27 January 2007, the assets of the scheme amounted to £15,434,000 (2006: £14,224,000) (see note 11).

# Notes to the Financial Statements

| 15. LOANS                               | Falling due within<br>one year |              | Falling due after<br>more than one year |               | Interest payable<br>(note 5) |              |
|---|--------------------------------|--------------|---|---------------|------------------------------|--------------|
|   | 2007                           | 2006         | 2007                                    | 2006          | 2007                         | 2006         |
|   | £'000                          | £'000        | £'000                                   | £'000         | £'000                        | £'000        |
| Savings stamp club                      | 37                             | 31           | -                                       | -             | -                            | -            |
| Obligations under<br>finance leases (a) | 388                            | 417          | 651                                     | 1,049         | 57                           | 51           |
| Bank loans (b)                          | 335                            | 3,965        | 31,774                                  | 30,689        | 2,124                        | 1,492        |
| Other                                   | -                              | -            | -                                       | -             | 235                          | 241          |
|   | <b>760</b>                     | <b>4,413</b> | <b>32,425</b>                           | <b>31,738</b> | <b>2,416</b>                 | <b>1,784</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 groups properties. The Society has entered into agreements that fix the interest rate on £3 million until October 2009, a further £4 million to 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 £12 million loan until full payment in June 2015.

| Loan amounts falling due:  | Finance leases |               | Other loans   |               |
|----------------------------|----------------|---------------|---------------|---------------|
|                            | 2007<br>£'000  | 2006<br>£'000 | 2007<br>£'000 | 2006<br>£'000 |
| within one year            | 388            | 417           | 372           | 3,996         |
| between one and two years  | 393            | 388           | 1,364         | 10,220        |
| between two and five years | 258            | 661           | 4,242         | 6,913         |
| after five years           | -              | -             | 26,168        | 13,556        |
|                            | <b>1,039</b>   | <b>1,466</b>  | <b>32,146</b> | <b>34,685</b> |

## 16. SHARE CAPITAL

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| At 28 January 2006   | 30,933        | 25,866        |
| Share capital brought in on transfer of engagements<br>of West Midlands Co-operative Society Limited | -             | 5,672         |
| Contributions  | 7,363         | 9,164         |
| Interest   | 1,059         | 1,024         |
| Withdrawals  | (9,445)       | (10,793)      |
| <b>At 27 January 2007</b>  | <b>29,910</b> | <b>30,933</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 5.8% 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

## 16. 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, 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.

|  | Revenue<br>reserve | Revaluation<br>reserve |
|--|--------------------|------------------------|
|  | 2007               | 2006                   |
|  | £'000              | £'000                  |
| <b>17. RESERVES</b>  |                    |                        |
| At 28 January 2006   | 68,321             | 46,954                 |
| Profit for the year  | 8,316              | -                      |
| Share Interest (net of tax)  | (806)              | -                      |
| Unrealised surplus on revaluation of properties  | -                  | 5,220                  |
| Realised on disposal of investment properties  | 1,647              | (1,647)                |
| Actuarial gain on pension scheme (net of deferred tax)   | 6,292              | -                      |
| Reassessment of fair values in respect of transfer of engagements<br>of West Midlands Co-operative Society Limited | (500)              | -                      |
| <b>At 27 January 2007</b>  | <b>83,270</b>      | <b>50,527</b>          |

As permitted by FRS 6, the fair values of the identifiable assets and liabilities of West Midlands Co-operative Society Limited as at the date of merger have been reassessed. The impact of this reassessment is to reduce net assets and revenue reserves by £500,000, principally in respect of fixed assets and accrued liabilities.

# Notes to the Financial Statements

## 18. RECONCILIATION OF TRADING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| Trading profit                                   | 14,340        | 3,365         |
| Additional fair value adjustments on merger      | (500)         | -             |
| Pension (credits)/charges to trading profit      | (4,996)       | 1,836         |
| Pension contributions                            | (4,374)       | (2,842)       |
| Exceptional charge (non cash)                    | 1,250         | 600           |
| Grants and donations                             | (130)         | (600)         |
| Depreciation & amortisation                      | 11,718        | 12,159        |
| Loss on sale of tangible fixed assets            | 20            | 24            |
| (Increase)/decrease in stocks                    | (2,447)       | 397           |
| Increase in debtors                              | (2,773)       | (6,156)       |
| Increase in creditors                            | 5,924         | 7,068         |
| <b>Net cash inflow from operating activities</b> | <b>18,032</b> | <b>15,851</b> |

## 19. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

|   | 2007<br>£'000  | 2006<br>£'000  |
|---|----------------|----------------|
| Interest received   | 560            | 336            |
| Interest paid   | (2,359)        | (1,727)        |
| Share interest  | (1,151)        | (979)          |
| Interest element of finance lease rentals                                   | (57)           | (26)           |
| Members' dividend paid  | (1,254)        | (559)          |
| <b>Net cash outflow for returns on investments and servicing of finance</b> | <b>(4,261)</b> | <b>(2,955)</b> |

## 20. CAPITAL EXPENDITURE & DISPOSALS AND FINANCIAL INVESTMENT

|   | 2007<br>£'000   | 2006<br>£'000 |
|---|-----------------|---------------|
| Purchase of tangible fixed assets   | (16,716)        | (16,067)      |
| Sale of tangible fixed assets   | 6,034           | 35,354        |
| <b>Net cash (outflow)/inflow for capital expenditure &amp; disposals and financial investment</b> | <b>(10,682)</b> | <b>19,287</b> |

# Notes to the Financial Statements

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

|                       | Book<br>value<br>£'000 | Fair value<br>adjustment<br>£'000 | Fair<br>value<br>£'000 |
|-----------------------|------------------------|-----------------------------------|------------------------|
| <b>Acquisitions:</b>  |                        |                                   |                        |
| Tangible fixed assets | 130                    | (30)                              | 100                    |
| Stock                 | 330                    | -                                 | 330                    |
|                       | <u>460</u>             | <u>(30)</u>                       | <u>430</u>             |
| Goodwill              |                        |                                   | 4,259                  |
| Purchase price        |                        |                                   | <u>4,689</u>           |

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

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

## 22. MANAGEMENT OF LIQUID RESOURCES

|  | 2007<br>£'000 | 2006<br>£'000   |
|--|---------------|-----------------|
| Decrease/(increase) in short term deposits                           | 8,410         | (12,791)        |
| <b>Net cash inflow/(outflow) from management of liquid resources</b> | <u>8,410</u>  | <u>(12,791)</u> |

## 23. FINANCING

|  | 2007<br>£'000  | 2006<br>£'000  |
|--|----------------|----------------|
| Issue of share capital                   | 8,422          | 10,188         |
| Withdrawal of share capital              | (9,445)        | (10,793)       |
| Capital element of finance lease rentals | (427)          | (230)          |
| Other loans repaid                       | (2,539)        | (7,235)        |
| <b>Net cash outflow from financing</b>   | <u>(3,989)</u> | <u>(8,070)</u> |

# Notes to the Financial Statements

## 24. ANALYSIS OF NET DEBT

|                           | At<br>Jan 2006<br>£'000 | Cash<br>flow<br>£'000 | At<br>Jan 2007<br>£'000 |
|---------------------------|-------------------------|-----------------------|-------------------------|
| Cash at bank and in hand  | 7,070                   | 1,894                 | <b>8,964</b>            |
| Short term deposits       | 12,791                  | (8,410)               | <b>4,381</b>            |
|                           | <u>19,861</u>           | <u>(6,516)</u>        | <u><b>13,345</b></u>    |
| Debts due after one year  | (30,689)                | (1,085)               | <b>(31,774)</b>         |
| Debts due within one year | (3,996)                 | 3,624                 | <b>(372)</b>            |
| Finance leases            | (1,466)                 | 427                   | <b>(1,039)</b>          |
|                           | <u>(36,151)</u>         | <u>2,966</u>          | <u><b>(33,185)</b></u>  |
| <b>Total</b>              | <u><b>(16,290)</b></u>  | <u><b>(3,550)</b></u> | <u><b>(19,840)</b></u>  |

### Analysis of cash at bank and in hand as shown in the balance sheet

|                     | 2007<br>£'000        | 2006<br>£'000 |
|---------------------|----------------------|---------------|
| Cash in hand        | <b>2,061</b>         | 2,061         |
| Bank balances       | <b>6,903</b>         | 5,009         |
| Short term deposits | <b>4,381</b>         | 12,791        |
|                     | <u><b>13,345</b></u> | <u>19,861</u> |

## 25. OPERATING LEASES

At 27 January 2007 the Group had annual commitments under non-cancellable leases as follows:

|                                       | 2007<br>Land &<br>buildings<br>£'000 | Other<br>£'000 | 2006<br>Land &<br>buildings<br>£'000 | Other<br>£'000 |
|---------------------------------------|--------------------------------------|----------------|--------------------------------------|----------------|
| Operating leases expiring:            |                                      |                |                                      |                |
| Within one year                       | 454                                  | -              | 402                                  | -              |
| In the second to fifth year inclusive | 1,162                                | 424            | 1,016                                | 366            |
| Over five years                       | 4,151                                | -              | 3,706                                | -              |
|                                       | <u>5,767</u>                         | <u>424</u>     | <u>5,124</u>                         | <u>366</u>     |

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

## 26. CAPITAL COMMITMENTS

|   | 2007<br>£'000       | 2006<br>£'000 |
|---|---------------------|---------------|
| Expenditure contracted but not provided for | <b>3,800</b>        | 2,815         |
|   | <u><b>3,800</b></u> | <u>2,815</u>  |

# Notes to the Financial Statements

## 27. 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 respectively and updated to 27 January 2007 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 actuary in updating the latest valuation of the scheme for FRS17 purposes were:

|  | 2007  | 2006  | 2005  |
|--|-------|-------|-------|
| Rate of increase in salaries                         | 4.50% | 4.40% | 4.20% |
| Rate of increase in pensions in payment (5% LPI)     | 3.00% | 2.90% | 2.70% |
| Rate of increase in pensions in deferment (2.5% LPI) | 2.25% | n/a   | n/a   |
| Rate of increase in pensions in deferment            | 3.00% | 2.90% | 2.70% |
| Discount rate  | 5.10% | 4.70% | 5.20% |
| Inflation assumption                                 | 3.00% | 2.90% | 2.70% |

The Midcounties Co-operative contributed 12.0% of pensionable wages to the scheme for the period to 30 June 2006 and 18.0% thereafter. Total employer contributions during the accounting year amounted to £3,051,000.

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

|                                     | Long-term rate of return expected at 2007 | 2007 £'000's | Long-term rate of return expected at 2006 | 2006 £'000's | Long-term rate of return expected at 2005 | 2005 £'000's |
|-------------------------------------|---|--------------|---|--------------|---|--------------|
| Equities                            | 7.6%                                      | 64,605       | 7.1%                                      | 52,598       | 7.1%                                      | 37,784       |
| Bonds                               | 4.5%**                                    | 11,274       | 4.1%**                                    | 17,034       | 4.6%                                      | 16,199       |
| Total market value of assets        |   | 75,879       |   | 69,632       |   | 53,983       |
| Present value of scheme liabilities |   | (85,398)     |   | (90,600)     |   | (62,724)     |
| Deficiency in the scheme            |   | (9,519)      |   | (20,968)     |   | (8,741)      |
| Related deferred tax asset***       |   | 2,855        |   | 6,290        |   | 2,622        |
| Net pension liability               |   | (6,664)      |   | (14,678)     |   | (6,119)      |

\*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 and 3.85% index linked gilts

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

| b) Analysis of amount (credited)/charged to trading profit | 2007 £'000 | 2006 £'000 |
|--|------------|------------|
| Current service cost                                       | 1,738      | 1,640      |
| Past service credit – exceptional item                     | (5,134)    | –          |
|  | (3,396)    | 1,640      |

# Notes to the Financial Statements

## 27. RETIREMENT BENEFITS *(continued)*

### c) Analysis of amount charged to other finance costs

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| Expected return on pension scheme assets | 4,479         | 3,551         |
| Interest on pension scheme liabilities   | (4,147)       | (3,374)       |
| Net cost                                 | <u>332</u>    | <u>177</u>    |

### d) Movement in scheme deficit during the year:

|  | 2007<br>£'000  | 2006<br>£'000   |
|--|----------------|-----------------|
| Deficit in Scheme at beginning of the year | (20,968)       | (8,741)         |
| Movement in year:                          |                |                 |
| Current service cost                       | (1,738)        | (1,640)         |
| Contributions                              | 3,051          | 2,476           |
| Past service credit                        | 5,134          | -               |
| Other finance costs                        | 332            | 177             |
| Actuarial (loss)/gain                      | 4,670          | (13,240)        |
| Deficit in Scheme at end of year           | <u>(9,519)</u> | <u>(20,968)</u> |

### e) Analysis of amount recognised in Statement of Total Recognised Gains and Losses (STRGL)

|   | 2007<br>£'000 | 2006<br>£'000   |
|---|---------------|-----------------|
| Actual return less expected return on pension scheme assets                   | 419           | 10,012          |
| Experience gains and losses arising on the scheme liabilities                 | (270)         | (9,575)         |
| Changes in assumptions underlying the present value of the scheme liabilities | 4,521         | (13,677)        |
| Actuarial gain recognised in STRGL  | <u>4,670</u>  | <u>(13,240)</u> |
| Deferred tax  | (1,401)       | 3,972           |
| Net gain recognised in STRGL  | <u>3,269</u>  | <u>(9,268)</u>  |

### f) History of Experience Gains and Losses

|  | 2007<br>£'000 | 2006<br>£'000 | 2005<br>£'000 | 2004<br>£'000 | 2003<br>£'000 |
|--|---------------|---------------|---------------|---------------|---------------|
| Actual return less expected return on pension scheme assets:               | 419           | 10,012        | 1,259         | 5,992         | (11,912)      |
| % of scheme assets   | 1.00%         | 14.00%        | 2.00%         | 13.00%        | 31.00%        |
| Experience (losses)/gains on scheme liabilities:                           | (270)         | (9,575)       | 2,271         | 1,464         | 1,600         |
| % of the present value of the scheme liabilities                           | 0.30%         | 11.00%        | 4.00%         | 2.00%         | 3.00%         |
| Total amount recognised in statement of total recognised gains and losses: | 4,670         | (13,240)      | 2,155         | 2,551         | (14,427)      |
| % of the present value of the scheme liabilities                           | 5.00%         | 15.00%        | 3.00%         | 4.00%         | 27.00%        |

# Notes to the Financial Statements

## 27. 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 actuary in updating the latest valuations of the scheme for FRS17 purposes were:

|  | 2007  | 2006  | 2005  |
|--|-------|-------|-------|
| Rate of increase in salaries                       | 4.50% | 4.40% | 4.20% |
| Rate of increase in pensions in payment (5% LPI)   | 3.00% | 2.90% | 2.70% |
| Rate of increase in pensions in payment (2.5% LPI) | 2.25% | n/a   | n/a   |
| Discount rate                                      | 5.10% | 4.70% | 4.90% |
| Inflation assumption                               | 3.00% | 2.90% | 2.70% |

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

|                                     | Long-term<br>rate of return<br>expected at<br>2007 | 2007<br>£'000's | Long-term<br>rate of return<br>expected at<br>2006 | 2006<br>£'000's | Long-term<br>rate of return<br>expected at<br>2005 | 2005<br>£'000's |
|-------------------------------------|--|-----------------|--|-----------------|--|-----------------|
| Equities                            | 7.6%   | 13,754          | 7.1%   | 12,368          | 7.3%   | 11,506          |
| Property                            | 6.6%   | 185             | 6.1%   | 341             | 6.3%   | 316             |
| Government bonds                    | 4.3%   | 12,663          | 3.9%   | 12,718          | 4.1%   | 12,125          |
| Corporate bonds                     | 5.2%   | 2,617           | 4.5%   | 2,695           | 4.7%   | 2,573           |
| Other                               | 5.3%   | 982             | 4.5%   | -               | 4.5%   | 254             |
| Total market value of assets        |  | 30,201          |  | 28,122          |  | 26,774          |
| Present value of scheme liabilities |  | (39,357)        |  | (44,046)        |  | (38,877)        |
| Deficiency in the scheme            |  | (9,156)         |  | (15,924)        |  | (12,103)        |
| Related deferred tax asset*         |  | 2,747           |  | 4,777           |  | 3,631           |
| Net pension liability               |  | (6,409)         |  | (11,147)        |  | (8,472)         |

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

| b) Analysis of amount (credited)/charged to trading profit | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| Current service cost                                       | 871           | 254           |
| Part service cost - exceptional items                      | (2,471)       | -             |
|  | (1,600)       | 254           |

| c) Analysis of amount charged to other finance costs | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| Expected return on pension scheme assets             | 1,527         | 495           |
| Interest on pension scheme liabilities               | (2,001)       | (641)         |
| Net cost   | (474)         | (146)         |

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

## 27. RETIREMENT BENEFITS (continued)

|  |  |  |                |              |                 |              |              |
|--|--|--|----------------|--------------|-----------------|--------------|--------------|
| d) Movement in scheme deficit during the period:   |  |  |                |              |                 |              |              |
|  |  |  | <b>2007</b>    |              | <b>2006</b>     |              |              |
|  |  |  | <b>£'000</b>   |              | <b>£'000</b>    |              |              |
| Deficit in Scheme at beginning of the period   |  |  | (15,924)       |              | (12,102)        |              |              |
| Movement in period:  |  |  |                |              |                 |              |              |
| Current service cost   |  |  | (871)          |              | (254)           |              |              |
| Contributions  |  |  | 1,323          |              | 366             |              |              |
| Past service costs   |  |  | 2,471          |              | -               |              |              |
| Other finance costs  |  |  | (474)          |              | (146)           |              |              |
| Actuarial gain/(loss)  |  |  | 4,319          |              | (3,788)         |              |              |
| Deficit in Scheme at end of period   |  |  | <b>(9,156)</b> |              | <b>(15,924)</b> |              |              |
| e) Analysis of amount recognised in Statement of Total Recognised Gains and Losses (STRGL) |  |  | <b>2007</b>    |              | <b>2006</b>     |              |              |
|  |  |  | <b>£'000</b>   |              | <b>£'000</b>    |              |              |
| Actual return less expected return on pension scheme assets                                |  |  | 137            |              | 983             |              |              |
| Experience gains and losses arising on the scheme liabilities                              |  |  | (208)          |              | 80              |              |              |
| Changes in assumptions underlying the present value of the scheme liabilities              |  |  | 4,390          |              | (4,851)         |              |              |
| Actuarial gain/(loss) recognised in STRGL  |  |  | <b>4,319</b>   |              | <b>(3,788)</b>  |              |              |
| Deferred tax   |  |  | (1,296)        |              | 1,136           |              |              |
| Net loss recognised in STRGL   |  |  | <b>3,023</b>   |              | <b>(2,652)</b>  |              |              |
| f) History of Experience Gains and Losses  |  |  | <b>2007</b>    | <b>2006</b>  | <b>2005</b>     | <b>2004</b>  | <b>2003</b>  |
|  |  |  | <b>£'000</b>   | <b>£'000</b> | <b>£'000</b>    | <b>£'000</b> | <b>£'000</b> |
| Actual return less expected return on pension scheme assets:                               |  |  | 137            | 983          | 1,351           | 798          | 1,417        |
| % of scheme assets   |  |  | 0.50%          | 3.50%        | 5.00%           | 3.30%        | 6.50%        |
| Experience (losses)/gains on scheme liabilities:   |  |  | 208            | 80           | (1,133)         | (332)        | (223)        |
| % of the present value of the scheme liabilities   |  |  | 0.50%          | 0.20%        | 2.90%           | 1.10%        | 0.80%        |
| Total amount recognised in statement of total recognised gains and losses:                 |  |  | 3,927          | (4,851)      | (4,442)         | 88           | (1,592)      |
| % of the present value of the scheme liabilities   |  |  | 10.00%         | 11.00%       | 11.40%          | 0.30%        | 7.30%        |

# Notes to the Financial Statements

## 28. WHOLLY OWNED SUBSIDIARIES

As at 27 January 2007, the Group consisted of The Midcounties Co-operative Limited and the wholly owned subsidiaries and companies listed below.

|  | <b>Principal Activity</b> |
|--|---------------------------|
| MC Co-operative IT Limited                       | Information Services      |
| J Whitmore Limited                               | Retail                    |
| Kenmare Estates Limited                          | Property Management       |
| 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:

|  |   |
|--|---|
| Arthur 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 Co-operative Developments Limited   |
| F G Hopkins (Wolverhampton) Limited        | The Midcounties Co-operative 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                | Whichflight.co.uk Limited                           |
| Motorworld (Oxford) Limited                | Woodstates Limited                                  |

The Society also owns 20% of Co-operative Web Limited.

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

## 29. 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 (CWS) 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 27 January 2007 was £216 million (2006: £182.0 million) and, the amount owed to tCG as at that date was £13.1 million (2006: £12.9 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 27 January 2007 was £411,724 (2006: £85,541). The Phone Co-op has a community membership account with the Society. The balance on this account at 27 January 2007 was £282,710 (2006: £206,885) and interest earned during the year amounted to £6,991 (2006: £9,649). The Society has a share account with The Phone Co-op. As at 27 January 2007 the balance was £11,322. During the year, the Society received interest of £487.

## 30. POST BALANCE SHEET EVENT

On 2 March 2007 the Society completed the acquisition of a retail business for £4.4m. Please refer to the directors' report for further details.

# The **co-operative**

“To create a better, fairer world”





# The **co-operative**

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