Co-operative Brands Limited

Directors' report and financial statements

Registered number 5279000

Year ending 10 January 2009

Contents

Directors' report

The Directors present their report and financial statements for the year ending 10 January 2009.

Principal activities

The Company is a wholly owned subsidiary of Co-operative Group Limited ("the Group"). The principal activity of the Company is the holding of certain intangible assets for licence to other group companies.

Development and performance of the business

The results for the year are set out on page 6 of the financial statements.

Revenue

The Company achieved £27.0 million sales in the year, a slight increase of £0.1 million (0.5%) from the previous year.

Profitability / Operating margin

Operating profit is the profit the Company has made before any interest income or expense, taxation and dividends received or paid. Operating profit for the year was £12.9 million, £1.2 million down on the previous year. Operating margin is defined as operating profit divided by revenue. The Company achieved operating margin of 47.8% down from 52.3% achieved in the previous year.

Parent Key Performance Indicators

In addition to monitoring revenue and profitability of the Company, the Directors also monitor a number of Key Performance Indicators of the group. These include financial performance, growth in and engagement of members of the group and the corporate reputation of the group. Further details on these key measures can be found on pages 20-22 of the Group's annual report.

Principal risks and uncertainties

The key business risks and uncertainties affecting the Company are considered to relate to trends in consumer spending and damage to our reputation or brand. Further discussion of these risks and uncertainties, in the context of the group as a whole, is provided on pages 23-25 of the group's annual report which does not form part of this report.

Dividend

The Directors do not recommend the payment of a dividend (*2008: £nil*).

Directors

The directors who held office during the year were as follows:

C C Whitfield (resigned 29 August 2008)
J P Allen
A Crossland (appointed 5th August 2008)
T Hudghton (appointed 5th August 2008)

Employees

Employees are provided with business specific communication and these are supported by two corporate publications: *Magma* magazine and *Us* magazine. All managers are kept informed about the Co-operative Group's performance through annual, interim and social accountability reports, management bulletins and Newsline, the electronic weekly new service.

The Company's policy is to recruit disabled workers for those vacancies they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, where possible, for retaining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Directors' report *(continued)*

Creditor payment terms

The Co-operative Group Code on Business Conduct sets out the Society's and its subsidiaries' relationships with its suppliers and its undertaking to pay its suppliers on time and according to agreed terms of trade.

Political and charitable contributions

The Company made no political or charitable donations or incurred any political expenditure during the year *(2008: nil)*.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

By order of the Board

C J Sellers
Secretary

Registered Office:
New Century House
Corporation Street
Manchester
M60 4ES

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable laws.

The financial statements are required by law to present fairly the financial position and the performance of the Company; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

KPMG Audit Plc

St James' Square
Manchester
M2 6DS
United Kingdom

Report of the independent auditors to the members of Co-operative Brands Limited

We have audited the financial statements of Co-operative Brands Limited for the year ended 10 January 2009 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 3.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Report of the independent auditors to the members of Co-operative Brands Limited *(continued)*

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Company's affairs as at 10 January 2009 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

4 August 2009

Income statement
for the year ended 10 January 2009

	Note	**For the year ended 10 January 2009**	For the year ended 12 January 2008
		£000	£000
Revenue		**26,984**	26,855
Cost of sales		**(2,944)**	(1,467)
Gross profit		**24,040**	25,388
Administrative expenses		**(11,144)**	(11,335)
Operating profit	3	**12,896**	14,053
Financial income	6	**504**	459
Financial expenses	7	**(9,747)**	(9,943)
Profit before taxation		**3,653**	4,569
Income tax expense	8	**-**	-
Profit after taxation		**3,653**	4,569
Profit for the year		**3,653**	4,569

All revenue relates to continuing activities.

The notes on pages 9 to 18 form part of these financial statements.

Statement of recognised income and expense
for the year ended 10 January 2009

The Company has no recognised gains or losses in the current year other than those included in the income statement shown above.

Balance sheet
at 10 January 2009

	Note	**As at 10 January 2009 £000**	As at 12 January 2008 £000
Non-current assets			
Intangible assets	*9*	**157,053**	166,776
Total non-current assets		**157,053**	166,776
Current assets			
Trade and other receivables	*10*	**9,570**	8,886
Total current assets		**9,570**	8,886
Total assets		**166,623**	175,662
Current liabilities			
Trade and other payables	*11*	**158,426**	171,118
Total current liabilities		**158,426**	171,118
Total liabilities		**158,426**	171,118
Equity			
Called up share capital	*12*	**-**	-
Retained earnings	*13*	**8,197**	4,544
Total equity	*14*	**8,197**	4,544
Total equity and liabilities		**166,623**	175,662

The notes on pages 9 to 18 form part of these financial statements.

These financial statements were approved by the Board of Directors on 30 July 2009 and were signed on its behalf by:

A Crossland

A Crossland

Director

Notes
(forming part of the financial statements)

1 Accounting policies

Reporting Entity

Co-operative Brands Limited ("the Company") is a Company incorporated in the United Kingdom. The address of the Company's registered office is New Century House, Corporation Street, Manchester M60 4ES.

Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the EU (IFRS) for the year ended 10 January 2009 and are prepared on the historical cost basis.

The accounting policies set out below, have been applied consistently to all years presented in these financial statements.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Standards and interpretations issued but not yet effective

- IFRS 8 Operating Segments (mandatory for annual periods beginning on or after 1 January 2009) introduces the 'management approach' to segment reporting. IFRS 8 will require the disclosure of segment information based on the internal reports regularly reviewed by the Company's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The Company will apply IFRS 8 from 11 January 2009, but it is not expected to have a significant impact on the segmental information reported in the Company's accounts.
- Amendments to IAS 1, Presentation of Financial Statements (mandatory for periods beginning on or after 1 January 2009) requires the Company to present both a Statement of Changes in Equity and a Statement of Recognised Income and Expense as primary statements. The amendment would also require two comparative balance sheets in the event of a prior year adjustment. Provided the interpretation is endorsed for application in the EU, the Company will apply IAS 1 from 11 January 2009. The amendment to IAS 1 will impact the type and amount of disclosures made in these financial statements, but will have no impact on the reported profits or financial position of the Company.
- The most significant amendments to IFRS 3, Business Combinations (mandatory for periods beginning on or after 1 July 2009) relate to:
  - Acquiring a controlling interest, but a majority stake only;
  - Accounting for changes in stake; and
  - Accounting for the price paid.

  The scope of IFRS 3 has widened to bring certain transactions that were not within the scope of IFRS 3 (2004) into scope. Provided the interpretation is endorsed for application in the EU, the Company will apply the revised IFRS 3 from 10 January 2010. This will impact on the accounting for all future business combinations.

Notes *(continued)*

1 Accounting Policies *(continued)*

Intangible assets and amortisation

(i) Intangible Assets

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense incurred. Amounts paid in respect of acquiring licences are capitalised and stated at cost less accumulated amortisation and impairment losses.

(ii) Amortisation

Amortisation is charged to administration expenses in the income statement on a straight-line basis over 20 years, this being the estimated useful life of the intangible asset.

Where there is indication of impairment, an impairment review will be performed.

(iii) Disposals

Where the Company grants a sub licence to fellow subsidiary undertakings, the sub licence is treated as a disposal.

Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of the Company's assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of these assets, an impairment loss is reversed if there has been a change in the estimates based on an event subsequent to the initial impairment used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

Revenue

Revenue represents licence fees due from other group undertakings. Revenue is recognised as the licence income becomes due.

All revenue is derived from the Company's principal activity.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

Taxation

Provision for corporation and deferred taxation is not made because the ultimate parent organisation has indicated that it will meet any taxation liabilities.

Notes *(continued)*

1 Accounting Policies *(continued)*

Pensions and other post-retirement benefits

The Company's employees are members of a Group wide pensions scheme, the Co-operative Group Pension (Average Career Earnings) Scheme (the PACE Scheme). The Company contributes to the PACE Scheme in respect of its employees who are members of the Scheme. The PACE Scheme is a defined benefit scheme but the Company is unable to identify its share of the underlying assets and liabilities of the scheme and therefore contributions to the scheme are accounted for as if it were a defined contribution scheme. There is no contracted agreement or stated Group policy for charging the net defined benefit cost for the plan as a whole measured in accordance with IAS 19 to individual Group entities, therefore Co-operative Brands Limited, in its individual financial statements, cannot recognize the net defined cost so charged.

2 Accounting date

The financial statements for the Company are made up for the year to 10 January 2009 and are headed 2009. The comparatives are shown for the year to 12 January 2008 and are headed 2008.

3 Operating Profit

	2009	2008
	£000	£000
Operating Profit is stated after charging:		
Amortisation	**9,723**	9,722
	9,723	9,722

Auditors' remuneration of £500 (*2008: £500*) is borne by the Group without recharge.

4 Staff numbers and costs

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

No of Employees	**2009**	2008
Full-time	**27**	29

The aggregate payroll costs of these persons were as follows:

	2009	2008
	£000	£000
Wages and salaries	**1,055**	1,365
Social security costs	**120**	126
Other pension costs	**130**	122
	1,305	1,613

Directors' remuneration in respect of services provided to the Company were £nil (*2008: £nil*).

Notes *(continued)*

5 Pension scheme

The Company is a wholly owned subsidiary of Co-operative Group Limited which operates a defined benefit pension scheme (the PACE Scheme), the assets of which are held in a separate trust fund.

The pension costs are assessed in accordance with actuarial advice using the projected unit method.

The most recent valuation of the PACE Scheme was carried out by a qualified actuary in April 2007. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, which, due to the timescale covered, may not necessarily be borne out in practice.

The actuarial valuation of the PACE Scheme as noted above has been updated to 10 January 2009.

The principal assumptions used by the actuary to determine the liabilities of the PACE Scheme were:

	2009	2008
Rate of increase in salaries	**4.75%**	5.15%
Future pension increases where capped at 5% pa	**3.25%**	3.65%
Future pension increases where capped at 2.5% pa	**2.5%**	2.5%
Discount rate	**5.70%**	5.65%

Assumptions used to determine the net pension cost for the PACE scheme are:

	2009	2008
Discount rate	**5.65%**	5.1%
Expected long-term return on scheme assets	**6.4%**	6.3%
Rate of increase in salaries	**5.15%**	4.5%

The average life expectancy (in years) for mortality tables used to determine the scheme liabilities for the PACE scheme at 10 January 2009 are:

Life expectancy at age 65	**Male**	**Female**
Member currently aged 65 (current life expectancy)	20.3	23.2
Member currently aged 45 (life expectancy at age 65)	21.3	24.1

The fair value of the PACE Scheme's assets, which are intended to be realised in the future, may be subject to significant change before they are realised.

Notes *(continued)*

5 Pension scheme *(continued)*

	2009 £m	2008 £m
The amounts recognised in the balance sheet are as follows:		
Present value of funded obligations	**(4,799.9)**	(5,073.6)
Present value of unfunded liabilities	**(0.2)**	(0.2)
Fair value of scheme assets	**5,204.6**	5,511.7
Net pension asset	**404.5**	437.9

	2009 £m	2008 £m
Reconciliation of fair value of scheme liabilities:		
Fair value of scheme liabilities at the beginning of the year:	**5,073.8**	5,023.4
Current service cost	**39.3**	47.5
Interest on liabilities	**283.0**	253.0
Contributions by members	**20.2**	22.0
Actuarial gains recognised in equity	**(408.2)**	(49.8)
Benefits paid	**(198.0)**	(196.3)
Gains on settlements and curtailments	**(10.0)**	(26.0)
Fair value of scheme liabilities at the end of the year	**4,800.1**	5,073.8

	2009 £m	2008 £m
Reconciliation of fair value of scheme assets:		
Fair value of scheme assets at the beginning of the year:	**5,511.7**	5,315.7
Expected return on plan assets	**348.9**	331.0
Actuarial losses recognised in equity	**(534.8)**	(24.3)
Contributions by the employer	**56.6**	60.7
Contributions by members	**20.2**	22.0
Benefits paid	**(198.0)**	(193.4)
Gains on settlement and curtailments	**-**	-
Fair value of scheme assets at the end of the year	**5,204.6**	5,511.7

	2009	2008
The weighted-average asset allocations at the year-end were as follows:		
Equities	**42%**	43%
Liability-driven investments	**54%**	51%
Property	**4%**	5%
Cash	**0%**	1%
	100%	100%

To develop the expected long-term rate of return on assets assumption, the Group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of

Notes *(continued)*

5 Pension scheme *(continued)*

the 6.4% assumption for the year ended 10 January 2009.

The Group expects to contribute £54m to its defined benefit pension scheme in 2009.

There is no contractual agreement or stated Group policy for charging the net defined benefit cost for the plan as a whole measured in accordance with IAS 19 to individual group entities, therefore Co-operative Brands Limited, in its individual financial statements, cannot recognise the net defined cost so charged. The net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, which is Co-operative Group Limited.

The Company contributes towards the same pension scheme as the ultimate parent society, Co-operative Group Limited. The scheme is a defined benefit scheme but the Company is unable to identify its share of the underlying assets and liabilities of the scheme and therefore contributions to the scheme are accounted for as if it were a defined contribution. The Company then recognises a cost equal to its contribution payable for the year, which was £99,000 (*2008: £80,000*). Based on advice from a qualified actuary, the contributions payable by the participating entities were 16% of pensionable salaries.

6 Financial income

	2009	2008
	£000	£000
Interest receivable	**504**	459

7 Financial expenses

	2009	2008
	£000	£000
Interest payable	**9,747**	9,943

8 Income tax expense

The current year tax charge based on the profit for the year of £3,653,000 (2008: £4,569,000) has been surrendered as group relief for which no payment will be required.

On 1 April 2008 the applicable enacted corporation tax rate was reduced to 28% from 30%, as such the blended rate of corporation tax applicable to this accounting year is 28.44%

Notes *(continued)*

9 Intangible assets

	Licenses
	£000
Cost	
At 12 January 2008	194,447
At 10 January 2009	**194,447**
Amortisation	
At 12 January 2008	(27,671)
Charge for year	(9,723)
At 10 January 2009	**(37,394)**
Net book value	
At 10 January 2009	**157,053**
At 12 January 2008	166,776

	£000
Cost	
At 13 January 2007	194,447
At 12 January 2008	**194,447**
Amortisation	
At 13 January 2007	(17,949)
Charge for year	(9,722)
At 12 January 2008	**(27,671)**
Net book value	
At 12 January 2008	**166,776**
At 13 January 2007	176,498

The intangible asset relates to licences for the use of the Co-operative brand. They are being amortised over 20 years. The remaining life of the licences is 16 years.

10 Trade and other receivables

	2009	2008
	£000	£000
Interest receivable	**18**	43
Loans to group undertakings (note 15)	**9,552**	8,843
	9,570	8,886

Notes *(continued)*

15 Related parties

Transactions with other Group undertakings

	2009 £000	2008 £000
Revenue		
Co-operative Group Limited	**26,984**	26,855
Interest receivable		
Convenience Stores West Ltd	**12**	281
Devon and Cornwall Convenience Stores Limited	**2**	58
Plymouth and Cornwall Convenience Stores Limited	**2**	56
Somerset and Bristol Convenience Stores Limited	**2**	50
Bell Travel	**-**	7
House of Travel	**-**	5
Magic Breaks Limited	**-**	2
	18	459
Interest payable		
Co-operative Group Limited	**385**	9,942
Medinland Limited	**-**	1
	385	9,943

	2009 £000	2008 £000
Year end net receivable position		
Convenience Stores West Ltd	**5,580**	5,265
Devon and Cornwall Convenience Stores Limited	**1,146**	1,081
Plymouth and Cornwall Convenience Stores Limited	**1,115**	1,052
Somerset and Bristol Convenience Stores Limited	**986**	931
Medinland Limited	**387**	197
Co-operative Marketing and Trading Limited	**129**	122
Magic Breaks Limited	**110**	102
CMTG Limited	**99**	93
	9,552	8,843
Year end net payable position		
Co-operative Group Limited	**158,041**	170,195
	158,041	170,195

Notes *(continued)*

16 Group entities

Control of the Group

The Company is a wholly owned subsidiary of Co-operative Group Limited (formerly known as Co-operative Group (CWS) Limited), an Industrial and Provident Society registered in England and Wales. This is the smallest and largest group of which the company is a member and for which consolidated accounts are prepared. A copy of the Group accounts can be obtained from the Secretary, Co-operative Group Limited, PO Box 53, New Century House, Manchester, M60 4ES.

17 Commitments and Contingent liabilities

There are no capital commitments or contingent liabilities at the end of the current and preceding financial year.

18 Financial Risk Management

The Company is not exposed to any significant financial risk.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

19 Capital resources

The Company's primary objective in respect of capital management is to ensure that it has sufficient capital now and in the future to support the risks in the business. The Company has continued support of its parent society to ensure capital is managed appropriately.