

Midlands Co-operative Society Limited

Annual Report and Financial Statements

26 January 2013



The **co-operative**
good for everyone

Our values

Co-operation:

Our co-operative principles are at the heart of our actions

Improvement:

Always getting better at what we do

Recognition:

Rewarding the efforts and achievements of our colleagues

Customers:

We listen to our customers to constantly provide great service

Honesty:

Openness and honesty as a way of working

Success:

Driving commercial success through effective leadership and teamwork

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Highlights

Sales*

£670m
up 2.9%

Capital expenditure

£30.7m
18 new openings


Trading profit*

£24.3m
up 3.4%

Payments to stakeholders

£4.3m
up 7.9%

*Continuing businesses, before exceptional items



Board of Directors



Paul Singh President

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Maria Lee Vice-President

Ⓜ Ⓡ #



Michael Althorpe

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Frank Croft

Ⓐ #



Kevin Hepworth



John Howells

Ⓡ



Liz Lomas

E Ⓜ



John Maltby

Ⓐ #

- E Employee Director
- Ⓐ Member of the Audit Committee
- Ⓜ Member of the Community Dividend Selection Committee
- Ⓡ Member of the Remuneration Committee
- # Member of the Rules & Practices Committee

Management Executive and Advisors

Martyn Cheatle Chief Executive
Tony Carroll Deputy Chief Executive
James Watts Secretary
David Grady Chief Financial Officer
Paul Webb Funeral
Ian Callaghan Property
Tracey Orr Human Resources
Mark Ruttle Information Solutions

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Peter Dean

Ⓐ



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Robin Farrell

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Marta Mayhew

Ⓐ



Helen Lees



Keith Redfern

Ⓡ



Stuart Unwin

Ⓐ

Directors' Report

“Performance in 2012 demonstrates the Society’s resilience and financial strength to compete and grow in challenging conditions”

To the members

The Board of Directors is pleased to present its report for the year ended 26 January 2013, which covered a period of further progress throughout the business in line with the Society’s growth strategy.

The Board is proud to report another robust financial performance, despite the continuation of the weak economic climate, intense competition and sustained pressure on household budgets. The trading results demonstrate the Society’s resilience and financial strength to compete and grow in challenging conditions, with improved sales and trading profit in continuing businesses, substantial capital investment and increased payments to stakeholders. The financial review on page 6 highlights that trading profit in continuing businesses, before exceptional items, increased by 3.4% to £24.3 million. Growth from new stores and acquisitions is reflected in gross sales, excluding VAT, in continuing businesses increasing by 2.9% to £670 million. The increase in trading profit is after absorbing adverse impacts totalling £1.2 million relating to a reduction in Co-operative Group dividend and the full year loss of a distribution agreement to supply Co-operative Group stores that was reported to members in last year’s report. Excluding these factors, continuing businesses achieved strong underlying growth in trading profit of 8.5%.

The Group Revenue Account shows that overall total trading profit, before exceptional items, of £25.4 million fell slightly against the prior year (2011/12: £26.6 million). This movement reflects a reduction in Discontinued Activities of £1.9 million relating to income and expenditure in respect of the Society’s former Travel business following the transfer into the joint venture arrangement with The Co-operative Group and Thomas Cook in October 2011. The Society’s interest in the joint venture is underpinned by a minimum dividend guarantee and exit rights, providing assurance to the Board that the decision to join the joint venture remains financially valid.

High Street retailers have faced unprecedented conditions over recent years as a result of the difficult economic environment, with the market for higher value discretionary purchases being particularly affected. The significance and growth of the internet has added further pressure to the traditional retail model through the ever increasing trend of sales transacted online. The Society’s Fashion & Home business has not been immune from these fundamental changes, experiencing falling sales and worsening losses over many years. The deterioration in trading performance is in spite of considerable efforts by the Society to reverse the decline in sales that has included investment in systems, people, marketing, product range and the stores themselves.

It is against this background and after careful consideration of all the factors involved, including exhausting all practical options to secure a going concern disposal of some or all of the stores concerned, the Board took the difficult decision in January to close the Fashion & Home business during the course of 2013.

The Society implemented an extensive communication exercise to outline the background, financial considerations and rationale for the closure decision to colleagues, members and customers. The communication programme was generally well received, with many views of understanding expressed in recognition of the factors involved.

The Board wishes to place on record its sincere appreciation to all Society Fashion & Home colleagues, both past and present, for their hard work, commitment and valued service to members and customers over many years.





The Group Revenue Account includes exceptional items of £8.5 million of which £4.3 million relates to costs arising from the closure of the Fashion & Home business. Other exceptional items include impairment charges in respect of goodwill, fixed assets and onerous leases, in line with recognised accounting practice.

The decision to close the Fashion & Home business was made in the long term interests of the Society, and the Board is committed to build for the future in order to secure the continued success of the business. It is therefore pleasing to report that capital expenditure of £30.7 million during the year included the opening of 15 new food stores and acquisitions, together with investment in three new funeral homes. The development of the food store estate – the Society's highest ever number of individual store openings in a year – included the major acquisition of the Shaws fuel forecourt and convenience store business. The five sites located in Derbyshire and South Yorkshire are all trading well following conversion to the Co-operative brand format, and have strengthened the Society's presence in this sector of the market.

In addition to the development and opening of new sites, investment in the existing trading estate continues to generate encouraging sales growth, with 25 refurbishments completed during the year. This included refit activity in food stores and funeral homes in line with the strategy to refresh 10% of the existing estate each year. The first half of the year saw Midlands Co-operative develop and successfully launch the new 'The Co-operative Florist' brand, with the Society being the first in the country to extend the co-operative brand to this sector.

The expansion of the trading estate was again supported by strong operational cash flow from the core business, while still leaving positive cash balances of £38.5 million and a total net asset value of £247.6 million. The Board is most encouraged that the pipeline of new development sites is at its strongest for many years, reflecting the Society's commitment to further strengthen its position in line with the vision 'to be the UK's best consumer co-operative society by making a real difference to our members and our communities'.

Despite the underlying growth of the Society's core businesses, the net asset value of the balance sheet has not escaped the general downturn in property valuations. The Board takes the view that investment properties are held for the long term to underpin the trading businesses with stable income and cash flow. In this respect, many years of strong returns have been enjoyed and the Board remains confident to continue this strategy through the ongoing careful management of the investment property estate.

The balance sheet also recognises the liability for the defined benefit pension scheme in accordance with FRS17 requirements. The net pension liability has risen by £33.1 million in the year despite an improvement in asset values, due to stronger assumptions on life expectancy and the adverse effect of higher inflation and a lower discount rate on the valuation of the scheme liabilities. This impact, together with the downturn in the investment property portfolio, has contributed to a decrease in the net asset value of the Society of over £42.6 million.

“A key driver of the Society’s continued success is the contribution of colleagues in providing consistently high standards and service to customers and members”



The Society’s promotions vehicle supported the 2012 International Year of Co-operatives Event



The Society’s new food store at Rothley, Leicestershire



The Society’s new food store at Tividale, Oldbury



The Society’s new funeral home, Aylestone, Leicester

The Society's drive to encourage a growing, thriving membership continues to be supported by the new membership card. The card can be used to gain admission to Members' Meetings and vote in Society elections. The Society was pleased to achieve the highest ever attendance of over 1,000 members at the Interim Meetings in October.

A key driver of the Society's continued success is the contribution of colleagues in providing consistently high standards and service to customers and members. It is therefore pleasing that the Society received national recognition in October by winning the Gold Award in the Good Employer category at the Food & Drink Federation Community Partnership Awards. The Award recognised the Society's focus and commitment to colleagues, including the proactive and innovative approach to colleague learning and development.

The importance of colleagues feeling a sense of belonging and commitment to the business is measured through colleague engagement. The Society has consistently placed great emphasis on this measure and it is most encouraging that a further improvement in employee engagement was recorded in the annual 'Have Your Say' colleague attitude survey.

Elsewhere, the Society's drive for continuous improvement was recognised by the Retail team winning two high profile awards at the 2012 Convenience Tracking Programme Awards. The Society also received awards in other areas including recognition for its industry leading Zero Waste to Landfill initiative and for the Society's external and internal communications.

The Society's commitment to support other co-operatives was again demonstrated through investment in the Energy Saving Co-operative, a newly formed venture providing advice and services for the installation of energy efficient improvements to houses and small businesses. The Board is fully supportive of this fledgling co-operative business, whose aims and environmental credentials are entirely consistent with the Society's strategy. In addition, the Society continues to promote Midcounties Society's 'The Co-operative Energy' business to Midlands Society members and colleagues.

In 2012, the strength and vibrancy of co-operatives was celebrated during the United Nations International Year of Co-operatives that culminated in a week-long festival and series of events at the end of October. The Society played an active part in supporting the International Year, including a strong presence during the final week of celebrations in Manchester. In this important year, the Society is proud to have pledged \$250,000 to the Global Development Co-operative, a groundbreaking initiative which will provide affordable loans to co-operatives in developing countries to expand through capital and infrastructure projects.

Looking ahead, pressure on household incomes is expected to continue, driven by commodity and energy costs rising faster than average wages. The Bank of England's February Inflation Report suggests that growth is likely to remain weak in the near term although there are early signs of improvement in the global economy. The return of consumer confidence and an easing in inflationary pressures will be key factors in determining the scale and pace of recovery in the UK.

Against the backdrop of the uncertain economic environment, the Board is confident that the Society remains in a very strong position to grow, with a clear strategy and substantial funds in place to continue to develop the business for the future.

Business activities

The Society's principal business activities are Food, Petrol Filling Stations, Fashion & Home retailing and Funeral Services. In addition, the Society has interests in motor dealerships, specialist vehicle construction, coffin manufacture, florists and farming and manages a significant investment property portfolio that underpins the returns from trading activities.

The Society has a minority interest in TCCT Holdings UK Limited, a joint venture company formed in October 2011 that brought together all parts of the Society's Travel business with those of The Co-operative Group and Thomas Cook's UK retail shop network.

Financial review

The financial review covers the 52 week period ended on 26 January 2013 and is consistent with the existing policy of the Society's year end falling on the fourth Saturday in January.

The trading highlights of the core businesses are covered later in the report, but their contribution to a most encouraging year is evident in these financial headlines which demonstrate the strength of profit and cash generation.

- Gross sales in continuing businesses, excluding VAT, increased by 2.9% to £670m
- Trading profit in continuing businesses, before exceptional items, of £24.3m is 3.4% ahead of the previous year
- Significant capital investment of £30.7m, with 18 new openings during the year
- Record payments to and on behalf of stakeholders of £4.3m
- Strong cash inflow from operating activities of £37.4m
- Net assets of £247.6m, including closing cash balances of £38.5m

The strength of the financial base places Midlands Co-operative in a strong position to continue its growth strategy and further enhance the Society's profile as a modern, successful co-operative business.

Retail

“The strength of the brand remains a key feature of the Society’s success”



One of the Society’s newly acquired petrol filling stations, at Ripley



Blaby Road, South Wigston refurbishment



Trading

Retail food stores are the Society's main core business, driving profit and cash flow across a trading estate that has grown to almost 200 outlets. An encouraging trading performance has again been achieved in the most challenging market conditions. Consumer confidence remained low throughout 2012, with shoppers growing increasingly selective in the way they shop through being more price conscious, switching to own label products, carefully managing consumption and actively searching and taking advantage of promotions. Rising fuel costs and inflationary pressures on household budgets has seen a further move towards top up shopping in an attempt to reduce waste. The Society remains well placed to respond to this growing trend through its extensive convenience store network, providing customers and members with a high quality food range and great service.

A strong start to the year was followed by a slowdown in growth during the second half, with sales subdued during one of the wettest summers on record. Similarly, whilst the London Olympics and Diamond Jubilee gave the country a much needed boost, trading during these events remained largely in line with normal levels. Trading performance over the key Christmas and New Year period was very encouraging, with food sales achieving a 2% like for like increase.

Pressure on margins during 2012 reflected the impact of rising commodity prices whilst maintaining a strong value proposition to ease the burden on household budgets. In particular, the Society maintained value pricing on milk and bread throughout the year, despite absorbing cost increases in wheat and the milk premium paid to dairy farmers.

The strength of 'The Co-operative' brand remains a key feature of the Society's success, and provides the framework for maintaining consistently high operating standards to members and customers. Focus to drive further improvements in customer service and in-store standards included a number of initiatives across the Society. The full roll-out of Sales Based Ordering for ambient products was a major initiative in 2012, providing improved availability and process efficiencies across all food stores. Range enhancement to strengthen the overall customer offer included a further increase in the number of locally sourced ambient products, with plans to widen this offer across other categories in the future.

The Society enhanced its support for local communities by introducing a 'Post Office Local' service within the food store at Barlestone in Leicestershire following the closure of the village Post Office in 2011. Similarly, the Post Office in Broughton, Northamptonshire has been transferred to a 'Local' operation in the Society's food store to avoid closure of the village service. This important initiative provides local residents with access to a range of Post Office services, and has been well received by customers and members. A further Post Office opened in February in Stone and opportunities to extend the service to other Society stores continue to be explored.





The new convenience store and Post Office at Grangewood Road, Chesterfield

“15 new stores were opened or acquired in 2012 – the Society’s highest ever number in a year”

Store Development

Expansion of the food store estate was an area of significant focus during the year and a clear reflection of the Society’s ambitious growth strategy. 15 new stores were opened or acquired in 2012 – the Society’s highest ever number of individual new store openings in a year. This included the acquisition of the Shaws petroleum and convenience store business, with sites located in Huddersfield, Sutton-in-Ashfield, Barnsley, Ripley and Shepley. All five sites are trading well following swift conversion to The Co-operative brand format, and have significantly strengthened the Society’s presence in this sector of the convenience market.

Since the Interim Report was presented to Members in October, new stores have been opened at Grangewood Road, Chesterfield; Tividale in Oldbury; and Burbage and Rothley in Leicestershire. The Society also successfully completed the acquisition of going concern businesses at Turnbull Drive in Leicester and Coventry Road, Market Harborough.

In addition, 19 store refurbishments were completed in the year, underlining the Society’s commitment to maintain high standards and the operation of a modern, welcoming shopping environment across the food store estate.

Further new stores are planned for the coming year to continue the expansion programme, with the pipeline of new development sites at its strongest for many years.

Marketing

The retail food business is supported by the Society’s buying arrangements through the Co-operative Retail Trading Group (CRTG) in which senior retail management take a proactive role. A strong programme of offers during the year was underpinned by national Co-operative television and newspaper advertising.

As the pressure on disposable income tightened throughout 2012 strong focus was continued to ensure products were competitively priced, with the Society maintaining £1 pricing on both bread and milk.

Product ranges continue to be enhanced and has included the expansion of locally sourced deli products into the food stores. The Society has actively promoted its locally sourced products throughout 2012 as a point of difference at food fairs and conferences, highlighting the Society's support for regional producers. The introduction of meal deals including 'Two Dine in for £10' has been well received by customers whilst the continued development to ensure value and availability of the most popular products has strengthened the overall customer experience.

The Co-operative Movement continues its promotion of Fairtrade products and Fairtrade Fortnight was again supported across the Society, with increased sales in food stores and improved awareness through the delivery of the ethical challenge within local schools.

Delivering excellent customer service remains a key priority in differentiating the Society's offer. Mystery shopper visits are used to measure customer satisfaction and the Society is pleased to report that in 2012 this satisfaction was maintained at 96.2%. The Society continues to place great emphasis on further improvement in this area and has strengthened resources to provide valuable research on customer shopping habits and trends.

Retail Systems

The Society's Retail system continues to drive process efficiencies across all food stores. The successful roll-out of Sales Based Ordering for ambient product ranges has generated further improvements, with expansion into other categories planned in due course. A major project is currently in progress to introduce a new warehouse management system at the Society's Distribution Centres, with the first phase of the implementation planned during 2013. The new system will strengthen the service provided to food stores through the introduction of latest voice pick technology to further improve product availability and delivery accuracy.

Distribution

The Society continues to enjoy the benefits of owning and operating its own Distribution Centres in Leicester which provide a consistent, smooth and uninterrupted supply of chilled and ambient products to the food store estate. The implementation of Sales Based Ordering demanded that the Retail Distribution team worked ever closer with food store colleagues to drive improved service levels in the Society's retail estate. The Distribution Centres continue to provide a service to the neighbouring Heart of England, Tamworth and Midcounties Societies. These additional volumes help to ensure that costs per case are minimised. The Distribution Centres remain a fundamental element of the Retail business strategy, providing the flexibility and capacity to support the new store development programme.

Whilst the focus is very much on servicing stores in the most cost effective manner, significant investment in new vehicles and energy efficient warehouse lighting systems reflected the Society's responsible approach to improve the environment. During the year, two vehicles were converted to promote the Society's support of the 'International Year of Co-operatives' in 2012.



Funeral

“Providing a high quality, fully integrated service to families is a fundamental element of the Society’s funeral strategy”

Trading

During the year, the Society’s funeral homes conducted 12,501 funerals. This represented encouraging growth of 307 arrangements against the previous year and endorses the strong reputation and quality of service provided by the Society’s funeral homes. Against the trend of a continued decline in the national death rate, the Society’s funeral business performed well with market share held in line with the previous year.

Providing a high quality, fully integrated service to families is a fundamental element of the Society’s funeral strategy. This was demonstrated by an increase in the number of cremations carried out at the Society’s crematorium at Bretby, on the outskirts of Burton upon Trent. With investment of £250,000 completed since taking ownership in 2011, the crematorium conducted its highest ever number of services during the year. This, along with the Society’s funeral homes, floral shops, masonry services, and coffin factory ensures that Midlands Co-operative is the funeral services provider of choice and recognised as the most complete funeral services provider in the Midlands.

The Society’s new motorcycle Rocket Hearse continues to be very popular with clients nationwide. The hearse also became a major talking point at the Co-operatives United World Festival held in Manchester at the end of October.

The Society’s funeral service continues to be competitive in the challenging economic environment. Against this background, it is paramount the Society continues to demonstrate understanding and commitment to families, alongside excellent service and dedication. Colleagues play a pivotal role in the continued success of the funeral business, with the drive to operate and maintain consistently high standards supported by the Society’s ‘Perfect Everyday’ charter.

The Society has a clear strategy to increase the number of funeral homes in order to extend services provided even further. This strategy has been developed to ensure the Society’s full ranges of services are available to families at convenient locations across the trading area. The Society also aims to achieve further expansion through the acquisition of appropriate businesses, whilst limiting costs wherever possible, and placing a focus on the promotion of pre-paid Funeral Bonds to secure future market share.

Progress has continued with significant investment in refurbishments, vehicles and colleague development, all aimed at delivering the vision ‘to be the leading funeral services provider by outperforming all competitors and surpassing the expectations of our clients, our members, and our communities’.

The annual Colleague Attitude Survey has once again shown an increase in colleague engagement, demonstrating the Society’s focus to drive colleague satisfaction, motivation and commitment in providing excellent standards and care. This was further supported through the Funeral business being re-accredited with the Investors in People Award in June 2012.

Throughout the year colleagues from across the business have carried out numerous activities to build and maintain important links with the community. The highlight of the year resulted in more than 8,000 people attending a series of Christmas Memorial Services. These services bring together some of the families the Society has served and provide a great source of comfort and peace at an emotionally difficult time of the year.



Local weather presenter Emma Jesson cuts the ribbon to celebrate the rebranding of Stirchley Florist

Investment

The re-branding and refitting of funeral homes and floral shops has been highly successful and welcomed by both colleagues and clients alike. The strength of the brand continues to support and enhance the Society's image throughout the core trading area in the Midlands. During the year, the Society reached the '50' milestone for 'Funeralcare' branded homes following the successful conversion of a further 18 funeral homes.

As part of the growth strategy, the acquisition of a funeral business in Leicestershire with homes in Countesthorpe and Aylestone was completed in the first half of the year. The home in Aylestone has since been converted to the Funeralcare brand, resulting in an encouraging increase in the number of funerals conducted from the previous ownership. At the end of the year, a new funeral home was opened in Bromsgrove, strengthening the Society's presence in south Birmingham.

The Society's development and launch of 'The Co-operative Florist' brand was a major success in 2012, with the florist shop in Leicester becoming the first in the country to introduce the new brand. The new format has been positively received and has been extended to the Society's other florists at Chesterfield, Derby, Burton upon Trent, and Stirchley in Birmingham.

During the year, the Society's coffin manufacturing facility near Mansfield launched a new lettering service which enables clients to personalise the coffin. This has been well received and a popular option, providing clients with a personal touch from a unique service.



Watch a short film about the Society's Rocket Hearse by scanning the QR code with your smartphone



Local religious leaders bless the new facilities in a service of dedication at Bromsgrove funeral home

Transport

Improved performance at the Society's motor dealerships reflects the benefit of previous actions taken which included the closure of the Hull site in January 2012. Nationally, market conditions recovered during the year with an increase in new car registrations being largely driven by improved consumer demand. New car sales increased at the multi-dealership site at Lincoln following brand investment, refurbishment of the Citroen showroom and facilities and the introduction of the Chrysler and Jeep brands.

Commitment to customer satisfaction and service are fundamental to the success of the business. The Society's Lincoln Harley Davidson dealership was therefore proud to be recognised for outstanding service by winning the Harley Davidson Bar & Shield award as the best UK northern dealership, achieving near perfect scores. This annual award is presented to two dealerships in the UK – one in the north and one in the south – based on customer satisfaction, product knowledge and sales. Vehicle manufacturers' customer satisfaction surveys provide an important measure of service standards and performance. The Society's dealerships recorded further improvement during the year, with the average satisfaction rating increasing to 97%.

At Leicester Carriage Builders, the Society's specialist vehicle construction business, a major transformation programme has commenced to introduce improved design and production processes. The involvement and development of colleagues is integral to the programme, with the team playing a proactive role in identifying and implementing efficiency improvements. The anticipated improvements in production flow and product standardisation will support the future growth of the business and further strengthen the reputation of Leicester Carriage Builders in this niche sector.

The Transport fleet operation provides an essential, cost effective service to maintain the Society's Retail Distribution vehicles and Funeral fleet to the highest possible standard. The operation continues to focus on the safety of the fleet and effective cost control, together with proactive support including driver training activity.



Travel

Investment in the joint venture provides the Society with a presence in the travel industry, at a much reduced risk, to complement the Society's other trading activities. During the year, the Society supported the integration of the joint venture through the provision of transitional services and the subsequent handover of functions including finance, IT, payroll, HR operations and property services.

The joint venture has implemented a major restructure of its high street travel shop network in response to ongoing difficult market conditions and the continuing shift towards online bookings within the travel industry.

This revised strategy forms part of Thomas Cook's wider business transformation plans that aim to significantly extend its online platform to provide a full portfolio of digital products and services. The restructure programme has regrettably led to a number of travel shop closures, with further rationalisation planned in 2013 across the shop network.

The Society's interest in the joint venture is underpinned by a minimum dividend guarantee and exit rights. These arrangements, negotiated as part of the disposal of the Society's Travel business, ensure the Board's decision to join the joint venture remains financially valid.

Property

“The drive to secure new profitable sites is a core feature of the Society’s growth strategy”

Investment Property Management

The Society’s investment property estate consists of a mixed portfolio of commercial lettings together with residential flats and houses. Management is by a dedicated team of property professionals through the Society’s wholly owned subsidiary, Central Midlands Estates Limited. The recession has continued to impact upon the performance of the portfolio through the slowdown in rental growth and an increasing number of commercial tenants experiencing trading difficulties. The demand for vacant properties remains weak, with tenants negotiating hard to achieve more beneficial terms and shorter, more flexible leases on both new lettings and lease renewals.

Conditions in 2012 were particularly challenging, with the numerous high street business failures resulting in increased supply and reduced demand. A number of key tenants have not renewed leases in the Society’s larger investment properties and those that have renewed have done so at lower rents in line with market conditions. The decline in rental income and fall in property market values has consequently seen a reduction in the valuation of the investment portfolio of £14.6m to £83.0m.

The Society has implemented a revised strategy in response to the challenging market conditions. This new approach will strengthen the portfolio through selective acquisitions, together with the disposal of underperforming properties.

Development and Facilities

The team provides support and expertise in construction, refrigeration equipment, building services, energy management, petroleum regulation compliance, environmental expertise and maintenance services across all areas of the Society. It also undertakes the project management role for the refurbishment of trading outlets and new stores, together with the store planning and merchandising needs of the business. Managing the extensive testing, inspection and planned maintenance regime that is demanded by today’s legislation is an ongoing challenge. A maintenance help desk facility operates 24 hours a day to support the business on any property or repair issue.

The team has supported capital development projects across the business including over 45 existing food store projects, 15 new Retail stores, three new Funeral homes and other rebrand activity.

The Society’s commitment to reduce energy consumption and carbon emissions has been demonstrated in the year through



Award winning environmentally friendly refrigeration units are installed in all new food stores

the continued roll-out of high efficiency freezer cabinets in the food stores, introduction of LED lighting, the installation of award winning combined air conditioning and refrigeration systems, and new energy monitoring and heat reclaim systems. Energy consumption in refurbished food stores delivered an average reduction in energy use of 27%. Further schemes at the Food Distribution Centre reduced lighting costs by approximately 50%. Trials of chilled cabinet doors are underway and the installation of solar panels at the Business Support Centre was completed during the year.

Business Development

The drive to secure new profitable sites is a core feature of the Society’s growth strategy and has seen significant activity during 2012. The market for new stores remains competitive and acquisition resources have been strengthened with new personnel. The Society’s new store pipeline remains very positive, enabling the business to actively drive growth and market share through new sites and acquisitions.

Colleagues

“The dedication and commitment of colleagues to outstanding service provision and customer focus differentiates the Society from its competitors”



In the current challenging trading environment, the contribution and commitment of colleagues is a key factor in the Society's success. Their dedication to outstanding service and customer focus continues to differentiate the Society from its competitors.

The focus of HR policy has continued to be the provision of a rewarding and supportive employment environment with Compensation and Benefits being reviewed and benchmarked to ensure that employment provision remains competitive.

As part of the Society's stakeholder strategy, a record 'share of the profits' distribution of £1,327,000 was approved by members and issued to all eligible colleagues in June 2012 in recognition of their valued contribution to the business.

Supportive Culture and Environment

Commitment to encouraging colleague engagement and delivery continued with the 2012 "Have your Say" attitude survey. The survey generated a positive response from colleagues, with the participation rate increasing from 93% to 95%. The strongest responses from colleagues were received in respect of colleagues knowing exactly what is expected in their role; the Society operating ethically and responsibly; and customer service. Colleagues also feel that their immediate manager treats them with fairness and respect. The top improvements since the 2011 survey are that colleagues have seen evidence of positive action taken as a result of the attitude survey; are satisfied with the benefits they receive (pension, holiday, discount etc.); feel that their pay compares reasonably with similar jobs in other organisations; feel passionate about the brand; that colleague facilities meet their needs; and that colleagues encourage family and friends to purchase goods and services from the Society.

Analysis of the attitude survey enables each business area to respond to specific issues for improvement and development from the feedback provided by colleagues.

As part of the ongoing commitment to colleague engagement, the Society's HR policies and procedures are continually reviewed to ensure they demonstrate best practice, transparency and consistency in leadership and communication.

Learning & Development

During 2012, the Society invested £325,000 in the development of colleagues which included 660 learning events attended by over 4,400 participants.

The engagement and development of colleagues through leadership, development, talent management and driving high performance is critical to the delivery of the Society's vision and remains a key area of focus.

Progress made in supporting the strategy included:

Performance Management

- The roll-out of an enhanced performance management review process across the Society through a series of learning events.
- A revised standard competency framework was developed and implemented.
- A series of 'Learning Journeys' were created that describe the range of learning and development activities that colleagues can participate in to develop themselves at each stage of their career.

Management Development

- The 2012 Effective Manager programme successfully launched a new annual initiative, 'Midlands Co-operative Community Day', to support the focus on working in our local communities.
- Over 120 colleagues participated in the Retail Duty Manager Development programme.
- The Retail Management Trainee programme resulted in successful participants achieving their goal to become part of the store management team.

Investors in People (IIP)

- Funeral Services and Transport successfully achieved IIP re-accreditation, together with the whole of the Business Support Centre receiving IIP status. The Society intends to secure IIP recognition across the whole business by June 2015.

Graduate Programme

- The Society's Graduate programme has resulted in participants securing permanent roles in Finance and the Retail, Distribution and Transport businesses.
- The programme has seen further recruitment in 2012 with placements in finance and within the core trading businesses.

Risk Management

The Risk Management team ensure that the Society has an effective and robust way to identify and respond appropriately to the regulatory, reputational and commercial risks it faces. This remains particularly important in these challenging economic times.

The Management Executive continued to meet on a quarterly basis throughout 2012 in order to ensure plans to mitigate risks are progressing adequately. The outputs of this process are reported to the Board via the Audit Committee.

The team also has operational accountability for partnering all aspects of the Society's business activities in terms of Health & Safety Management and Loss Prevention.

Health & Safety

The Health & Safety team are accountable for advising the business on how to ensure that the Society manages all of its activities in such a way that everyone involved is kept safe and well.

During the year the Society built on the success of 2011 by further developing its safe systems of work. This includes provision of improved ways of working for managing accidents to achieve further reductions in these incidents. The number of accidents has reduced by 6.65% this year compared to last year.

Loss Prevention

The Loss Prevention team are accountable for ensuring that the Society's assets and people are adequately protected.

The team aims to provide expert advice to colleagues and is making good use of management information to ensure that this is directed to where it is needed in a timely way. Work continues with colleagues across the Society to ensure all premises are secure and processes are appropriate for the business.

Pension Scheme

Last year's report outlined the decision to close the Society's Defined Benefit final salary pension scheme and introduce a new Defined Contribution Group Personal Pension Plan (GPP) provided by Standard Life.

The net liability of the closed scheme increased during the year, despite an increase in the valuation of scheme assets. The improvement in asset values was offset by stronger assumptions on life expectancy and the adverse movements in respect of the gilt rate and inflation on the valuation of the liabilities.

The scheme's latest formal valuation at December 2011 revealed a deficit of £147.3m although the introduction of an asset backed funding structure significantly offset the shortfall, with no further contributions payable by the Society under the agreed recovery plan.

During the year the Society established a Joint Working Party consisting of Trustee and Management representatives to implement a risk based investment strategy to strengthen the ongoing management and targeted reduction of the scheme deficit.

The Society's new flexible retirement plan with Standard Life has now been in operation for over a year and members are able to monitor the value of their plans through the on-line 'Lifelens' facility.

The GPP Governance Committee undertook a review of the Society's pension provider and the performance of the core and lifestyle funds over the past year. This review concluded that Standard Life remained a suitable provider and the investment funds had performed satisfactorily in the year under review.

The Government has recently introduced legislation to help make it easier for people to save for their retirement. This requires all employers to automatically enrol all eligible jobholders into a qualifying workplace pension. The Society has made significant preparations towards its Automatic Enrolment staging date of 1 March 2013. This is a date set by the Pensions Regulator in accordance with the size of the workforce.

Preparation for Auto Enrolment has included an extensive communication exercise involving statutory letters to colleagues and presentations to management. The communication programme has provided details of the complex legislation involved and has increased awareness of the Society's statutory obligations.

“The Society provides a modern, flexible pension plan for colleagues to prepare for their retirement”





Midlands Co-operative won Gold in the Good Employer category at the Food and Drink Community Partnership Awards



The Society's Retail team were again recognised at the Convenience Trading Programme Awards



Three Gold awards were collected at the Chartered Institute of Public Relations Awards

Awards

The Society places great emphasis on continuous improvement and achievement of the highest standards across all parts of the business. It is therefore pleasing that Midlands Co-operative received recognition in 2012 by winning awards in a number of areas including high standards across the convenience store estate, as a good employer, internal and external communications and environmental initiatives.

The Him! Convenience Tracking Programme Awards recognise retailers that operate in the convenience sector and importantly are voted for by customers. Following the success achieved in 2011, the Society was awarded Best Convenience Retailer for Chilled & Fresh Produce and Best Convenience Retailer for Top-Up Mission in recognition of the consistently high level of product availability achieved in Society stores.

The Society was further recognised at the national Food & Drink Community Partnership Awards by winning Gold in the Good Employer category, with the judging panel commenting on the

Society's 'fantastic approach, with lots of great ideas to make colleagues feel valued and involved'.

Recognition for collaborative work on the Members' Magazine saw the Society and Midcounties Co-operative awarded Gold at the Midlands Chartered Institute of Public Relations for Best External Publication awards. In addition, the Society also won Gold in the Corporate Responsibility and Internal Communications categories, as well as being recognised as a finalist in the Internal Publication category.

The Society's internal colleague engagement scheme, Firefly, which sees colleagues support and participate in the trading businesses, collected the top award at the Institute of Internal Communication Awards in the category Best Single Campaign.

Elsewhere, the Society's combined heating and cooling system installed at Rugeley food store was awarded Refrigeration Product of the Year and shortlisted as Best Retail Project at the National Air Conditioning & Refrigeration Awards. The Society was also proud to collect the Birmingham Chamber of Commerce Sustainability Award 2012 for its sustainability projects.

Stakeholders



Stakeholder Distributions

The distributions from trading profit recognise and reward the three key groups of members, colleagues and the community for their contribution to the Society. The Membership Card records points for purchases from the Society and, based on the trading in the second half year, the Board is pleased to propose a dividend rate of 1.1 pence per point collected up to 26 January 2013. This maintains the 10% increase in dividend rate approved by members in 2012. The proposed dividend will be paid in Co-operative vouchers shortly after approval at the Annual Members' Meeting in May 2013.

The colleague dividend recognises their contribution and rewards them in line with trading success at 5% of the trading profit, before exceptional items. The Board proposes a dividend of £1,272,000, also to be paid in Co-operative vouchers once approved.

The 'Making a Difference Community Dividend' distributes 1% of trading profits to the local communities served by the Society. The proposed dividend of £254,000 will be allocated by the Board's Community Dividend Selection Committee and the Regional Committees to a wide range of community groups and good causes across the Society's trading area. This will bring the total amount granted since inception of the scheme to £1.9 million.

Membership

As at 26 January 2013, the Society had 999,184 members. The movement in the year was:

At 28 January 2012	992,865
New members	7,693
Closed accounts	(1,374)
At 26 January 2013	999,184

The core membership database of existing members, included in the total above, now stands at 143,000 and has been reclassified during the year following the introduction of the new membership card system in 2011.

The Society has adopted a Code of Practice on Withdrawable Share Capital. Under the Code, all those joining the Society or members investing through their share accounts are reminded in written documentation that share capital is risk capital. A copy of the full Code can be obtained from the Secretary and the Board takes this opportunity to state that, at present, the risk associated with members' withdrawable share capital is extremely low, given the strength of the Balance Sheet published with this report.

Through the Regional Member Relations structure a wide range of events and community activities are organised for members and their families focussed on the three themes of member development; education; and co-operative, ethical and environmental trade. Details can be found later in this report.

Corporate Matters

Political Donations

The accounts report that £117,000 (£112,000 in 2011/12) was paid to the Co-operative Party during the year. This includes support at national level and grants to the three Society Party Councils.

Corporate Governance

Corporate Governance refers to the manner in which organisations are governed and powers are distributed and exercised by different groups. It is concerned with the practices and procedures that try to ensure that an organisation achieves its objectives. As an Industrial and Provident Society, Midlands Co-operative is not required to comply with the provisions of the Combined Code, which applies to listed companies. However, Co-operatives UK has published a Code of Best Practice for consumer co-operatives, which is based on the Combined Code, but applicable to the particular governance circumstances of a Co-operative Society.

Under the terms of the Code's compliance assessment, the Board has a responsibility to ensure that the Society complies with those recommendations that are appropriate to its circumstances, or to explain its reasons where this is not the case. The Board considers this approach of 'comply or explain' to be a practical means of assessment, which recognises the diversity within the Movement. The annual statement on Corporate Governance, on page 25, includes a section covering the Society's explanations and by providing this the Board believes that it has complied with the Code.

The Society has a Code of Business Conduct, explaining its relationship with members, colleagues, suppliers and the wider community. It is also the Society's policy to agree and clearly communicate the terms of payment to suppliers and then pay according to those terms, based on the timely receipt of an accurate invoice. Society Trade creditor days of the Group for the financial year 2012/13 were 30 days (26.9 days in 2011/12). During the year the Society implemented a Procurement Policy that sets out a common, fair and consistent approach to the way in which the business procures goods and services. The new policy reflects best practice and is line with the Society's vision and values.

Corporate Responsibility

The Society genuinely strives to put co-operative values into practice in all aspects of its activity. In September, the Board approved the Society's Corporate Responsibility Policy, built around the four internationally recognised Responsible Business Framework themes of 'Workplace', 'Marketplace', 'Environment' and 'Community'. The policy forms the bedrock of the Society's 'One Vision' strategic framework, underpinning the overall strategy of the business in line with co-operative values and principles. Progress in this area is underway across the Society, with Corporate Responsibility representing a major area of focus for the future. Details of the progress on the established Co-operative, Environmental and Social Performance Indicators can be found on page 28.

Obituary

Kathleen Paterson, a former President of Midlands Co-operative Society from 1997 to 2000, passed away in February 2013, following a long illness. The Directors pay tribute to Kath's long service to the Society and the wider co-operative movement, which included 14 years representing Stafford & Stone as a Board Director and member of the Greater Midlands Area Board. Kath was also a member of the Stafford & Stone Member Relations Committee for 10 years and was Chair for five years.

Appreciation

The Directors, as always, extend their sincere appreciation to all Society colleagues for their efforts in contributing to the Society's success, and to all members and customers for their loyal support.

Paul Singh President

Martyn Cheatle Chief Executive

James Watts Secretary

21 March 2013

Corporate Governance

Internal Controls and Audit Committee

The Co-operatives UK Corporate Governance Code of Best Practice requires the Board of Directors to review the effectiveness of the Society's system of internal controls. This review covers all controls including financial, operational, compliance and risk management.

The Board of Directors is ultimately responsible for the Society's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Management Executive is responsible for the implementation, day to day operation and management of the Society's system of internal control.

The Board of Directors has an established Audit Committee, which operates as a sub-committee of the Board and is responsible for reviewing the effectiveness of the Society's system of internal control.

The Audit Committee meets three times a year to:

- monitor the integrity of the Society's financial statements, including its annual and interim reports, together with any significant financial reporting judgements contained in the financial statements;
- consider reports from the Management Executive, internal audit and external audit on the systems of internal control and any material control weaknesses;
- discuss with Management Executive the actions taken on problem areas identified in these reports or by the Board;
- review the effectiveness of the risk management process and ensure significant risk issues are referred to the Board for consideration so that appropriate steps can be taken to minimise such risks to the Society;
- consider the effectiveness of the operation of the internal audit function;
- consider the appointment of external auditors and in conjunction with management agree the nature and scope of the external audit review;
- review the external audit management letter and the management response to the report;
- review the Society's whistleblowing procedures to ensure arrangements are in place for employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

The Audit Committee also has a duty to discuss problems and reservations arising from the Society's audit and any matter the auditor may wish to discuss, if necessary in the absence of any management.

In addition, the Audit Committee carries out a periodic self-evaluation so as to ensure that the remit set by the Board of Directors is being fully satisfied. In accordance with its terms of reference, the remit of the Audit Committee is reviewed by the Board at least every three years, so as to ensure that it fully meets best practice in corporate governance. The Board most recently carried out this review in August 2010 and no amendments were considered to be necessary.

The Board and the Executive

The Society strives for the highest professional standards and business performance and seeks to maintain these standards across all of its operations. The Society has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Society objectives. The organisational structure has clearly defined lines of responsibility and of delegated authority.

The Board, elected by members, and Management Executive have primary responsibility for setting the Society's strategy and monitoring delivery of that strategy by management, identifying key business risks facing the Society and for the development of policies and procedures to manage those risks. The Society operates a risk management process, which identifies the key risks facing each business and reports to the Management Executive and Audit Committee on how these risks are being managed. Regular self-assessment audits are carried out across the business and these self assessments are validated on a sample basis.

The Society's Internal Audit department performs independent reviews of operational and financial control procedures across the business. The Risk Management team is accountable for ensuring the Society identifies and responds appropriately to the risks it faces, reporting formally to the Society's Risk Management Committee which in turn is accountable to the Board for the appropriate management of risk. There is a continuous process for identifying, evaluating and managing the significant risks faced by the Society which operated during the year under review and up to the date of approval of the Annual Report and Financial Statements. This process, which includes the prioritisation of key risks, is regularly reviewed by the Board of Directors.

The Risk Management team also has operational responsibility for Health & Safety management and Loss Prevention. The Risk Management department works closely with the Internal Audit function in order to provide an integrated approach to the prevention, detection and reduction in losses arising from identified risks. Progress against management action plans to overcome internal control weaknesses and business risks, is monitored and reported to the Audit Committee.

Society management recognise the risks attendant on all areas of business resulting from operating in increasingly competitive market places and continue to review processes and procedures with the objective of ensuring effective controls are maintained, overcoming any identified weaknesses and achieving business efficiencies. Where problems do arise positive action is taken to implement appropriate control mechanisms.

Accordingly the Board of Directors confirm that the effectiveness of the system of control for the year commencing 29 January 2012 and ending on 26 January 2013 has been reviewed in line with the criteria set out in Corporate Governance Code of Best Practice.

“The Society strives for the highest professional standards and business performance and seeks to maintain these standards across all of its operations”

Code of Best Practice 2005

The Code represents a significant expansion and updating of its previous version with which the Society had a 98% compliance rating. The Code and its Appendices are comprehensive in scope. However, Co-operatives UK has recognised that co-operative societies differ in scale, size, trading profile and resources and that it is inevitable that levels of compliance will differ for acceptable reasons. The approach to assessing compliance is that societies should review their rules, practices and policies, in the context of what is appropriate for their circumstances, and provide explanations where these do not comply strictly with the Code.

The following explanations are, therefore, provided:

- **Remuneration Report**

The report confirms that the disclosure in the notes to the accounts complies with accounting standards and is at a level and in a format deemed appropriate by the Board.

- **Board Size**

The Board believes that size should relate to the democratic structure of a particular co-operative and that under the Society's structure, 16 Directors is sufficiently close to the recommendation of 7 to 15.

- **Refreshing the Board**

The Society imposes an age rule of 70, in preference to mandatory breaks in service, given the Code's understandable emphasis on Director training, competence and continuity.

- **Search Committee**

The Board has not considered it necessary to establish such a Committee, as it believes the designated issues are sufficiently important and capable of being dealt with by the Board as a whole.

- **Independent Professional Advice**

The Code prescribes that one third of the Board should be sufficient to access such advice in order to meet their responsibilities, however, the Board believes that a simple majority is the appropriate criterion for all of its decisions.

- **Appraisal of the Board and Individual Directors**

The Board does not undertake a formal annual evaluation of its own performance or that of individual Directors. It does, however, continue to identify the need for specific training and undertakes such training from time to time on relevant matters. In addition, Directors regularly attend training events held throughout the year in collaboration with the Co-operative College.

- **Board Meeting independent of Executives**

The Board do not meet independently on a scheduled basis, but recognises that it has the authority to do so, should circumstances arise.

Remuneration Report

The Remuneration Committee

The Remuneration Committee is a Sub-Committee of the Board of Directors and is responsible for all aspects of remuneration and contractual terms and conditions of the members of the Society's Management Executive. The Committee sets the remuneration policy and strategy for these individuals and determines appropriate levels of reward which are subject to confirmation by the Board. The Committee's terms of reference do not include consideration of Directors' fees and expenses. The Board directly formulates any proposals on these issues for the approval of Members.

The Remuneration Committee is composed entirely of non-employee Directors who have no day-to-day involvement in the management of the business. Membership of the Committee during the financial year was Paul Singh, Frank Croft, Rod Findley and Keith Redfern. Following the Board Sub-Committee appointments in May 2012, Maria Lee and John Howells were appointed to the Committee, replacing Frank Croft and Rod Findley.

The Committee is chaired by the President. The Chief Executive attends meetings of the Committee to make recommendations relating to the remuneration of the Management Executive. The General Manager, Human Resources provides advice and guidance to the Committee and the Society Secretary is Secretary of the Committee. The Chief Executive is not in attendance when his own remuneration is considered.

The Remuneration Committee has access to an external specialist consultancy to provide independent, professional advice to them on remuneration policy, salary ranges and other elements of remuneration, when required. The Committee met three times during the year.

Remuneration Policy

The Society's remuneration policy for the Management Executive is to apply the median of market base salaries once the individual has become fully established in post and performance is viewed as fully acceptable.

Elements of Remuneration

Management Executive total remuneration consists of Salary, Pension, a performance related Incentive Scheme and other benefits.

Details of the remuneration of the Management Executive are provided in note 3 to the Accounts in a format deemed appropriate by the Board.

Salary

The Committee's objective is that base salaries for the Management Executive should be at the median level for the relevant sector, having regard for job scope, function and the size and complexity of the business. The Committee reviews the base salaries annually or when a material change in responsibility or scope occurs.

Pension

Members of the Management Executive are eligible to join the Society's defined contribution Group Personal Pension Plan and all but three were members at January 2013.

A pension opt-out arrangement exists for all members of the Management Executive to apply in circumstances where an individual's accrued pension benefits reaches the Lifetime Allowance threshold, as defined by HM Revenue & Customs. In such cases, the individual is entitled to receive a taxable salary supplement equivalent to the Society's prevailing employer pension contribution rate. The pension opt-out arrangement was implemented in respect of the Chief Executive in April 2012.

Incentive Scheme

In June 2011, the Board approved the implementation of a revised Management Executive Incentive Scheme. The revised Scheme is set below the market base for comparable schemes, incorporating long term and short term targets based on both financial and non-financial measures. Any payments due under the Management Executive Incentive Scheme are non-pensionable. The revised Scheme is designed to reward performance over a rolling three year period and incorporates long term targets covering cumulative trading profit, customer service and colleague engagement. The Scheme replaced the previous Management Incentive Plan that had operated since 2003/04. For the year ended January 2013, incentive costs of £300,000 (2012: £321,000) are recognised in the financial statements of which £210,000 is payable in respect of performance in 2012/13, with a further £90,000 potentially payable in respect of long term incentive grants, subject to performance of the business during the three year periods ending January 2014 and January 2015.

Other Benefits

Other benefits provided to the Management Executive include permanent health insurance; private medical insurance; medical examinations; and the provision of a car or a non-pensionable cash alternative.

Service Contracts

All members of the Management Executive, including the Chief Executive, are entitled to 12 months' notice.

Corporate Responsibility

“As a responsible business, owned by our members, we believe that Corporate Responsibility is integral to the long term sustainability of Midlands Co-operative Society”

During 2012, the Society put in place plans to build on existing environmental, social and ethical projects by developing a new Corporate Responsibility Policy and by continuing to work in partnership with Business in the Community (BiTC).

As an ethical retailer, the Society has chosen to adopt the leading UK corporate responsibility standard, BiTC's Responsible Business Framework, to help manage and assess our environmental and social impact pillars:

- Workplace
- Marketplace
- Environment
- Community

Supporting our Communities

Midlands Co-operative is committed to making a real difference to communities in its trading area. The contribution the Society makes to local communities is a key element of our approach to Corporate Responsibility, and is particularly important given the current economic climate.

The Community Dividend Fund distributes 1% of trading profits to support communities served by the Society. In 2012, £266,000 was approved by members to distribute to community groups and good causes across the Midlands. In the eight years since the Society's Community Dividend Fund was introduced, 840 grants have been awarded, totalling over £1.6 million, to causes ranging from developing school gardening club facilities, providing a local junior netball team with training and sports equipment, to restoration of an historic garden, and many more besides. In 2012 locally sourced product range 'A Taste of...' was introduced, which included food and drink produced within a 50 mile radius of the Society food store that stocks them. Through stocking locally sourced products the recruitment, nurturing and support of smaller suppliers help to strengthen their relationships with the communities in which they operate. The locally sourced product range fulfils the co-operative principles of supporting local economies and communities, offering greater choice to customers and helping to lessen the impact on the environment by reducing food miles.

Charity Partnership

The Society's two year colleague elected charity partnership with Newlife Foundation began in May 2012. Newlife Foundation is a national charity that funds a range of specialist equipment designed to meet the needs of disabled children - to aid mobility, safety and comfort - and they also offer a 'Just Can't Wait' service which provides loan equipment for terminally ill children within 72 hours. Since May 2012, colleagues have raised over £160,000 for Newlife Foundation, with every pound raised by Midlands Co-operative going towards helping children within the Society's trading area. In November the Society entered a partnership with the Salvation Army to site their clothing banks at 72 retail stores. The clothing banks will provide an income which will be shared 50/50 between the Salvation Army and Midlands Co-operative. The Society's 50% share will be donated to Newlife Foundation.

Ethical Trading

In March 2011, the Government launched the Department of Health Responsibility Deal in partnership with the UK retail industry. This is a voluntary rather than legislative approach to business involvement and commitment to improving public health. Working with the Co-operative Retail Trading Group, the Society has joined major national retailers in supporting this important initiative on a number of food, alcohol, health at work and physical activity pledges.



The Four Key Pillars of our Corporate Responsibility Strategy

Our aim is to focus our efforts on areas of real need and where we can have the greatest impact and / or influence.



With the number of people who use food banks in the UK doubling every year and set to reach 250,000* during 2013, Midlands Co-operative is committed to increasing its work with charities which distribute surplus food from retailers to people and communities suffering from food poverty. Having completed a successful trial in 2012 the Society has established a partnership with the charity FareShare to collect food with a short shelf-life from the chilled and ambient depots in Leicester to be distributed to people in food poverty in the Leicester area. In November, a trial began with Esther Community Resources (ECR) based in Birmingham to collect surplus food from the Society's Erdington store and distribute to the local community food bank in the surrounding area.

Promoting Co-operation

As part of the Society's commitment to support the 2012 International Year of Co-operatives, US \$250,000 has been pledged to the Global Development Co-operative, an initiative which will provide affordable loans to co-operatives in developing countries to expand through capital and infrastructure projects. Midlands Co-operative is proud to support this ground breaking initiative which will provide an important legacy in empowering people to lift themselves out of poverty.

Environment

The Society is committed to protecting the environment by reducing waste, improving efficiencies, lowering carbon emissions and preserving natural resources. The aim is to develop business in a sustainable manner, reduce impact on the environment and continue to support the environmental policies of the wider Co-operative Movement.

During 2012, the Society put in place plans to build on existing environmental projects by developing a new Environmental Policy which will be supported by an implementation programme, with clearly defined specific measurable targets to improve the Society's environmental performance.

Reducing Waste

Since 'Zero to Landfill' was achieved in all of the Society's food stores in June 2011, the initiative has been rolled-out across the entire Retail business and the Business Support Centre in Lichfield is planned to be 'Zero to Landfill' by Spring 2013.

In addition to the 'Zero to Landfill' initiative, waste prevention has been identified as a key objective for the Society. Preventing waste not only helps to preserve natural resources it is also far more cost effective to prevent waste occurring in the first place.

Midlands Co-operative has been working in partnership with one of its key fresh food suppliers, Fyffes, on preventing waste in the supply chain via a cross industry project led by the Institute of Grocery Distribution (IGD) and funded by Waste Resources Action Programme (WRAP). Working on this project has delivered a number of benefits to the Society: finding innovative solutions for waste prevention; preserving natural resources; reducing impact on the environment by reducing CO₂ emissions from waste; reducing costs and sharing best practice across the grocery sector. It is intended to roll out the key learnings across the Society's fresh produce supply chain throughout 2013.

* The Trussell Trust 2012

“ We are committed to reducing waste, improving efficiencies, lowering carbon emissions and preserving natural resources”



Energy Efficiency

Midlands Co-operative has received the Carbon Trust Standard in recognition of its commitment to reducing and reporting carbon emissions. Throughout 2012 efforts have continued to focus on improving our energy efficiency and reducing CO₂ emissions.

The Society's organic growth programme has delivered investment in new energy efficient equipment including new refrigeration and environmental systems, the trial of chiller doors in food stores and low energy lighting.

The Wigston food store, which opened in July 2012, combines a number of environmental features making it one of the Society's most energy efficient stores. Energy monitoring data compiled from the Wigston store will also help to drive further improvements for both new and existing stores. Solar photo voltaic (PV) panels have been installed at the Business Support Centre in Lichfield, which will reduce the Society's annual CO₂ emissions by 21 tonnes.

Investment at the Society's Food Distribution Centres in Leicester has included the installation of new low energy lighting. This, combined with having one of the most energy efficient distribution fleets in the UK, and efficiencies made through route planning and driver training, mean that Midlands Co-operative is making a real difference in reducing the environmental impact of the Society's distribution business.

The Florist business is continuing its efforts to reduce its carbon footprint when delivering flowers to customers by trialling a fully electric vehicle supplied by the Society's Motor dealership business. The trial will reduce the Society's carbon footprint and also provide valuable feedback to the Motor dealership.

Installation of smart meters across the Society's estate has increased the recording of half-hourly energy consumption data to cover 85% trading properties and help to drive colleague awareness of energy consumption and carbon reduction.

Preserving Natural Resources

According to recent research, the world population is consuming 50% more natural resources globally than the planet can sustainably produce*. As an ethical business, the Society believes it has a responsibility to current and future generations to use natural resources in a responsible manner. In recognition of its approach to ethical sourcing, the Society's coffin manufacturing business, Terry Smiths, achieved Forest Stewardship Council (FSC) accreditation, guaranteeing that the trees harvested for coffin manufacture are replaced or allowed to regenerate naturally. This achievement underlines the continued commitment of the Funeral business to reduce its impact on the environment.

Industry Recognition

In 2012 Midlands Co-operative received industry recognition for progress made in minimising the Society's impact on the environment.

A Sustainability Award at the Birmingham Chamber of Commerce Annual Awards in April was received and ground breaking work on new store developments resulted in the Society being awarded "refrigeration product of the year" at the Air Conditioning and Refrigeration Awards in November.

The Society also received the Chartered Institute of Public Relations (CIPR) Pride Corporate Responsibility Award for its campaign to engage primary schools in the Zero to Landfill Challenge with the aim of strengthening links with local schools to educate children about the importance of being an ethical and sustainable retailer.

* WWF's Living Planet Report 2012

Co-operative, Environmental & Social Performance Indicators

As a co-operative the Society aims to operate its business in accordance with co-operative values and principles and use ten performance indicators, as defined by Co-operatives UK, to monitor our year on year performance.

AREA	MEASUREMENT	OUTCOME	2012	2011
Member Economic Involvement:	Trade (£) conducted with members as a proportion of turnover accessible to members (%)	Sales to Members	£134m (20.2% of turnover)	£123.9m (18.3% of turnover)
Member Democratic Participation:	Number of Members voting in elections and as a % of total membership	Members who voted	1,656 (1.2% of active Members)	361 (0.2% of active Members)
Participation of employees and members in training and education schemes:	All types of colleague learning events, and Member training including Committee members	Learning events Employee participants Member training hours	660 4,412 1,175	721 4,576 1,208
Staff Injury and Absentee rates:	Staff injury rates (full/part-time) broken down by RIDDOR regulations and others	Reportable accidents Routine accidents	34 1,103	55 1,147
Staff Profile – gender and ethnicity:	% male/female employees	% male employees % females employees % employee ethnicity data held for	33% 67% 85%	34% 66% 84%
Customer Satisfaction %:	Number of customers satisfied as %	Food stores' customer satisfaction	96.2%	96.2%
Considerations of ethical issues in procurement and investment decisions:	Qualitative description of how these factors are considered in the course of business	Code of Business Conduct together with the environmental and procurement policies increasingly used in competitive tendering	Yes	Yes
	£ Fairtrade products sold	Sales of Fairtrade products	£8.8m	£6.7m
Investment in community and co-operative affairs:	Annual proportion of pre-tax profit invested in community as proportion of profit before tax%	Community Dividend Additional Donations Corporate Charity	£238,000 £12,500 £160,000 (9 months)	£204,000 £12,600 £461,000 (2 years)
	Annual proportion of pre-tax profit invested in other co-operatives	Funding to other Co-operatives	£257,000*	£20,000
Net Carbon Dioxide (CO₂) emissions arising from operations (tonnes):	Annual CO ₂ emissions associated with energy used for all on-site operations i.e. offices/shops (excludes transport)	Tonnes of CO ₂	45,589 (301 premises)	51,131 (374 premises)**
Waste recycled / reused as % of waste arising:	% of recycled / reused (including scrap/effluent waste)	% waste recycled	63%	62%

*The Energy Saving Co-operative £230,000, other co-operative organisations £27,000

**Includes Travel shops

Members

“Members of the Society are involved in the affairs of the business at every level, from trading with us to becoming a member of our Board of Directors”

As a democratically-led organisation, every member has the opportunity to influence the way the Society is run through attendance at members' meetings, voting in elections and standing for committees.

Being a member of Midlands Co-operative brings advantages which include sharing in the success of the business through the dividend paid to members, supporting the ethical and co-operative values that underpin the Society and taking part in social, recreational and educational events organised by three Regional Member Relations Committees. The Committees are organised geographically into the Northern, Western and Eastern & Southern Regions.

In 2012, Member Relations activity focussed on the three themes of member development; education; and co-operative, ethical and environmental trade. Activities and support to members and communities has been wide-ranging and included ethical challenges, supporting new store openings, and promotional events such as tastings and food fairs.

Member Development

The United Nations designated International Year of Co-operatives (IYC) was a key area of Member Relations activity throughout 2012, with a range of learning and celebration events delivered across the Society's trading area. This included a joint regional IYC Celebration Event for member groups. Each group shared how they had contributed to the IYC, which included Cotesbach Co-operative Art Group presenting a copy of the Lowry painting of Cleaton Moor Co-op to the Society. A Brass & Voices Concert was held in Corby in recognition of IYC where the Ratby Co-operative Band and the Midlands Co-operative Corby Ladies Choir performed with over £450 raised for the Society's corporate charity. Member Relations also teamed up with Oxfam for an event which promoted members' involvement in the community and recognised what they have gained from membership of Midlands Co-operative. The event involved demonstrations from member groups, a presentation from Oxfam and a variety of stall holders including the Funeral business and the Woodcraft Folk.



The International Year of Co-operatives culminated in the Co-operatives United celebration in Manchester at the end of October 2012. At the week-long event, co-operatives from across the world came together to share information, network and celebrate. Member Relations organised the attendance of almost 400 Midlands Co-operative members from across the Society's trading area to experience this major event.

Social, educational and cultural activities continued to provide an additional benefit to members. From Art classes to Zumba, Tai Chi to Modern Sequence Dancing, History Groups to a Film Co-operative and from Spanish to Sugar Craft, member activities across the trading area enable members to meet, learn and have fun! Member groups also hit the headlines in 2012. As part of the Teddies for Tragedy campaign, one Northern Region craft group co-ordinated the knitting and donation of over 330 teddy bears for children affected by the Chernobyl nuclear disaster. The MCS Repertory Company delivered various amateur dramatic performances throughout the year, including a successful pantomime 'Rumpelstiltskin' which was showcased at the Old Rep, Birmingham.

As it was a particularly special year for co-operation, educational visits for members included trips to the Robert Owen Museum in Newtown and the recently modernised Rochdale Pioneers Museum which promotes understanding of the ideals and principles of the Co-operative Movement. Members also visited a Biogen plant which helped demonstrate the Society's 'Zero-to-Landfill' commitment and Terry Smith's Coffin Makers, part of Midlands Co-operative's Funeral business.

To celebrate the Queen's Diamond Jubilee, Tea Dance groups came together from the Western and Eastern & Southern Regions to celebrate with Fairtrade tea, coffee and cakes at Burton Town Hall, whilst at the annual Senior Members' Gathering in Derby, entertainment and tea were provided to celebrate over 60 years of co-operative membership.

Co-operative, ethical and environmental trade

Member Relations was active in supporting the Society's food store growth in 2012 by promoting membership at new openings at Launceston Road in Wigston, Rothley, Burbage and Tivdale.

Activities offered by the Member Relations team on promoting Fairtrade were very popular including school assemblies, presentations and tastings. In partnership with Melton Fairtrade Town Committee an awareness event was held at the Society's store, giving local people a first-hand opportunity to learn about how Fairtrade is important to a banana grower from St. Lucia. Member Relations also supported Fairtrade events in Ashbourne, Derby, Leicester, Lichfield, Stafford and Syston during the year. Member Relations took part in a Chesterfield College event with the local Fairtrade group and worked with students to complete pledges for the Fairtrade Fortnight Campaign. Support was also given to a Birmingham University Fairtrade Fashion Show and a European Youth Parliament event in the West Midlands.



The Society supported a week long event to mark the International Year of Co-operatives



Member Relations help local children bake cupcakes to mark the Olympic torch passing through Chesterfield



Children from a local Derbyshire School visit a farm as part of the 'Farm to Fork' initiative



“Promoting the Society as a leading ethical retailer, encouraging members and the wider community to trade with us”

The Midlands Co-operative Ethical Challenge provides a great opportunity for community groups to visit food stores and take part in an interactive session to answer questions relating to products. The Ethical Challenge highlights the Society's difference as a co-operative, ethical retailer and events were held at a number of stores including Littleover, Melton Mowbray, Oakham and Ripley.

Community partner engagement events entitled 'Principle 7 Concern for the Community', one of the seven co-operative principles, were held in Kettering and Melton Mowbray. These sessions were planned to explore opportunities for partnership working and demonstrate the Society's support to the local community. 'Recycle your Bicycle' is an example of one of the initiatives that resulted from the event. Working in partnership with Groundworks, an event held at the Society's Melton Mowbray store invited the local residents to donate their old or unused bicycles.

Bicycles were taken away for refurbishment to sell on to low income families at affordable prices or to be used for parts. Customers were also given the opportunity to have their cycles serviced by the 'Bike Doctor'. No part of the bike ends up on landfill sites and everything is recycled. 'Recycle your Bicycle' events were also held at stores at Aikman Avenue in Leicester, Coalville and South Wigston.

Member Relations worked with retail colleagues and Chesterfield College at the Derbyshire Food and Drink Fair to offer fruit and vegetable smoothies. With the London 2012 Olympics and Paralympic Games torch passing through the Northern Region, a stand was set up in the Chesterfield Department store for children to make their own colourful cup cakes. Member Relations took part in the Society's 'Community Day' in Department Stores and Superstores, whilst a sprinkle of celebrity arrived at the Ilkeston Department Store with a 'David Beckham look-a-like', where members and customers were treated to test products and enjoy mulled wine and mince pies.

Education

Healthy eating was a key theme of educational activity in 2012. The team worked in partnership with a Dietician and Healthy Schools Co-ordinator at Rolleston and Rowlatts Hill Primary Schools to promote healthy eating and a 'Lunchbox Challenge'. Interest in the Healthy Breakfast and Shopping Challenge sessions was very high. As part of the project, students are given the opportunity to have a healthy breakfast in store cafés and discuss issues on healthy eating and food labelling. This is then followed by the Shopping

“Delivering co-operative learning experiences in the Society’s trading area, highlighting co-operative values and principles”

Challenge where, with a virtual set budget, teams of students are given the task of buying three healthy meals for a family for a day. In the Northern Region 198 students took part in these sessions at Parkside, Springwell and Newbold primary schools, Netherthorpe School, Derby Grammar School and Ripley Junior School.

Smoothie Bike events offered members and customers the chance to make their own fruit smoothies in a fun and healthy way. Various events were held at John Ferneley School, Market Harborough and Whetstone stores, Melton Vale Post 16 Centre and Melton Mowbray Food Festival.

In a ‘Farm to Fork’ project which aims to increase young people’s knowledge on where food comes from, 40 pupils from local schools visited the Co-operative Farm at Stoughton, Leicestershire where students learn more about how food gets from farms to our plates at home.

Engagement with partners was further highlighted in various other activities. An NHS and Co-operatives promotional session was held in the Western Region with presentations from Midlands Co-operative, NHS Trusts and the Co-operative College. A series of Co-operative Masterclasses run by Young Enterprise in partnership with Member Relations colleagues and Committee members were delivered in eight secondary schools and colleges. Students were given topics to research and present back on including co-operative history, Fairtrade, environment and healthy eating. A ‘Cheeky Monkeys’ workshop was supported by Member Relations with a Halloween theme for children aged 4 and above, which taught them about sharing and co-operation. A ‘Dying Matters’ event was held at Melton Mowbray Library in collaboration with the Funeral business. Work with the Police, local schools and community groups over three days delivered a Community Art Project at Kents Moat, Birmingham.

Summary

Given the breadth of Member Relations activity in 2012, this report provides just a flavour of events and initiatives that have taken place across the Society’s trading area over the last twelve months. Regional highlights are given at the Annual Members’ Meetings in April and May 2013. More information about member and community activities can be found on the members’ website www.members.coop, by following the Society’s twitter account @MidlandsCo_op or visiting our Facebook page [facebook.com/midlandscooperative](https://www.facebook.com/midlandscooperative). Regular updates are also provided in the Society’s award winning Members’ Magazine.



Pupils from Oakham Primary School create works of art with waste packaging from Oakham food store



‘Recycle your Bicycle’ events have been held across the Society’s trading area giving customers the chance to recycle or have their bicycles serviced



Baskets of fruit were provided to children of Chernobyl on a recent visit to the Midlands

Statement of Directors' Responsibilities

The directors are responsible for preparing the Directors' Report and the Society's 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Industrial and Provident Society law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Society and of the profit or loss of the Society for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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 adequate accounting records that are sufficient to show and explain the Society's transactions and disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that the financial statements comply with the Industrial and Provident Society Acts. They are also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

So far as the directors are aware, there is no relevant audit information of which the Society's auditors are unaware and they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.



PRESIDENT

VICE-PRESIDENT

CHIEF EXECUTIVE

SECRETARY

L-R: Martyn Cheatle Chief Executive, **Paul Singh** President, **Maria Lee** Vice-President, **James Watts** Secretary

Report of the Independent Auditors

Independent auditors' report to the members of Midlands Co-operative Society Limited

We have audited the financial statements of Midlands Co-operative Society Limited for the 52 weeks ended 26 January 2013 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, the accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of the directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 33, the Directors are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 9 of the Friendly and Industrial and Provident Societies Act 1968 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Society's affairs as at 26 January 2013 and of its profit and cash flows for the 52 weeks then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the Friendly and Industrial and Provident Societies Acts 1965 to 2002 and the Industrial and Provident Societies (Group Accounts) Regulations 1969.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Act, 1965 to 2002 require us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the Society has not kept proper accounting records; or
- the Society's financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations we need for our audit.

Opinion on Voluntary Disclosures – Corporate Governance Statement

The Society prepares a Corporate Governance Statement including details of the Society's compliance with the Co-operatives UK Limited's Corporate Governance Code of Best Practice issued in May 2005. The Directors have requested that we review whether the statement on pages 21 to 23 reflects the Society's compliance with paragraph D1.1 (paragraph 5), D2.1, D2.4, D3.1 (paragraph 3) and D3.2 of the Co-operatives UK Limited's Corporate Governance Code of Best Practice. We have nothing to report in respect of this review.

Christopher Hibbs

Senior Statutory Auditor

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

East Midlands

21 March 2013

A blue sign for Midlands Co-operative is shown against a clear blue sky. The sign is rectangular and has a light fixture mounted on top. The text on the sign is white and slanted. The top part of the sign reads "Midlands Co-operative". Below that, it says "The **co-operative** good for everyone". At the bottom, the website address "www.midlands.coop" is displayed.

Midlands
Co-operative

The **co-operative**
good for everyone
www.midlands.coop

Accounting Policies

Accounting Basis

The following accounting policies have been applied consistently in dealing with the items which are considered material in relation to the Group financial statements. The Group financial statements are prepared in accordance with applicable UK accounting standards, using the historical cost convention modified to include the revaluation of certain land and buildings.

Accounting Date

The Group financial statements are prepared to the fourth Saturday in the year ended 31 January. The current period is for the 52 weeks ended 26 January 2013 (2012: 53 weeks ended 28 January 2012). Oakwell Stores Society Limited prepares its financial statements to 31 January each year. Advantage Motor Group Limited prepares its financial statements to 31 December each year. Shaws Petroleum Limited last financial statements were prepared to 30 June 2012. Shaws Petroleum Limited year end has been changed to the fourth Saturday in the year ended 31 January in line with the Group.

Basis of Consolidation

The Group financial statements consolidate the financial statements of Midlands Co-operative Society Limited and all its subsidiaries. The results of businesses acquired during the year are included in the Group financial statements from the dates of their acquisition using acquisition accounting standards. Midlands Co-operative Society Limited has not presented its own financial statements as part of these Group accounts as these are filed separately.

Turnover

Turnover, as disclosed in accordance with Application Note G to FRS 5, includes cash sales, goods sold on credit, commissions and property rental income. It is stated net of VAT, discounts and incentives. Travel commissions are recognised at the point of sale, with appropriate provision for anticipated cancellations.

Gross Sales

Gross sales is a memorandum disclosure and represents the total transaction value of all our services and hence includes the total amount paid by customers, as opposed to the commission earned using the Group's turnover definition.

Investment Income

Interest receivable is accounted for on an accruals basis. Dividends are accounted for when received.

Goodwill

Goodwill, being the excess of the consideration paid for a business over the fair value of its net assets, is capitalised and amortised evenly over its useful economic life. The useful economic life is assessed individually for each acquisition with a maximum useful life of 20 years. In accordance with FRS11, an impairment review is undertaken after the first full year of acquisition, or if an event occurs which would impact the carrying value of the goodwill.

Depreciation

Depreciation is provided on all tangible fixed assets, other than investment properties, properties under development, assets in the course of construction and freehold land, at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Freehold buildings	2% per annum
Leasehold properties	Over the unexpired part of the lease
Plant & machinery, fixtures & fittings	6.7% - 33.3% per annum
Petrol filling station decommissioning costs	2% per annum
Funeral fleet vehicles and other transport	12.5% - 20% per annum

Additional depreciation may be charged where directors consider there has been an impairment in the underlying value of an asset.

Accounting Policies

Repairs

Repair expenditure is charged to the revenue account in the year that the cost is incurred.

Investment Properties

Certain of the Group's properties are held for long-term investment and, in accordance with SSAP19:

- (i) investment properties are revalued at least once every five years at open market values by external valuers. In all other years, all investment property valuations are reviewed on a 'desktop' basis. All surpluses and deficits arising are taken directly to the revaluation reserve except that any permanent diminution in value of an investment property is taken to the revenue account for the year; and
- (ii) no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years remaining on the lease.

Investments

Investments in shares are stated at the lower of cost and net realisable value. Net realisable value is based on the discounted cash flows expected to arise from the investment, using an appropriate discount rate relevant to the investment. Provision for any impairment in value is considered annually.

Stocks and Long-Term Contracts

Stocks are stated at the lower of cost and net realisable value. Cost of manufactured goods comprises materials, direct labour and appropriate overheads incurred in the normal course of business in bringing the product to its current location and condition. Consignment vehicles are regarded as being effectively under the control of the Group and are included in stocks on the balance sheet as the Group has the significant risks and rewards of ownership even though legal title has not passed. The corresponding liability is included in trade creditors. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation.

Some of the Group's Transport contracts are considered to be long-term contracts and, in accordance with SSAP9, where they are considered to be profitable the Group recognises profit up to the year end date.

Deferred Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pension Costs

The Group's defined benefit pension scheme was closed to future accrual and new entrants on 30 July 2011 and curtailment gains were calculated in accordance with FRS17. The assets of the scheme are held in separate trustee administered funds.

The deficit on the defined benefit scheme is recognised in full on the balance sheet and represents the difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date.

Finance income is recognised in the revenue account based on the expected return on pension assets less the interest on pension scheme liabilities.

Differences between the actual and expected return on assets, experience gains and losses and changes in actuarial assumptions are included directly in the statement of total recognised gains and losses.

Accounting Policies

The Group also operates a defined contribution scheme. The contributions payable to the scheme in respect of the accounting period are charged to the revenue account.

Assets Leased to the Group

Assets held under finance leases are capitalised in the balance sheet at cost and are depreciated in accordance with the Group's normal accounting policy. The interest element of the rental obligation is charged to the revenue account over the period of the lease based on the balance of the outstanding commitment. The outstanding commitment is analysed between current and long term liabilities. Rentals due under operating leases are charged to the revenue account in the year that the cost accrues.

Onerous Lease Provision

Where the Group is committed to future rental payments on a property that are in excess of rental incomes received, an onerous lease provision is made. The provision is discounted based on the Group's current cost of borrowing and the interest factor unwinds on an annual basis through the interest payable line in the revenue account. Provision is also made where the cash flow of the trading outlet is not expected to cover the lease commitments.

Decommissioning Provision

Provisions are made in respect of decommissioning obligations for petrol filling stations. The amounts provided are based on the Group's best estimate of the present value of costs to be incurred to decommission the fuel tanks in the future.

Funeral Plans

Amounts received in advance for funeral plans are recorded as liabilities on the balance sheet. The liability has been apportioned between current and long term liabilities based upon the Group's experience of funerals carried out under its pre payment plans over the last five years. All money received for funeral plans taken out from 1 January 2002 is paid into a contract for whole life insurance on the life of the customer for the purpose of providing the funeral and disclosed within fixed asset investments at cost. This investment strategy complies with the provisions of the Financial Services and Markets Act 2000. All money received for funeral plans taken out before 2002 is held in a separate trustee administered bank account and disclosed within current assets. Interest income earned on the cash deposit in the year is not recognised in the revenue account, but is held on the balance sheet in funeral plan debtors and released to profits on performance of the related funeral.

Holiday Pay

For employees who commenced employment on or before 1 April 1998, the Group accrues for the cost of outstanding holiday entitlement. These employees were required to accrue one year of their annual holiday entitlement before taking any holiday. The required accrual is calculated by multiplying one year of their annual holiday entitlement for each employee by their current daily pay rate.

Share Interest

The Society's members' share capital maintains a fixed nominal value and attracts interest. Share interest is disclosed as a movement in equity and within the reconciliation of movements in members' funds.

Payments to and on Behalf of Stakeholders

The surplus shown in the revenue account is not considered to be attributable solely to the members, but also to various stakeholders including the Group's employees, charitable institutions or other organisations with objectives or purposes consistent with those of the Group.

Payments to and on behalf of stakeholders are recognised in accordance with the Group's rules to include approved dividends, member relations costs and donations to the Co-operative Party. Payments to and on behalf of stakeholders are recognised in the revenue account in the period in which they are approved by the members.

Management Executive Incentive Scheme

The Group has a long-term Management Executive Incentive Scheme in place to incentivise the Management Executive within the Society. An expense is recognised over the vesting period of 3 years based upon meeting specific targets and objectives.

Group Revenue Account

For the 52 weeks ended 26 January 2013

	Note	2013 52 Weeks Continuing £'000	2013 52 Weeks Discontinued £'000	2013 52 Weeks Total £'000	2012 53 Weeks Continuing £'000	2012 53 Weeks Discontinued £'000	2012 53 Weeks Total £'000
GROSS SALES (including VAT)		731,726	-	731,726	709,468	228,168	937,636
Less Value Added Tax		(62,043)	-	(62,043)	(58,559)	(295)	(58,854)
GROSS SALES (excluding VAT)	1	669,683	-	669,683	650,909	227,873	878,782
TURNOVER	1	663,635	-	663,635	643,698	32,241	675,939
Cost of sales		(462,514)	1,031	(461,483)	(445,272)	(13,713)	(458,985)
GROSS PROFIT		201,121	1,031	202,152	198,426	18,528	216,954
Expenses	2	(176,818)	102	(176,716)	(174,914)	(15,490)	(190,404)
TRADING PROFIT BEFORE EXCEPTIONAL ITEMS		24,303	1,133	25,436	23,512	3,038	26,550
Exceptional (expense) / gain	4	(8,528)	-	(8,528)	5,719	(161)	5,558
TRADING PROFIT		15,775	1,133	16,908	29,231	2,877	32,108
Gain / (loss) on disposal of fixed assets		193	-	193	(106)	-	(106)
(Loss) / profit on disposal of businesses		-	(83)	(83)	816	5,061	5,877
PROFIT BEFORE INTEREST AND TAXATION		15,968	1,050	17,018	29,941	7,938	37,879
Net interest (payable) / receivable	5			(1,270)			956
Other finance income	16			3,879			377
PROFIT BEFORE PAYMENTS TO AND ON BEHALF OF STAKEHOLDERS				19,627			39,212
Payments to and on behalf of stakeholders	6			(4,316)			(4,001)
PROFIT BEFORE TAXATION				15,311			35,211
Taxation	7			(5,269)			(8,936)
RETAINED PROFIT FOR THE YEAR	18			10,042			26,275

Discontinued activities relate to the disposal on 4 October 2011 of the Group's travel business (note 20).

Group Balance Sheet

As at 26 January 2013

	Note	2013		2012	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Intangible assets	8		30,240		27,584
Tangible assets	9		298,996		307,639
Investments	10		44,662		39,635
			373,898		374,858
CURRENT ASSETS					
Stocks	11	37,174		36,281	
Debtors	12	44,211		49,921	
Cash at bank and in hand		38,608		41,283	
		119,993		127,485	
CREDITORS					
Amounts falling due within one year					
Creditors	13	(62,915)		(62,417)	
Borrowings	14	(35)		(76)	
		(62,950)		(62,493)	
NET CURRENT ASSETS					
			57,043		64,992
TOTAL ASSETS LESS CURRENT LIABILITIES					
			430,941		439,850
CREDITORS					
Amounts falling due in more than one year					
Creditors	13	(139,275)		(138,296)	
Borrowings	14	(87)		(628)	
			(139,362)		(138,924)
Provisions for liabilities and charges	15		(7,968)		(7,854)
Net pension liability	16		(36,038)		(2,894)
			247,573		290,178
NET ASSETS					
CAPITAL AND RESERVES					
Share capital	17		16,602		16,502
Revaluation reserve	18		21,102		35,883
Revenue reserve	18		209,869		237,793
			247,573		290,178
MEMBERS' FUNDS					

Note of Historical Cost Profits & Losses

For the 52 weeks ended 26 January 2013

	2013 52 weeks £'000	2012 53 weeks £'000
Profit before taxation	15,311	35,211
Realisation of property revaluation gains of previous years	187	26
Historical cost profit before taxation	15,498	35,237
Historical cost retained profit for year	10,229	26,301

Group Statement of Total Recognised Gains & Losses

For the 52 weeks ended 26 January 2013

	2013 52 weeks £'000	2012 53 weeks £'000
Retained profit for the year	10,042	26,275
Actuarial losses on pension scheme	(47,302)	(41,665)
Movement on deferred tax relating to pension scheme	9,325	11,572
Unrealised loss from investment property revaluation	(14,594)	(879)
Total recognised losses in the year	(42,529)	(4,697)

Reconciliation of Movements in Members' Funds

For the 52 weeks ended 26 January 2013

	2013 52 weeks £'000	2012 53 weeks £'000
Retained profit for the year	10,042	26,275
Other recognised losses for year (as above)	(52,571)	(30,972)
Share interest	(176)	(176)
Increase / (decrease) in share capital	100	(32)
Net reduction in members' funds	(42,605)	(4,905)
Opening members' funds	290,178	295,083
Closing members' funds	247,573	290,178

Group Cash Flow Statement

For the 52 weeks ended 26 January 2013

	Note	2013 52 weeks		2012 53 weeks	
		£'000	£'000	£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	19		37,423		39,983
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest and dividends received		871		1,119	
Interest paid		(5,644)		(26)	
Net cash (outflow) / inflow from returns on investments and servicing of finance			(4,773)		1,093
CORPORATION TAX RECEIVED			840		1,553
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT					
Purchase of tangible fixed assets		(17,538)		(25,233)	
Purchase of fixed asset investments		(5,027)		(5,277)	
Disposal of tangible fixed assets		775		1,085	
Net cash outflow from capital expenditure and financial investment			(21,790)		(29,425)
ACQUISITIONS					
Purchase of businesses	20	(11,139)		(8,883)	
Overdraft acquired	20	(695)		-	
Net cash outflow for acquisitions			(11,834)		(8,883)
DISPOSALS					
Sale of business	20	(1,883)		(260)	
Cash disposed	20	-		(8,412)	
Net cash outflow for disposals			(1,883)		(8,672)
CASH OUTFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING			(2,017)		(4,351)
FINANCING	21		(658)		(265)
DECREASE IN CASH IN THE YEAR			(2,675)		(4,616)

Reconciliation of Net Cash Flow to Movements in Net Cash

For the 52 weeks ended 26 January 2013

	Note	2013 52 weeks £'000	2012 53 weeks £'000
Decrease in cash in the year		(2,675)	(4,616)
Cash inflow from movement in debt and lease financing	21	582	57
Non-cash movement	22	-	(173)
Change in net cash resulting from cash flows		(2,093)	(4,732)
Opening net cash		40,579	45,311
Closing net cash	22	38,486	40,579

Notes to the Financial Statements

1. GROSS SALES AND TURNOVER

	Gross sales (excluding VAT)		Turnover	
	2013 52 weeks £'000	2012 53 weeks £'000	2013 52 weeks £'000	2012 53 weeks £'000
Retail	532,170	516,022	526,122	508,811
Wholesale	71,869	72,342	71,869	72,342
Funeral	29,300	28,032	29,300	28,032
Transport	23,686	24,408	23,686	24,408
Other	1,005	648	1,005	648
Rent received from investment properties	11,653	9,457	11,653	9,457
Total Continuing activities	669,683	650,909	663,635	643,698
Discontinued activities - Travel	-	227,873	-	32,241
Total	669,683	878,782	663,635	675,939

Turnover consists of sales made in the United Kingdom and Ireland.

2. EXPENSES

	Note	2013 52 weeks £'000	2012 53 weeks £'000
Personnel costs	3	101,878	110,615
Occupancy costs		23,674	25,064
Depreciation:			
– Owned assets	9	15,087	15,461
– Assets held under finance leases	9	35	8
Amortisation of intangible assets	8	1,835	1,774
Operating lease rentals – plant & machinery		274	335
Operating lease rentals – land & buildings		7,017	6,884
Directors' fees	3	137	134
Other expenses		26,779	30,341
Other income		-	(212)
Exceptional expense / (gain)	4	176,716	190,404
Total expenses		185,244	184,846

In the previous year other income consisted entirely of compensation received for business interruption and insurance recoveries in respect of stock losses following a fire at Oakham Superstore in 2008.

	2013 52 weeks £'000	2012 53 weeks £'000
Services provided by the Group's auditor		
During the year the Group obtained the following services from the Group's auditor at costs detailed below:		
Audit fees:		
Fees payable for the audit of consolidated accounts	25	25
Fees payable for the audit of the Society and its subsidiaries pursuant to legislation	124	104
Fees payable to Group's auditor for other services:		
Other services pursuant to legislation	5	5
All other services	44	48
	198	182

Notes to the Financial Statements

3. EMPLOYEES

The average number employed by the Group was:

	2013 Number	2012 Number
Full-time	2,696	3,767
Part-time	4,500	4,314
	7,196	8,081

Aggregate amounts paid in respect of:

	2013 52 weeks £'000	2012 53 weeks £'000
Wages and salaries	95,236	99,686
Social security costs	5,864	6,159
Defined contribution pension scheme costs	4,531	1,380
Defined benefit pension scheme current year service costs	-	3,390
	105,631	110,615

Note

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Wages and salaries include exceptional closure costs of £3,753,000 (2012: £Nil) in respect of the closure of the Fashion & Home business.

DIRECTORS' EMOLUMENTS

The total remuneration of the Directors for their Board duties was:

	2013 52 weeks £'000	2012 53 weeks £'000
Fees	137	134

The average number of Directors whose emoluments fell into each £2,500 bracket was:

	2013 52 Weeks Number	2012 53 weeks Number
£0 - £2,500	1	-
£2,501 - £5,000	1	4
£5,001 - £7,500	7	6
£7,501 - £10,000	6	6
£10,001 - £12,500	2	1
£12,501 - £15,000	1	-
£15,001 - £17,500	-	1

Notes to the Financial Statements

3. EMPLOYEES (CONTINUED)

MANAGEMENT EXECUTIVE EMOLUMENTS

The total remuneration excluding pension contributions of the Management Executive was:

	2013 52 weeks £'000	2012 53 weeks £'000
Wages and salaries	1,559	1,630
Taxable benefits	98	98
Performance related	300	321
	1,957	2,049

HIGHEST PAID EXECUTIVE

The total remuneration of the highest paid executive included above was:

Basic salary	452	372
Other supplements	45	14
Taxable benefits	1	1
Performance related (Annual)	68	80
Total related to current year	566	467
Performance related (Long Term)	21	16
	587	483

The Chief Executive was appointed in March 2010 at 85% of the prevailing rate for the position. Since that time he has received two annual salary supplements following acceptable performance and now achieves the median rate as established in 2010. His 2012 salary reflects the final uplift and includes provision of an 8% salary supplement (£31,000) for pension provision following withdrawal of the Chief Executive from the Defined Contribution scheme.

Other supplements include pension allowances in lieu of a pension provision and car allowance. The Group has paid £5,700 (2012: £26,500) into the Group pension scheme for the future pension provision of the highest paid executive.

The number of members of the Management Executive whose emoluments, excluding pension contributions, fell in each £10,000 bracket were:

	2013 52 Weeks Number	2012 53 Weeks Number		2013 52 Weeks Number	2012 53 Weeks Number
£30,001 - £40,000	-	1	£180,001 - £190,000	-	2
£80,001 - £90,000	-	1	£190,001 - £200,000	-	1
£100,001 - £110,000	-	1	£200,001 - £210,000	2	-
£120,001 - £130,000	1	-	£330,001 - £340,000	-	1
£130,001 - £140,000	1	1	£390,001 - £400,000	1	-
£140,001 - £150,000	-	2	£480,001 - £490,000	-	1
£150,001 - £160,000	2	-	£580,001 - £590,000	1	-

Notes to the Financial Statements

4. EXCEPTIONAL EXPENSE / (GAIN)

	Note	2013 52 weeks £'000	2012 53 weeks £'000
Costs arising from the closure of Fashion & Home business		4,289	-
Gains arising from the closure of the Group defined benefit pension scheme		-	(10,593)
Impairment of goodwill, fixed assets and onerous lease provision	8,9	4,572	3,893
Release of provision for onerous lease		(660)	-
Costs arising from the closure and re-organisation of Transport businesses		(97)	247
Other exceptional costs		424	895
		8,528	(5,558)

During the year the Group took the decision to close the Fashion & Home business. Costs of closure amount to £4,289,000 and include redundancy, provision for stock, leasehold site dilapidations and other closure costs.

In the previous year the Group closed its defined benefit pension scheme to future accrual and completed a pension increase exchange arrangement with eligible current pensioners. These changes resulted in a one-off gain net of associated costs of £10,593,000.

The carrying value of fixed assets and goodwill relating to a number of loss making sites was reviewed leading to an exceptional impairment charge of £4,572,000 (2012: £2,070,000) and in the previous year the provision for two onerous leases of £1,823,000.

During the year an onerous lease was divested on favourable terms leading to a £660,000 credit to the revenue account.

In the previous year the Group took the decision to close the Hull motor dealership site. Costs of closure amounted to £247,000 and included stock provisions, redundancy and provision for other closure costs. During the year the closure was completed and the unutilised provision of £97,000 was released.

Other exceptional costs during 2013 include litigation costs, costs of implementing the Central Asset Reserve (pension funding arrangement) and dilapidations costs following the disposal of the Dairy business in a previous year. Other exceptional costs are partially mitigated by income relating to a legal claim made by Advantage Motors Limited, which was successfully completed during the year. Prior year other exceptional costs include litigation costs, costs associated with the implementation of the Central Asset Reserve and costs of implementing the single card membership scheme.

5. NET INTEREST (PAYABLE) / RECEIVABLE

	Note	2013 52 weeks £'000	2012 53 weeks £'000
Interest payable	14	(83)	(25)
Interest and dividends receivable	10	1,104	1,114
		1,021	1,089
Interest unwind on Central Asset Reserve		(2,163)	-
Unwinding of a discounted provision	15	(128)	(133)
Net interest (payable) / receivable		(1,270)	956

6. PAYMENTS TO AND ON BEHALF OF STAKEHOLDERS

	2013 52 weeks £'000	2012 53 weeks £'000
Member benefits	276	697
Member relations	668	673
Members' dividend	1,667	950
Total members' distributions	2,611	2,320
Co-operative Party	117	112
Community dividend	270	264
Employee dividend	1,318	1,305
	4,316	4,001

Notes to the Financial Statements

7. TAXATION

	2013 52 weeks £'000	2012 53 weeks £'000
Current tax:		
Provided on chargeable income and gains in the year	(6,964)	(10,715)
Adjustments in respect of prior years	543	-
	(6,421)	(10,715)
Deferred taxation:		
Origination and reversal of timing differences	1,349	1,566
Adjustments in respect of prior years	(197)	213
	(5,269)	(8,936)

The 2012 Autumn Statement on 5 December 2012 announced that the UK corporation tax rate will reduce to 21% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively.

This will reduce the Society's future current tax charge accordingly. The deferred tax asset at 26 January 2013 has been calculated based on the rate of 23% substantively enacted at the balance sheet date.

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the Society's future current tax charge and reduce the Society's deferred tax asset accordingly.

Factors affecting the tax charge for the current year

The current tax charge for 2013 is higher (2012: higher) than the standard rate of corporation tax in the UK of 24.36% (2012: 26.36%). The differences are explained below:

	2013 52 weeks £'000	2012 53 weeks £'000
Profit before taxation	15,311	35,211
Current tax at 24.36% (2012: 26.36%)	(3,730)	(9,282)
Effects of:		
Expenses not deductible for tax purposes	(1,080)	(1,956)
Capital allowances for the year (less than) / in excess of depreciation	(586)	151
Short term timing differences	(203)	333
Profit on disposal of assets not subject to corporation tax	53	1,742
Expenses allowable not in revenue account	63	128
Adjustments in respect of prior years	543	-
Pension expenses allowable	45	2,602
Losses created	(1,493)	(581)
Income taxable not in revenue account	(33)	(3,852)
Total current tax charge	(6,421)	(10,715)

Notes to the Financial Statements

8. INTANGIBLE FIXED ASSETS - GOODWILL

	Note	2013 £'000	2012 £'000
Cost			
Total brought forward		44,643	40,490
Additions	20	4,508	6,414
Disposals		-	(2,261)
Total carried forward		49,151	44,643
Amortisation			
Total brought forward		17,059	16,845
Charge for the year		1,835	1,774
Impairment	4	17	171
Disposals		-	(1,731)
Total carried forward		18,911	17,059
Net book value		30,240	27,584

The Group has performed a review of the carrying value of goodwill as at 26 January 2013. Cash flows for relevant operating units have been discounted using a discount rate of 8% (2012: 8%).

9. TANGIBLE FIXED ASSETS

	Note	Investment properties £'000	Trade properties £'000	Machinery & plant £'000	Transport £'000	Total £'000
Cost or valuation						
Total brought forward		95,659	206,336	149,190	14,029	465,214
Additions		1,030	6,181	9,786	541	17,538
Acquisitions	20	431	7,615	626	-	8,672
Transfers		1,436	(170)	(1,266)	-	-
Disposals		(491)	(6)	(2,071)	(1,107)	(3,675)
Revaluation adjustment		(15,091)	-	-	-	(15,091)
Total carried forward		82,974	219,956	156,265	13,463	472,658
Depreciation						
Total brought forward		-	44,652	103,781	9,142	157,575
Provided this year		-	3,505	10,246	1,371	15,122
Impairment	4	-	4,555	-	-	4,555
Transfers		497	(431)	(66)	-	-
Disposals		-	(5)	(2,024)	(1,064)	(3,093)
Revaluation adjustment		(497)	-	-	-	(497)
Total carried forward		-	52,276	111,937	9,449	173,662
Net book value						
At 26 January 2013		82,974	167,680	44,328	4,014	298,996
At 28 January 2012		95,659	161,684	45,409	4,887	307,639

BNP Paribas Real estate, independent qualified valuers, (Andrew Oliver MRICS and Peter Fletcher BSc MRICS) have inspected and revalued approximately one fifth of investment properties as at 26 January 2013. The remainder have been valued by BNP Paribas Real estate at 26 January 2013 on a 'desk top' basis and will be inspected and revalued over the course of the next four years. All valuations were carried out at a market value basis in accordance with the RICS Appraisal and Valuation Manual.

These valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve. The revaluations during the year resulted in a revaluation loss of £14,594,000 (2012: revaluation loss of £879,000).

No deferred tax is provided on timing differences arising from the revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the assets has been entered into and it is unlikely that any gain will be rolled over.

Notes to the Financial Statements

9. TANGIBLE FIXED ASSETS (CONTINUED)

Assets in the course of construction included within trade properties amounts to £3,395,000 (2012: £4,609,000).

The cumulative value of finance costs included within fixed assets (cost or valuation) amounts to £1,397,000 (2012: £1,397,000).

Included within fixed assets are assets with a net book value of £131,000 (2012: £166,000) relating to assets held under finance leases. Depreciation charged on these assets amounted to £35,000 (2012: £8,000) during the year.

Transfers arise to reflect the most appropriate class for each asset.

The Group has performed a review of the carrying value of fixed assets as at 26 January 2013. Cash flows for relevant operating units have been discounted using a discount rate of 8% (2012: 8%)

	2013 £'000	2012 £'000
The net book value of land and buildings comprises:		
Investment properties:		
Freehold	79,415	91,847
Leasehold over 50 years	737	749
Leasehold under 50 years	2,822	3,063
	82,974	95,659
Trade properties:		
Freehold	157,775	153,750
Leasehold over 50 years	6,566	3,700
Leasehold under 50 years	3,339	4,234
	167,680	161,684
Total properties:		
Freehold	237,190	245,597
Leasehold over 50 years	7,303	4,449
Leasehold under 50 years	6,161	7,297
	250,654	257,343
The historical cost of investment properties now included at valuation:		
Cost	66,051	63,516
Accumulated depreciation	(4,179)	(3,740)
Net book value	61,872	59,776

10. INVESTMENTS

	Fixed assets		Dividends / interest	
	2013 £'000	2012 £'000	2013 52 weeks £'000	2012 53 weeks £'000
The Co-operative Group Limited – shares	2,340	2,340	140	143
Other I&P societies – shares	75	25	-	-
Other I&P societies – loans	53	53	-	-
Companies – quoted	799	789	9	10
Companies – not quoted	6,000	6,010	-	-
British Government – quoted	26	26	1	1
Funeral plans	35,369	30,392	-	-
	44,662	39,635	150	154
Interest earned on cash balances			772	578
Other Interest			182	382
			1,104	1,114
Market values of quoted investments	914	862		

Notes to the Financial Statements

11. STOCKS

	2013 £'000	2012 £'000
Goods for resale	36,698	35,558
Consignment stock	476	723
	37,174	36,281

12. DEBTORS

	Note	2013 £'000	2012 £'000
Trade debtors		9,437	8,296
Funeral plans		9,488	9,622
Corporation tax		-	297
Deferred tax	15	15,450	23,246
Other debtors		2,488	1,353
Prepayments and accrued income		7,348	7,107
		44,211	49,921

13. CREDITORS

	Within one year		After one year	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Trade creditors	28,658	25,844	-	-
Central Asset Reserve liability	6,400	6,400	98,902	102,300
Funeral plans	4,486	4,000	40,373	35,996
Corporation tax	57	-	-	-
Other taxation and social security	4,941	3,839	-	-
Other creditors	2,662	6,009	-	-
Accruals and deferred income	14,661	15,435	-	-
Payments to and on behalf of stakeholders	1,050	890	-	-
	62,915	62,417	139,275	138,296

Trade creditors includes £476,000 (2012: £723,000) in respect of commitments to purchase vehicles on consignment and obligations. The corresponding assets are included in stocks.

Notes to the Financial Statements

14. BORROWINGS

	Within one year		After one year		Interest payable	
	2013	2012	2013	2012	2013	2012
	£'000	£'000	£'000	£'000	52 weeks £'000	53 weeks £'000
Bank overdraft	-	-	-	-	6	9
Bank loan - unsecured	-	44	-	503	3	14
Finance leases	35	32	87	125	5	2
Other interest	-	-	-	-	69	-
	35	76	87	628	83	25

Borrowings falling due within:	2013 £'000	2012 £'000
One year	35	76
Between one and two years	35	77
Between two and five years	52	233
Over five years	-	318
	122	704

15. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £'000	Onerous leases £'000	Other provisions £'000	Total £'000
Opening balance	2,648	5,043	163	7,854
Charged to the revenue account	-	171	-	171
Created this year	-	-	4,003	4,003
Unwinding of a discount	-	128	-	128
Acquisition	96	-	-	96
Utilised this year	(1,507)	(726)	(66)	(2,299)
Released this year	-	(1,888)	(97)	(1,985)
Closing balance	1,237	2,728	4,003	7,968

The deferred taxation provision comprises:	Note	2013 £'000	2012 £'000
Accelerated capital allowances		(1,237)	(2,648)
Spread pension contributions	12	13,150	21,483
Other timing differences	12	210	63
Unutilised losses	12	2,090	1,700
		14,213	20,598

As a result of the Central Asset Reserve, the Society will receive a deduction against current tax of £57.2m (2012: £85.9m) over the course of the next two (2012: three) years. Consequently a deferred tax asset of £13.2m (2012: £21.5m) has been recognised at 26 January 2013. No provision has been made for deferred taxation relating to revalued investment properties for which the potential liability has not been quantified, because of the availability of indexation and other reliefs. No provision has been made for deferred tax assets of £2.9m (2012: £3.5m) relating to capital losses that are currently carried forward of £12.6m (2012: £14.1m). These amounts will be utilised should the Group have any chargeable gains in the future. There are no other unrecognised deferred tax assets and liabilities.

The onerous lease provision represents an assessment of the costs to cover dilapidations and rent and rates for leasehold premises where the Group is committed to future rental payments on properties that are in excess of rental incomes received, taking account of the anticipated period until the leases are assigned or reassigned. The assessment, which is undertaken at the end of each accounting period, is made on a property by property basis. The provision is expected to be utilised within the next 14 years (2012:15 years).

Other provisions represents an assessment of the future costs associated with the closure of the Fashion & Home Business of £3.7m and the decommissioning of petrol filling stations of £0.3m. The decommissioning provision is expected to be utilised within the next 50 years.

Notes to the Financial Statements

16. PENSION COMMITMENTS

The Group operates a defined benefit scheme, the Midlands Co-operative Society Limited Employees' Pension Scheme.

The Society closed the defined benefit scheme to future accrual and new entrants on 30 July 2011 and a new defined contribution arrangement was introduced to provide both new and existing employees with flexible pension arrangements. A curtailment gain of £10.9m was recognised in the previous year as an exceptional gain on the closure of the scheme (note 4).

The Society implemented a pension deficit reduction arrangement (Central Asset Reserve) in the previous year which has resulted in additional scheme assets of £108.7m being recognised within the FRS17 valuation at January 2012. The scheme assets are underpinned by way of subordinated pledges given by Central Midlands Estates Limited, a subsidiary of the Society.

During the year the Group made normal contributions to the scheme amounting to £Nil (2012: £2,351,000), and special contributions of £Nil (2012: £6,000,000) and payments under the Central Asset Reserve of £477,000 (2012: £Nil)

The latest full actuarial valuation for the Midlands Co-operative Society Limited Employees' Pension Scheme was carried out at 31 December 2011 using the projected unit basis and was updated for FRS 17 purposes to 26 January 2013 by a qualified independent actuary. The principal assumptions used by the actuary were:

	2013	2012
Rate of increase in pensions in payment	3.20%	2.90%
Discount rate	4.65%	4.80%
Inflation assumption	3.30%	3.00%

The mortality assumptions used are based on the "PA 92" standard tables with an allowance for future mortality improvements using the "medium cohort" projections. The assumptions are such that a current 45 year old non-pensioner member who later retires at age 65 will live on average a further 24 years (2012: 22 years) after retirement if they are male and a further 27 years (2012: 24 years) if they are female. A current pensioner member aged 65 will live on average a further 22 years (2012: 20 years) if they are male and for a further 25 years (2012: 23 years) if they are female.

The assumptions used by the actuary are the best estimates chosen in accordance with FRS17 requirements from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain were:

	2013 £'000	2012 £'000
Fair value of scheme assets	430,363	413,608
Present value of funded obligations	(477,166)	(417,465)
Deficit in the scheme	(46,803)	(3,857)
Related deferred tax asset	10,765	963
Net pension liability	(36,038)	(2,894)

Scheme assets do not include any property occupied by the Group.

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets.

Notes to the Financial Statements

16. PENSION COMMITMENTS (CONTINUED)

Changes in the fair value of scheme assets:

	2013 52 weeks £'000	2012 53 weeks £'000
Opening fair value of scheme assets	413,608	308,400
Expected return	23,502	21,845
Actuarial gains / (losses)	10,080	(13,895)
Contributions by employer	477	117,051
Contributions by members	-	395
Benefits paid	(17,304)	(20,188)
Closing fair value of scheme assets	430,363	413,608

Changes in the present value of scheme obligations:

	2013 52 weeks £'000	2012 53 weeks £'000
Opening obligation	417,465	397,693
Service cost	-	3,390
Interest cost	19,623	21,468
Members contributions	-	395
Actuarial losses	57,382	27,770
Plan curtailments	-	(10,917)
Recognition of pensioner increase exchange	-	(2,146)
Benefits paid	(17,304)	(20,188)
Closing obligation	477,166	417,465

Analysis of other pension costs charged in arriving at trading profit:

	2013 52 weeks £'000	2012 53 weeks £'000
Current service cost	-	(3,390)

Analysis of amounts included in other finance income:

	2013 52 weeks £'000	2012 53 weeks £'000
Expected return on pensions scheme assets	23,502	21,845
Interest on pension scheme liabilities	(19,623)	(21,468)
	3,879	377

Analysis of amounts recognised in statement of total recognised gains and losses:

	2013 52 weeks £'000	2012 53 weeks £'000
Cumulative at beginning of year	(126,891)	(85,226)
Recognised during the year	(47,302)	(41,665)
Cumulative at end of year	(174,193)	(126,891)

Notes to the Financial Statements

16. PENSION COMMITMENTS (CONTINUED)

Assets in the plan as a percentage of total plan assets:	2013	2012
Bonds	48%	51%
Equities	46%	43%
Other	6%	6%

The scheme holds quoted securities and these have been valued at current bid-price.

History of experienced gains and losses	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Benefit obligation at end of year	(477,166)	(417,465)	(397,693)	(393,617)	(285,561)
Fair value of plan assets at end of year	430,363	413,608	308,400	279,115	223,060
Deficit	(46,803)	(3,857)	(89,293)	(114,502)	(62,501)
Actual return less expected return on pension scheme assets	10,080	(13,895)	17,733	45,126	(79,633)
Experience gains and (losses) arising on the scheme liabilities	751	(2,880)	(1,021)	(7,451)	231

Defined Contribution Scheme

The costs of contributions to the defined contribution scheme amounted to £4,531,000 (2012: £1,380,000).

17. SHARE CAPITAL

	2013 52 weeks £'000	2012 53 weeks £'000
Contributions	1,273	1,407
Withdrawals	(1,349)	(1,615)
Interest	176	176
Movement in year	100	(32)
Opening balance	16,502	16,534
Closing balance	16,602	16,502

At 26 January 2013 the Society had 999,184 (2012: 992,865) members who are each entitled to one vote. At the balance sheet date the whole of the share capital comprises non-equity shares of £1 each attracting interest at rates between 0% and 2.25% (2012: between 0% and 2.25%).

Share capital is generally withdrawable on demand; however, in accordance with the Society rules, the Board may suspend the right of withdrawal for a limited time and may impose a notice period for withdrawals should they consider it to be in the best interests of the Society. The Society rules for the distribution of the final surplus in the event of winding-up after repayment of the paid-up share capital state that such assets shall not be paid to or distributed among the members of the Society but shall be:

- (a) transferred to one or more other societies in membership of the Co-operatives UK Limited having the same or similar rule provisions as regards surplus distribution as this rule, as may be determined by the members at an ordinary or special meeting; or
- (b) if not so transferred shall be paid or transferred to the Co-operatives UK Limited.

Dividends to members are paid by way of vouchers redeemable against purchases.

Notes to the Financial Statements

17. SHARE CAPITAL (CONTINUED)

The Group operates a Share Incentive Plan (SIP) to benefit employees. Employees can invest a proportion of their salary which may not exceed the lower of £1,495 or 10% of an employee's take home pay, on which they earn a return of 2.25% in that period. Interest earned is recognised in the share capital note. At the end of five years an employee may withdraw their shares.

The Society is allowed to allocate matching shares under rules governed by HMRC. As an incentive to colleagues to join and remain in the SIP, the Society will match the first £10 paid in by each colleague for the purchase of partnership shares in the first year of the scheme by awarding £10 in matching shares. Each year colleagues who continue to contribute will receive a further £10 in matching shares for the first £10 of partnership shares acquired in later years. A year for the purposes of matching shares will be the Society's financial year.

As long as the matching shares are held for at least five years, they can be redeemed with the Society free of income tax and national insurance contributions. If they are redeemed before this date, income tax and national insurance contributions will normally be payable.

The issue of matching shares is discretionary. The Society therefore reserves the right to amend or withdraw the issuing of matching shares at its discretion.

18. MOVEMENT IN RESERVES

	Revaluation reserve £'000	Revenue reserve £'000
At 28 January 2012	35,883	237,793
Retained profit for the year	-	10,042
Actuarial loss on pension scheme	-	(47,302)
Movement on deferred tax relating to pension scheme	-	9,325
Transfer of realised gains	(187)	187
Deficit on revaluation of property	(14,594)	-
Share interest	-	(176)
At 26 January 2013	21,102	209,869

19. RECONCILIATION OF TRADING PROFIT TO TRADING CASH FLOWS

	2013 52 weeks £'000	2012 53 weeks £'000
Trading profit	16,908	32,108
Non-cash pension gains	-	(12,024)
Depreciation and impairments	19,677	17,368
Amortisation of goodwill	1,852	1,945
Payments to and on behalf of stakeholders	(4,156)	(3,513)
(Increase) / decrease in debtors	(1,708)	9,957
Increase in creditors	4,326	673
Increase in stocks	(396)	(1,885)
Increase in provisions	1,397	1,354
Cash contribution for retirement benefit obligations	(477)	-
Special contribution to pension scheme	-	(6,000)
	37,423	39,983

Notes to the Financial Statements

20. ACQUISITION AND DISPOSAL OF BUSINESS

On 28 November 2012, the Group acquired the entire share capital of Shaws Petroleum Limited. A summary of the separately identifiable assets and liabilities acquired and transferred is:

	Book value £'000	Fair value adjustments £'000	Provisional fair value £'000
Tangible fixed assets	6,406	386	6,792
Stocks	484	(86)	398
Debtors	453	(11)	442
Overdraft	(677)	(18)	(695)
Creditors	(2,193)	3	(2,190)
Provisions for liabilities and charges	(96)	-	(96)
Net assets acquired	4,377	274	4,651
Goodwill			3,837
Consideration satisfied by cash			8,488

Book values have been aligned to estimated fair values at the date of acquisition. The principal adjustments relate to:

- Recognition of investment property values
- Re-assessment of plant and machinery values
- Re-assessment of stock values

In its last published accounts for the year ended 30 June 2012 Shaws Petroleum Limited made a profit after tax of £154,000. The acquisition of Shaws Petroleum Limited has increased gross sales by £5,939,000, turnover by £4,996,000 and increased trading profit by £127,000 in the period between 28 November 2012 and 26 January 2013.

During the year the Group acquired a number of other businesses. An analysis of the assets and liabilities acquired at book value which equated to the provisional fair value is:

	£'000
Tangible fixed assets	1,880
Stock	100
Net assets acquired	1,980
Goodwill	671
Consideration satisfied by cash	2,651

On 4 October 2011, the Society sold its travel business for consideration of a 3.5% share holding in TCCT Holdings UK Limited. During the year, the Society repaid a loan associated with the sale of the travel business of £1,800,000 and incurred costs of disposal £83,000 (2012: £260,000). In the previous year £8,412,000 cash was disposed with the travel business.

21. FINANCING

	2013 52 weeks £'000	2012 53 weeks £'000
Capital element of finance lease rentals repaid	(35)	(16)
Debt due beyond one year:		
Decrease in utilisation of bank loans	(547)	(41)
Decrease in debt	(582)	(57)
Decrease in share capital	(76)	(208)
	(658)	(265)

Notes to the Financial Statements

22. ANALYSIS OF NET CASH

	2012	Non cash movement	Cash flow	Acquisition	2013
	£'000	£'000	£'000	£'000	£'000
Cash at bank and in hand	41,283	-	(1,980)	(695)	38,608
Debt due within one year	(44)	-	44	-	-
Debt due after one year	(503)	-	503	-	-
Finance leases due within one year	(32)	(38)	35	-	(35)
Finance leases due after one year	(125)	38	-	-	(87)
	40,579	-	(1,398)	(695)	38,486

Non cash movement relates to the reprofiling of the contractual finance lease payments which fall due within one year.

23. COMMITMENTS

Finance leases

The minimum finance lease payments to which the Group is committed in future years are:

	2013	2012
	£'000	£'000
Within one year	35	32
In the second to fifth years inclusive	87	125
	122	157

Obligations under finance leases are shown as part of loans in note 14.

Operating leases

At 26 January 2013, the Group had the following annual commitments under non-cancellable operating leases, excluding onerous lease commitments of £814,000 per annum (2012: £687,000) which are fully provided for as described in Note 15.

	Land & buildings	Other	Land & buildings	Other
	2013	2013	2012	2012
	£'000	£'000	£'000	£'000
Operating leases expiring:				
Within one year	597	181	351	147
In the second to fifth years inclusive	974	102	654	98
Over five years	2,340	361	2,068	-
	3,911	644	3,073	245

As part of the disposal of the travel business Thomas Cook Travel (TCT) took occupation under licence of the Society's former leased travel branches. The terms of the licence are that as from 4 October 2011 TCT are wholly responsible for all outgoing and costs associated with these properties. At 26 January 2013 the lease commitments on these operating leases expiring within one year, in the second to fifth years and over five years are as follows: £1,074,000 (2012: £865,000), £1,173,000 (2012: £1,046,000) and £373,000 (2012: £933,000).

Capital commitments

Amounts contracted for but not provided for in the financial statements were £8.1 million (2012: £18.0 million).

24. SUBSIDIARIES

	% of Equity owned	Principal activity
Central Midlands Estates Limited	100	Property Management
Terry Smith Limited	100	Coffin Manufacturer
M.C.S. Funeral Services Limited	100	Funeral Services
Shaws Petroleum Limited	100	Petrol Filling Stations
Oakwell Stores Society Limited	100	Corporate Trustee
Midlands Co-op Scottish Limited Partnership	83	Investment in Corporate Bonds
Midlands Co-op General Partner Limited	100	Partnership Administration
Advantage Motor Group Limited	100	Motor Dealership
Leicester Carriage Builders 2002 Limited	100	Non-Trading
Metro Discount Stores (Midlands) Limited	100	Non-Trading
Ilkeston Travel Services Limited	100	Non-Trading
Ken Ives Motors (Derby) Limited	100	Non-Trading
Ilkeston Motor Finance Limited	100	Non-Trading
Ilkeston Consumer Co-operative Society Pension Trustees Limited	100	Non-Trading

All subsidiaries are registered within the United Kingdom.

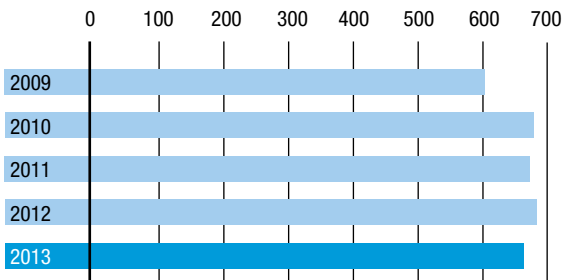
Five-Year Financial Record

	2009 52 weeks £'000	2010 52 weeks £'000	2011 52 weeks £'000	2012 53 weeks £'000	2013 52 weeks £'000
Gross Sales (excluding VAT)	847,592	918,420	942,890	878,782	669,683
Turnover	603,360	670,566	669,669	675,939	663,635
Depreciation and Amortisation (excluding exceptional items)	17,429	16,982	17,035	17,243	16,957
Trading Profit	24,837	17,355	18,853	32,108	16,908
Trading Profit before Exceptional Items	16,996	22,343	26,434	26,550	25,436
Profit before Taxation	4,764	17,737	27,727	35,211	15,311
Retained profit for the year	23,792	10,684	23,233	26,275	10,042
Share Interest	325	182	176	176	176
Payments to and on Behalf of Stakeholders	3,187	3,098	3,321	4,001	4,316
Tangible Fixed Assets	286,191	299,538	300,927	307,639	298,996
Net Cash	45,474	19,919	45,311	40,579	38,486
Share Capital	16,279	16,604	16,534	16,502	16,602
Revaluation Reserve	39,451	36,072	36,788	35,883	21,102
Revenue Reserve	228,412	202,388	241,761	237,793	209,869
Members' Funds (Net Assets)	284,142	255,064	295,083	290,178	247,573
Cash Flow from Operating Activities	41,495	8,730	33,264	39,983	37,423
Cash Flow from Sale of Tangible Fixed Assets	8,872	8,339	18,887	1,085	775
Capital Expenditure	19,465	40,058	22,577	34,289	30,718
Number of Members	921,911	931,246	938,683	992,865	999,184
Trading Profit (before Exceptional Items) / Turnover Ratio	2.8%	3.3%	3.9%	3.9%	3.8%
Gearing Ratio (Net Borrowings/Net Assets)	Nil	Nil	Nil	Nil	Nil

Five-Year Comparison

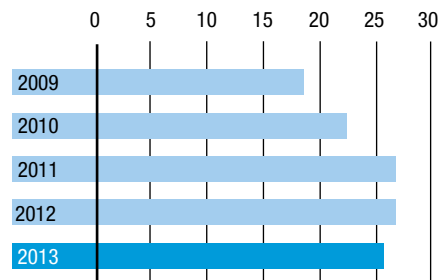
Turnover

£ million



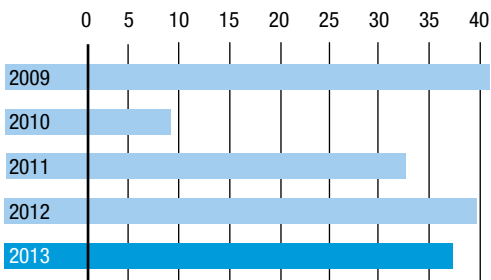
Trading Profit before Exceptional Items

£ million



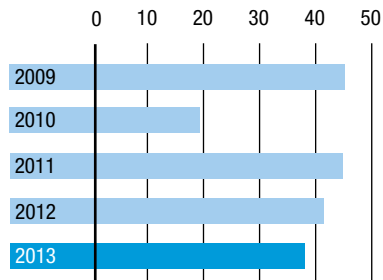
Cash Flow from Operating Activities

£ million



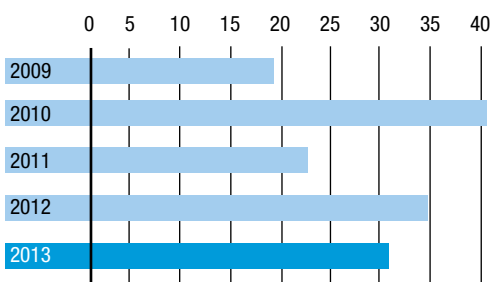
Net Cash

£ million



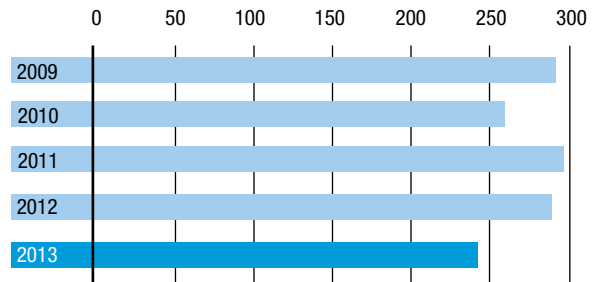
Capital Expenditure

£ million



Members' Funds

£ million



Regional Committees

Attendance at Board / Regional Committee Meetings for the year ended 26 January 2013

The attendance record of Directors and Regional Committee members during the year under review is provided below. The number of meetings attended is the bold figure, which is compared to the number of meetings that each person was eligible to attend (in brackets).

Eastern Region:	Board	RC
Chair: John Howells	8 (9)	12 (13)
Vice-Chair: John Maltby	11 (12)	12 (13)
Susan Alcock		9 (10)
Robin Bennett		3 (3)
Sean Clothier		13 (13)
Paul Dawswell		9 (13)
Robin Farrell	12 (12)	13 (13)
Rod Findley	3 (3)	3 (3)
Andrea Findley-Patel		9 (10)
Max Hunt		11 (13)
Ray King		13 (13)
John McGlade		2 (3)
Stuart Unwin	11 (12)	12 (13)
Barry Walne		12 (13)

Northern Region:	Board	RC
Chair: Elaine Dean	9 (9)	13 (13)
Vice-Chair: Kevin Hepworth	11 (12)	11 (13)
Tina Allen		12 (13)
David Beeston		11 (13)
Keith Bostock	3 (3)	3 (3)
John Briggs		10 (10)
Peter Dean	12 (12)	13 (13)
David Elliott		12 (13)
Philip Fee		13 (13)
Patricia Goodwin		13 (13)
Mark Grayling		12 (13)
John Kenney		12 (13)
Liz Lomas	12 (12)	11 (13)

Southern Region:	Board	RC
Chair: Maria Lee	12 (12)	13 (13)
Vice-Chair: Marta Mayhew	10 (12)	13 (13)
Michael Althorpe	12 (12)	11 (13)
David Brown		13 (13)
Joanne Dack		9 (13)
Gaye Duncombe		12 (13)
John Kibble		10 (13)
Bill Pringle		9 (13)
Phil Sawford		12 (13)
Nathan Shepherd		11 (13)
Peter Smith		10 (13)
Glenda Weston		10 (13)

Western Region:	Board	RC
Chair: Paul Singh	12 (12)	13 (13)
Vice-Chair: Frank Croft	12 (12)	13 (13)
Simone Comelio		12 (13)
Dave Ellgood	11 (12)	12 (13)
Neil Franklin		13 (13)
Richard Hughes		8 (11)
John McGlade		9 (10)
Angela Loughran		11 (13)
Bernard Parry		13 (13)
Helen Lees	11 (12)	12 (13)
Keith Redfern	12 (12)	12 (13)
Sue Rushton		13 (13)

Board = Attendance at Board meetings (Directors)

RC = Attendance at Regional Committee meetings (including one Special Regional Committee meeting)

Notice of Annual Meeting

The Annual Meeting of Members will be held as follows:

Eastern Region - Tuesday 23 April 2013 at 7.00 p.m.

COALVILLE • Snibston Discovery Museum, Ashby Road, Coalville. LE67 3LN

LEICESTER • The 1880 Suite, Caterpillar Stand, Leicester Tigers, Aylestone Road, Leicester. LE2 7TR

Southern Region - Wednesday 24 April 2013 at 7.00 p.m.

KETTERING • The Rutland Suite, Kettering Park Hotel, Kettering Parkway, Kettering. NN15 6XT

MARKET HARBOROUGH • The Conference Centre, Three Swans Hotel, High Street, Market Harborough. LE16 7NJ

MELTON MOWBRAY • The Conference Hall, Pera Conference Centre, Nottingham Road, Melton Mowbray. LE13 0PB

Northern Region - Tuesday 30 April 2013 at 7.00 p.m.

CHESTERFIELD • The Legends Lounge, The Proact Stadium, Chesterfield Football Club, Sheffield Road, Chesterfield. S41 8NZ

DERBY • The Carriage Shop Theatre, Derby College, The Roundhouse, Roundhouse Road, Pride Park, Derby. DE24 8JE

EASTWOOD • Eastwood Hall, Hayley Conference Centre, Mansfield Road, Eastwood. NG16 3SS

Western Region - Wednesday 1 May 2013 at 7.00 p.m.

BIRMINGHAM • Hall 9, International Convention Centre (ICC), Broad Street, Birmingham. B1 2EA

BURTON ON TRENT • The Albion Suite, Burton Albion Football Club, The Pirelli Stadium, Princess Way, Burton on Trent. DE13 0AR

STAFFORD • The Royal Suite, Tillington Hall Hotel, Eccleshall Road, Stafford. ST16 1JJ

Members are requested to note the following:

- **ELECTIONS:** Details of the Elections are available from the Registered Office at Lichfield (telephone 01543 414140)
- **TO GAIN ADMISSION** members must present their **valid share book or valid membership card** and have held at least £1 in their share account for at least six months prior to the date of the meeting.
- **REFRESHMENTS:** Tea, coffee and biscuits will be available prior to the meeting from 6.15 p.m.
- **AT THE CONCLUSION OF THE MEETING** members are invited to remain for tastings of Co-operative food products, including where possible, locally sourced products, and take the opportunity to talk to Directors and Regional Committee members on an informal basis.

Agenda of Annual Meeting

- 1. Minutes** of the Interim Meeting of Members held 9, 10, 16 and 17 October 2012.
- 2. Report of the Board of Directors and Financial Statements**, including the Annual Report of the Remuneration Committee.
- 3. Appointment of Auditors:** PricewaterhouseCoopers, Donington Court, Pegasus Business Park, Castle Donington, East Midlands. DE74 2UZ
- 4. Distribution of Trading Surplus.** The Board of Directors proposes the following distributions from trading surplus:
 - Members:
 - Dividend: 1.1 pence per point*
 - Member Relations Activities: £632,000
 - Colleague Dividend: £1,272,000
 - Community Dividend: £254,000

* On purchases made between 12 August 2012 and 26 January 2013
- 5. Membership & Community, including Member Relations Annual Report.**
- 6. Annual Report & Accounts of the Society Co-operative Party Councils**
(Midlands Northern, Midlands Eastern & Southern and Midlands Western Regions).
- 7. Elections - declaration of results:**
 - Election of Members and Employee Members to Regional Committees
 - Election of Members to Regional Member Relations Committees
 - Election of Members to Society Co-operative Party Councils (Midlands Northern, Midlands Eastern & Southern and Midlands Western Regions)
- 8. Receive written reports** of the Members' Delegates to Co-operative Congress 2012.

J. Watts, **Secretary**
29 March 2013

Minutes

of the Interim Meeting of Members held in 2012:

Eastern Region - Tuesday 9 October 2012, at 7.00 p.m.

- COALVILLE** • Snibston Discovery Museum, Ashby Road, Coalville • 87 members present • Stuart Unwin in the Chair
- LEICESTER** • The 1880 Suite, Caterpillar Stand, Leicester Tigers, Aylestone Road, Leicester • 129 members present
- John Howells in the Chair

Southern Region - Wednesday 10 October 2012, at 7.00 p.m.

- KETTERING** • The Kettering Park Hotel, Kettering Parkway, Kettering • 88 members present • Marta Mayhew in the Chair
- MARKET HARBOROUGH** • The Conference Centre, Three Swans Hotel, High Street, Market Harborough • 59 members present
- Maria Lee in the Chair
- MELTON MOWBRAY** • Pera Conference Centre, Nottingham Road, Melton Mowbray • 73 members present • Michael Althorpe in the Chair

Northern Region - Tuesday 16 October 2012, at 7.00 p.m.

- CHESTERFIELD** • The Legends Lounge, The Proact Stadium, Chesterfield Football Club, Sheffield Road, Chesterfield • 85 members present
- Peter Dean in the Chair
- DERBY** • The Carriage Shop Theatre, Derby College, The Roundhouse, Roundhouse Road, Pride Park, Derby
- 112 members present • Kevin Hepworth in the Chair
- EASTWOOD** • Eastwood Hall, Hayley Conference Centre, Mansfield Road, Eastwood • 90 members present • Elaine Dean in the Chair

Western Region - Wednesday 17 October 2012, at 7.00 p.m.

- BIRMINGHAM** – The Lakeside Centre, Aston University, Aston Triangle, Birmingham • 130 members present • Paul Singh in the Chair
- BURTON** - The Albion Suite, Burton Albion Football Club, The Pirelli Stadium, Princess Way, Burton on Trent • 117 members present
- Dave Ellgood in the Chair
- STAFFORD** - The Royal Suite, Tillington Hall Hotel, Eccleshall Road, Stafford • 77 members present • Helen Lees in the Chair

- 1. Apologies** received were read to the meetings at respective venues.
- 2. Minutes** of the Annual Meeting of Members held 24 & 25 April; and 1 & 2 May 2012, including Results of Elections, were approved as a correct record.
- 3. Interim Report of the Board of Directors** - Resolved: "That the Interim Directors' Report for the 28 weeks ended 11 August 2012 be adopted".
- 4. Distribution of Trading Surplus** - Members' Interim Dividend. The interim dividend of 1.1 pence per point was approved by a show of hands.
- 5. Member Relations Interim Reports** - Verbal reports of the Northern, Eastern & Southern and Western Regional Member Relations Committees for the half year ended July 2012 were received and adopted.
- 6. Results of Election** of one Members' Delegate from each Region to attend Co-operative Congress 2013:

Elected unopposed:

Northern Region – Keith Bostock

Western Region – Daphne Stone

(Eastern and Southern Regions – no nominations received)