

The **co-operative**

Half Yearly Statement 2008

For the 26 weeks ended 26 July 2008

The Midcounties Co-operative



Welcome to The Midcounties Co-operative

Who we are

We are a consumer co-operative owned by our members.

What we do

We operate six businesses: Food, Travel, Pharmacy, Funerals, Motors and Childcare. We also own a number of Post Offices and run the .coop domain name.

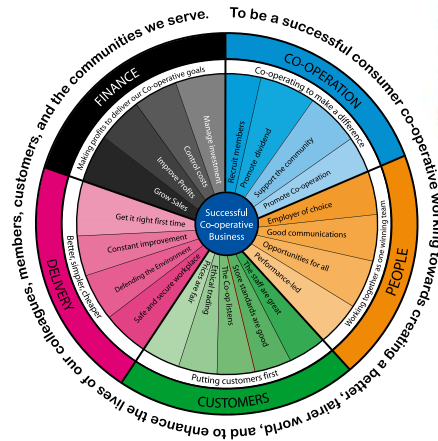
We trade mainly in Oxfordshire, Gloucestershire, Buckinghamshire, Shropshire, Staffordshire, the West Midlands, Wiltshire and Worcestershire. We also have a trading presence, to a lesser degree, in the surrounding counties.

What we aim for

We aim 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.

To help us achieve this goal we work with the values and principles that act as guidelines for all co-operatives. These form the basis of our social and commercial goals and are reflected in our Steering Wheel (pictured). The Steering Wheel helps us balance our financial targets with our social goals, and is split into five key areas: Finance, Delivery, Customers, People and Co-operation.

You'll find the different sections of this Half Yearly Statement relate to our Steering Wheel to show an integrated overview of our Society's developments for the half year.



Society Highlights

- We were awarded Race For Opportunity's Gold Award for diversity
- **Our trading profit increased by 61% to £10 million**
- You can now earn dividend points at our food stores when you spend just £1
- **We provided almost £54,000 of funding for 264 community projects**
- All of our own-brand hot drinks are now Fairtrade
- **Our sales have increased by 8% to £379 million**



President's report

It is a real pleasure to introduce this report which shows excellent trading results in the first half year. On behalf of the Board I would like to thank everyone concerned for their efforts which have made this success possible.

Unfortunately, it is clear that the second half of the trading year is going to be very difficult for the whole of the retail sector, as the worldwide economic downturn and soaring fuel and food prices take their toll. Our Society will not be able to escape these difficult circumstances, although I am sure that we will continue to more than hold our own in competition with our rivals.

The next six months will not only be critical for us in terms of sales and margins, but also in terms of the changing structure of the consumer

co-operative movement. This is due to the enlargement of the Co-operative Group and the fall-out from the Group's recent takeover of what used to be our most direct competitor, Somerfield.

This process will certainly confront us with a number of difficult decisions as it will bring about a major change for the Co-operative Movement as a whole. For the first time one large society will be trading across the country, in some cases in competition with independent societies such as our own. It may well be that tensions will sometimes arise and difficult decisions will need to be made while we all adjust to this new situation.

But I have no doubt that the coming months will also bring new and exciting challenges on the trading front. I am

confident that, with a strong first six months behind us, we are well placed to deal with these challenges and to continue to work in the interests of our members, our customers, and the principles of democratic co-operation which set the guidelines for all that we do for our Society and the Movement as a whole.



Patrick Gray
President



Chief Executive's report

It is particularly pleasing to be able to report a record profit for the first half of the year, despite the difficult economic conditions we all face. A key element of this improvement has been the performance of our Food business. Our like-for-like growth in sales was 4.7%, while food inflation in our stores over the period was only 4.1% as a result of us absorbing some cost increases. This means that we have grown our market share in the first six months. I suspect there are a number of other food retailers who would happily change places with us.

It is also pleasing to note that our Travel Group has had an outstanding half year, exceeding all of our expectations. The star performer has been our cooptravel.co.uk web business, which is growing

at a significant rate and delivering welcome profits.

I think it is clear to everyone that the second half of the year is going to be difficult in trading terms, as consumers tighten their belts. There are already signs of weakening demand for Motors and Travel, and a pattern developing where customers in our food stores are taking more advantage of our regular promotional offers. In fact the uptake of these offers has increased by 4%, accounting for 29% of sales now, compared to 25% at the beginning of the year - a noticeable shift in shopping habits.

In addition to changes in customers' shopping habits, we are of course facing a real increase in our operating costs, with transport and energy costs

soaring. Our management team is acutely aware of this and is examining every opportunity to minimise the impact of these increases. I am therefore confident that we will be able to chart an effective course through these difficult waters and emerge as a stronger, healthier society.



Ben Reid
Chief Executive



Finance

- Grow sales
- Improve profits
- Manage investment
- Control costs

Growing sales

In the first six months of the year we have seen an 8% increase in gross sales to £379 million. It is encouraging to see that the majority of our main trading groups have shown an increase in sales, even when faced with some challenging market conditions.

Our operating profit has almost doubled compared with the same time last year. The operating profit for the first half of this year is £12.5 million, compared with £6.3 million last year. We are also pleased to report that our trading profit has increased by 61% to £10 million.

We have seen a strong performance by our Food

Retail business with sales up by 10.7%, and like-for-like growth of 4.7%, despite increased competition and the effect of the credit crunch. We have also seen record profits in this sector, reflecting the successful integration of new stores acquired in 2007.

Our Pharmacy sales are up by 4.3%. However we have seen a significant reduction in the amount of money the government pays pharmacies for each prescription dispensed and this has led to a reduction in gross margins and profits.

The Funeral Group has seen a 5.6% increase in sales compared with this time last year, despite the death rate falling by 3%. The group has maintained its market share and improved profitability through control of costs and improving gross margins.

Our Motor business has seen a 0.5% fall in sales in the first six months of the year, when average new car sales

across the UK are down by 3%. Profits have declined, due in part to a general move towards purchasing smaller cars, as well as the effects of the current economic situation.

In our Travel Group, Holiday sales have increased by over 5% compared with last year, despite difficult market conditions. We have also seen a significant improvement in gross margins, thanks to

increased dynamic packaging on holidays and our improved website which has an online booking facility. Foreign exchange sales are lower than last year due to increasing high street competition.

Our Childcare business continues to grow strongly, with sales up by 45.2% on the first half of last year.

Operating profits have also been boosted by £2.5 million from property sales during the first six months of 2008.

“our trading profit has increased by 61% to £10 million”



Delivery

- *Get it right first time*
- *Constant improvement*
- *Defending the environment*
- *Safe and secure workplace*

Constant improvement

During the first half of the year we have been looking at ways to improve our delivery.

We launched our rebranded Hazlemere supermarket in March which received a great reception from our customers, with average weekly sales increasing by around £27,000. In the last six months we have rebranded six of the former Rusts stores as Co-operative Food stores and began the refit of former Stars stores to our Co-op News Express brand.

To improve our offering our Funeral Group opened three new branches in the Forest of Dean and Wolverhampton and invested £1 million into a new fleet of vehicles. Travel has focused on its locations,

moving the rebranded Kidderminster Ultra branch to a busy high street position. Meanwhile Co-operative Motors in Wolverhampton moved its Hyundai and Volvo showrooms into the same building to improve customer service and profitability.

Defending the environment

There has been a focus on environmental issues this year, and these formed the theme for our Colleague Forum in June.

Our Environmental and Energy Steering Group continues to work towards our environmental targets, led by our new Energy and Environment Officer. The Steering Group, made up of key colleagues from all areas of the business, is currently looking at ways to reduce waste, save energy and educate colleagues and customers about green practices they can adopt at work and home.

We are also continually looking at ways to reduce our carbon footprint. So far the solar panels we installed at our Oxford head office in February have saved over two tonnes of CO₂, and we are planning to erect a wind test mast in Oxford, with a view to installing a wind turbine.

We are looking at how technology can help us defend the environment by researching green IT initiatives and collecting email addresses from members and colleagues to cut down on paper communications. In addition, our Motors business is

designing a green website which will feature an online carbon calculator.

Our other trading groups have also been helping us reach environmental targets. For example, Travel has begun recycling brochures and our Funeral group has increased its range of green funerals.

“*the solar panels we installed at our Oxford head office in February have saved over two tonnes of CO₂*”



Customers

- The staff are great
- Store standards are good
- The Co-op listens
- Ethical trading
- Prices are fair

The staff are great

We aim to put customers first and we are always looking at ways we can improve our customer experience.

The Motors Group introduced exit interviews at the beginning of the year to gather feedback on the customer experience. Since the interviews began we have been making improvements based on customer comments, seeing an 8% improvement in our scores. In Pharmacy we have introduced customer service champions at all branches to ensure high standards are maintained; and our Travel and Funeral businesses have launched Customer Promises to inform

all customers of the service levels they should expect when visiting us.

This commitment to constantly reviewing and improving our customer service has resulted in a number of awards. Travel Weekly presented Gloucester Travel with the award for Best Cruise Agency South West & Wales, and Lisa Hall with the Best Call Centre Agent Midlands Region award. In Motors, Volvo in Wantage remains top of the country for Volvo 'customer for life' aftersales scores.

Ethical trading

Our commitment to ethical trading continues. We switched all our own brand hot drinks to Fairtrade. Many of our sites hosted Mad Hatter's Tea Parties to celebrate, where everyone enjoyed our iconic Fairtrade Co-operative 99 tea. As part of our education programme for our members

we organised a number of awareness-raising Fairtrade events, including presentations by a Fairtrade banana grower from the Windward Islands.

Our food stores have been taking a stand on animal welfare following member feedback on our ethical policies. All of our own

label poultry now conforms to the Elmwood Standard, meaning that the chickens we sell have improved living conditions, and we now only sell free range eggs, with sales increasing by 28% as a result. As well as this our fresh fish range now adheres to sustainable sourcing standards and we launched a 'free from' range for customers with specific dietary requirements.

“our food stores have been taking a stand on animal welfare following member feedback on our ethical policies”



People

- Employer of choice
- Good communications
- Opportunities for all
- Performance-led

Employer of choice

We are committed to being an employer of choice and we are continuing to work hard with our colleagues to create the best possible working environment.

During the course of the last six months our Diversity Steering and Focus Groups have been exploring avenues for benchmarking our diversity policies and practices. We are pleased to say that we have been presented with a Gold Award by Race for Opportunity, gaining an overall score of 80% for all aspects of our race diversity. We have also achieved reaccreditation for the 'two ticks' Disability Symbol, showing that we are taking action to employ

and develop people with disabilities on an equal basis. We have continued our investment in training programmes and are planning a wider range of development opportunities for all colleagues.

We launched an initiative earlier this year, known as Go MAD® (Go Make A Difference), a programme designed to inspire and engage our Leadership Team to open up to 'possibility thinking' and to find new ways to improve our businesses. The participants have undertaken a range of challenges designed to improve business performance and the results have been impressive. For example one team used a prize draw to encourage colleague spending which resulted in an extra 14,800 colleague transactions and raised awareness of our colleague discounts.

Good communications

Our Colleague Councils have continued to receive a strong level of support. We are also pleased to say that the councils are being recognised at a national level as we have been shortlisted for Personnel Today's award for Employee Engagement.

We continue to communicate with our members through The

Co-operative Magazine. The second edition of the magazine was distributed to over 100,000 members during the summer and was extremely well received. Internal communications have also been improved by the introduction of Team Talk – a cross trading group colleague magazine that was launched in May.

“we have been presented with a Gold Award by Race for Opportunity”



Co-operation

- Recruit members
- Promote dividend
- Support the community
- Promote co-operation

Recruit members

We have been working hard to recruit more members than ever and we have succeeded in signing up over 25,000 new members so far this year, with 3,000 joining online. To promote membership further we organised the giveaway of a BlueMotion Polo, offered double dividend points in selected stores and ran a successful Family Fun Day.

We have simplified the process of becoming a member and have also introduced partner cards, allowing members' partners to collect points for them when they shop. As a result of member feedback we have lowered the minimum spend in our food stores before members can

earn dividend points from £2 to £1. We are also working closely with our Membership Strategy Committee and our 31 new local member groups to develop an attractive offer for our members.

Support the community

As a co-operative society we feel it is important to put a percentage of our profits back into our local community. That's why between February and July we awarded almost £54,000 in Co-operative Community Funding to support 264 projects in areas where we trade. In addition to this our colleagues have volunteered over 8,800 hours to support community activities, and it is encouraging to see that an additional 687 new colleague volunteers have been registered. If this work had been paid for it would have cost the beneficiaries almost £128,000.

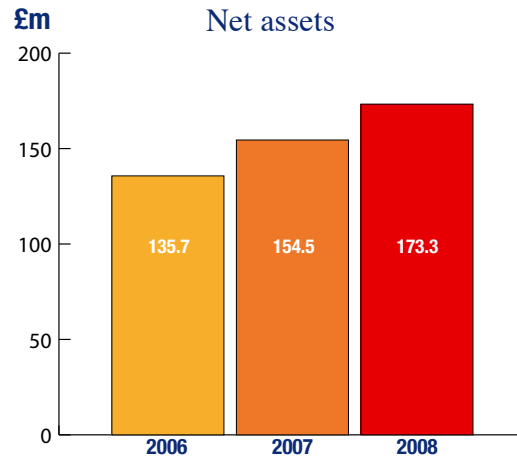
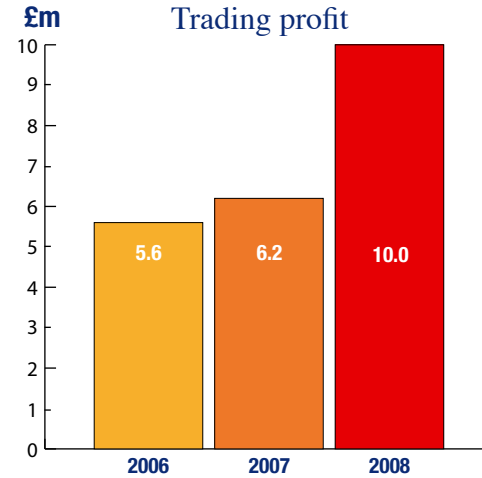
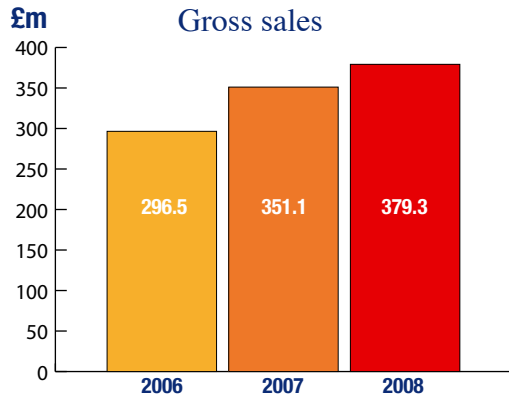
As part of our commitment to co-operative education we recently provided £40,000 to a school in Telford to support its bid for specialist school status. The Sutherland Co-operative Business & Enterprise College will have co-operative values at its heart and provide a learning centre for school and community use.

We were also pleased that our two Business in the Community Big Tick Awards, which relate to our support for a school in Wolverhampton and local community owned village shops, have been re-accredited.

“we recently provided £40,000 to a school in Telford to support its bid for specialist school status”



Financial Summary



Interim Income Statement

for the 26 weeks ended 26 July 2008

		26 weeks to 26 Jul 2008 (Unaudited)	26 weeks to 28 Jul 2007 (Unaudited) (Restated)	52 weeks to 26 Jan 2008 (Audited)
		£'000	£'000	£'000
	Notes			
GROSS SALES	2	379,274	351,053	711,833
GROSS PROFIT		84,902	76,152	155,222
Expenses		74,877	69,911	143,231
TRADING PROFIT		10,025	6,241	11,991
Other Operating Income		2,462	19	698
OPERATING PROFIT		12,487	6,260	12,689
Finance costs		1,536	892	2,496
PROFIT BEFORE PAYMENTS TO AND ON BEHALF OF MEMBERS		10,951	5,368	10,193

The interim results have not been audited. Results for the 52 weeks to 26 January 2008 are accurately extracted from the audited financial statements for that period. The 26 weeks to 28 July 2007 have been restated on adoption of International Financial Reporting Standards.

Interim Net Assets Summary

as at 26 July 2008

	Notes	As at 26 Jul 2008 (Unaudited)	As at 28 Jul 2007 (Unaudited) (Restated)	As at 26 Jan 2008 (Audited)
		£'000	£'000	£'000
NON-CURRENT ASSETS		259,011	241,496	266,274
CURRENT ASSETS		100,771	97,598	89,125
TOTAL ASSETS		359,782	339,094	355,399
CURRENT LIABILITIES		94,298	85,596	90,389
NON-CURRENT LIABILITIES	3	92,212	99,003	96,282
TOTAL LIABILITIES		186,510	184,599	186,671
NET ASSETS		173,272	154,495	168,728

Net assets represent total members' funds.

The 26 weeks to 28 July 2007 have been restated on adoption of International Financial Reporting Standards.

Notes

1. Accounting Policies

This interim financial information is for the 26 week period ended 26 July 2008. The information included within this document has been prepared on the basis of the recognition and measurement requirements of International Financial Reporting Standards (IFRS) in issue that are endorsed by the European Commission (EU) and effective at 26 July 2008.

This financial information should be read in conjunction with the Society's Annual Report and Accounts for 2007-08, which were prepared in accordance with IFRS as adopted by the EU, and has been prepared using the accounting policies set out in that report.

The Society's Financial Statements for 2008-09 will be prepared in accordance with IFRS as adopted by the EU.

2. Gross Sales

	26 Weeks ended July '08	26 Weeks ended July '07	Change
	£m	£m	%
Food & Post Offices	237.7	214.6	10.7%
Travel	56.2	55.9	0.5%
Motors	40.9	41.1	(0.5)%
Pharmacy	19.3	18.5	4.3%
Funeral	11.3	10.7	5.6%
Childcare	12.2	8.4	45.2%
Other	1.7	1.9	(10.5)%
Total	<u><u>379.3</u></u>	<u><u>351.1</u></u>	<u><u>8.0%</u></u>

3. Non Current Liabilities

Non Current Liabilities include a pension deficit of £6.1m, the actuarial calculation as at January 2008. The actuarial valuation of the deficit will be updated in January 2009.



Independent review report

Independent review report by KPMG LLP to The Midcounties Co-operative Limited ('the Society')

Introduction

We have been engaged by the Society to review the financial information set out on pages 12 to 14 for the six months ended 26 July 2008. We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information presented.

This report is made solely to the Society in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Society those matters we are required to state to it in this 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 for our review work, for this

report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly report is the responsibility of, and has been approved by, the directors.

As disclosed in note 1, the annual financial statements of the Society are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The financial information included in this half-yearly report has been prepared in accordance with the recognition and measurement requirements of IFRS as adopted by the EU.

As disclosed in note 1, the next annual financial statements of the Society will be prepared in accordance with IFRS as adopted by the EU.

The accounting policies that have been adopted in preparing the financial information are consistent with those that the directors currently intend to use in the next annual financial statements.

Our responsibility

Our responsibility is to express to the Society a conclusion on the financial information in the half-yearly report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information

consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial information in the half-yearly report for the six months ended 26 July 2008 is not prepared, in all material respects, in accordance with the recognition and

measurement requirements of IFRS as adopted by the EU.

KPMG LLP
Chartered Accountants
2 Cornwall Street
Birmingham
B3 2DL

6 October 2008

The **co-operative**

The Midcounties Co-operative is happy to provide publications in alternative formats.

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