

**SOUTHERN CO-OPERATIVES LIMITED**

**Report and Financial Statements**

**52 week period ended 29 January 2011**

**REPORT AND FINANCIAL STATEMENTS 2011**

<b>CONTENTS</b>	<b>PAGE</b>
Officers and Professional Advisers	1
Review of the Business	2
Statement of Corporate Governance	2
Statement of Going Concern	10
Creditor Payment Policy	10
Disclosure of Information to Auditor	10
Auditor	10
Statement of Compliance	10
Board Certification	11
Remuneration Report	12
Statement of Directors' Responsibilities	16
Independent Auditor's Report	17
Statement of Accounting Policies	18
Group Revenue Account	21
Group Statement of Total Recognised Gains and Losses	22
Group Balance Sheet	23
Group Cash Flow Statement	24
Reconciliation of Movement in Shareholders' Funds	25
Notes to the Accounts	26
Five period Comparative Statement	43

## REPORT AND FINANCIAL STATEMENTS 2011

### OFFICERS AND PROFESSIONAL ADVISERS

#### DIRECTORS

Chairman	D J Blowe <sup>1 2</sup>
Vice-Chairman	M K Hastilow <sup>1 2 3</sup>
	T P Blair <sup>1 2 3</sup>
	G Heath <sup>3</sup>
	F A Hobson
	S L Toone
	A Vincent-Prior
	P Lympny
	N Blanchard <sup>3</sup>

- <sup>1</sup> Remuneration and Appointments Committee
- <sup>2</sup> Chair's Committee
- <sup>3</sup> Audit Committee

#### OFFICERS

M S Smith, FCCA MloD	Chief Executive Officer
S J Dominy, MBA ACIS	Society Secretary

#### REGISTERED OFFICE

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Fareham  
Hampshire  
PO16 7BN  
Telephone: (01329) 223000  
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Website: [www.thesouthernco-operative.co.uk](http://www.thesouthernco-operative.co.uk)

#### BANKERS

Co-operative Bank Plc  
46-48 Arundel Street  
Portsmouth  
PO1 1TD

#### INDEPENDENT AUDITOR

Deloitte LLP  
Chartered Accountants & Statutory Auditor  
Southampton, United Kingdom

## **REVIEW OF THE BUSINESS**

In the period just ended Group turnover rose by 8.3% on 2010 to reach £283m.

The surplus before tax was £9.1m, compared to £9.8m last period which was a decrease of 7.4%.

Further investment was also made this period to support the continued organic growth of the core retail store and funeral home business.

This year also saw the second year of trading of Co-operative Xest, which provides goods and services to aid daily living. During the year the company acquired BenefitsNow a company trading in a similar market in order to expand its potential reach. Our franchise retail business continued to grow during the year.

A full business review is produced in the Annual Review and Summary Financial Statements booklet available on request from stores, the Secretary at the Society's Registered office or from our website [www.thesouthernco-operative.co.uk](http://www.thesouthernco-operative.co.uk).

## **STATEMENT OF CORPORATE GOVERNANCE**

### **Board of Directors**

Mr David Blowe (Chairman)  
Mr Michael Hastilow (Vice-Chairman)  
Mr Thomas Blair  
Mr Glenn Heath  
Mrs Frances Hobson  
Mr Stephen Toone  
Mrs Amber Vincent-Prior  
Mrs Pauline Lympany  
Mr Neil Blanchard

### **Leadership Team**

Mr Mark Smith Chief Executive Officer  
Mrs Silena Dominy Society Secretary  
Mr Philip Ponsonby Chief Operating Officer Food Retail & Services  
Mr Stephen Pearce Chief Operating Officer End of Life Services  
Mrs Andrea Dipple Managing Director, Co-operative Xest

### **Sub Committees of the Board**

#### **Audit Committee**

Mr Thomas Blair (Chairman)  
Mr Michael Hastilow  
Mr Glenn Heath  
Mr Neil Blanchard

#### **Remuneration and Appointments Committee**

Mr David Blowe (Chairman)  
Mr Thomas Blair  
Mr Michael Hastilow

#### **Chair's Committee**

Mr David Blowe (Chairman)  
Mr Michael Hastilow  
Mr Thomas Blair  
Chief Executive Officer  
Financial Controller

Corporate Governance is the system by which an organisation is directed and controlled at the most senior levels in order to achieve its objectives and meet the necessary standards of accountability and probity.

Guidance on achieving the highest possible standards of governance is contained in the Combined Code on Corporate Governance issued by the Financial Reporting Council in 2008.

As an Industrial and Provident Society, Southern Co-operatives Limited is not required to adhere to the provisions of the revised Combined Code. However Co-operatives<sup>UK</sup>, the apex body for co-operative enterprises in the UK, with the support of its Congress, has issued a Code of Best Practice ('the Code') for consumer co-operatives to which it requests voluntary compliance. This Code is based on the principles contained in the Combined Code but is tailored to the particular governance characteristics found in consumer co-operative societies.

## **STATEMENT OF CORPORATE GOVERNANCE (continued)**

The Board is committed to the principles set out in the Code and is compliant with the majority of the recommendations.

Where the Board have specifically chosen not to comply with a recommendation of the Co-operatives<sup>UK</sup> Corporate Governance Code of Best Practice, explanations have been given within the Statement of Compliance at the end of this section.

The summary that follows highlights the main features of the corporate governance arrangements in Southern Co-operatives Limited that the Directors believe are most appropriate for the organisation at this time.

### **OUR MEMBERS**

Co-operatives are member-owned democratic organisations and the Board has sought to encourage members to play their part in the governance of the business and improve membership participation. The Board, as a whole, considers membership issues on a regular and frequent basis and monitors the Society's performance in this area.

The Board welcomes contested elections and encourages the participation of the membership in the electoral process. It is recognised that the involvement of a participatory membership is central to our Co-operative identity and the Board is keen to attract potential future Directors.

Elections to determine who will serve on the Board are held ahead of the Annual General Meeting (AGM) each year. All members are entitled to vote in such elections. In order to make voting accessible to all members a Voting Database is maintained on an opt-in basis. All eligible members registered on the Voting Database receive ballot instructions directly from Electoral Reform Services. Alternatively, members may vote in person at the registered office of the Society on a specified election polling day. Further information relating to the election process can be found in the Society's Annual Review and on our website [www.thesouthernco-operative.co.uk](http://www.thesouthernco-operative.co.uk). Election results are announced at the AGM which is publicised to members in all retail branches and on our website. The timing and venue of the AGM is arranged to encourage maximum participation. Members are given the opportunity to meet Directors and the leadership team informally at the AGM.

The Board is keen to encourage members to have a say in the way the Society is run, to help our communities and to enjoy member benefits. Opportunities, in addition to our formal AGM, have been made available for members to interact with us. Members may attend local Co-operative Community Group meetings where they receive information about our activities and can influence our community activities. An annual Members' Convention is held which offers an informal opportunity for members to voice an opinion and be consulted, as well as make suggestions to improve our activities. There is also the opportunity for members to participate in organised social events and outings. Regular updates are provided for our members on our website, via publications and through its' range of meetings.

The Society ensures that all notified amendments to the membership register are promptly updated. In addition we are undertaking an ongoing process to contact all registered members to confirm the details held and make amendments as necessary.

### **THE BOARD**

The Board of Directors consists of up to nine members who are directly elected from, and by, the membership on a 'one member one vote' basis under the Society's democratic structure. All Directors are non-executives and serve terms of 3 years. The retirement age for Directors is 68. The Board appoints, or re-appoints, the Chairman and Vice Chairman on an annual basis. In accordance with the Code, the current Chairman of the Board is an Independent Director. The Remuneration and Appointments Committee makes informed recommendations in relation to other Board appointments and Directors complete questionnaires indicating their experience, qualifications and desire to take on such roles to assist the Committee with this work.

At the period end, the Board consisted of six Directors who are considered to be independent and three Directors who are also employees of the Southern Co-operatives' Group.

## **STATEMENT OF CORPORATE GOVERNANCE (continued)**

### **THE BOARD (continued)**

On appointment, Directors receive a formal letter of appointment and an induction designed to develop their knowledge and understanding of the Society and their role as a Director. Directors receive details of their duties, matters reserved for their decision, information on the Board and its Committees and details of the powers delegated to those Committees. They also receive details of the Society's corporate governance practices and operational policies and the latest financial information.

All Directors are required to sign acceptance of, and comply with, a Directors' Code of Conduct that has been endorsed by the Board. The Code of Conduct utilised has been based on the model produced by Co-operatives<sup>UK</sup> but has been adapted to suit the Society's needs. Amongst other areas the Code of Conduct sets out the requirements of Directors in relation to confidentiality and conflicts of interest. A Register of Directors' Interests is maintained and regularly updated. In addition should a conflict of interest arise for a Director this is declared where appropriate during Board business and necessary safeguards are put in place.

Southern Co-operatives Limited provides facilities for all Directors to participate in training and development programmes in order to update their knowledge and capabilities and assist them in fulfilling their roles. A number of our Directors already hold professional qualifications and others are currently working towards achieving the Professional Diploma in Co-operative and Mutual Directorship. The Remuneration and Appointments Committee is responsible for determining methods to review the skills and knowledge of Directors and for proposing training requirements over and above these arrangements.

Each Director has been allocated an area of business interest within the Society and meets three times a year with relevant management to receive updates and a greater level of information on their allocated area. The allocation of business areas is reviewed annually and changes made if appropriate. The Board as a whole retains the responsibility for ensuring that long-term objectives are established, policies are approved to achieve these objectives and that the Society's performance is questioned and monitored effectively across each business area. The operation of the various business areas remains the responsibility of the Leadership Team. This process further develops Directors' understanding of the Society's business to help them carry out their strategic responsibilities.

During the latter part of 2010, the Board engaged in a formal evaluation of the performance of the Board as a whole, its Committees, individual Directors and the Chairman. This evaluation highlighted improvements that had been made on the previous year and areas where action could be taken to further enhance the performance of the Board. These areas will be addressed during 2011.

The Board is responsible for ensuring that business is conducted in the best interests of the Society and its' members and in accordance with co-operative values and principles. In particular, the Board determines the vision and strategies of the Society and ensures that policies and organisational structures are in place to deliver the long term objectives. The Board also ensure that the Society's actions comply with the Society's Rules, relevant laws and regulations. The Board has responsibility for overseeing the work of the Society's Leadership Team in the implementation of strategy and the monitoring of performance against objectives. Members of the Leadership Team make regular presentations to the Board at key stages throughout the year in order that progress against strategic plans can be monitored.

There is a written list of matters and decisions that may only be approved by the Board which is regularly reviewed. The Board meet approximately monthly, with additional sub-committee meetings on a regular scheduled basis. The Board has established three sub-committees; an Audit Committee, a Remuneration and Appointments Committee and a Chair's Committee, to consider specific issues and to ensure proper scrutiny and accountability of the Society's activities. Details of these Committees are given below. The Board determines the powers delegated to its sub-committees and receives regular reports from them and its active subsidiary companies. At least two Society Directors, including the Chairman, where appropriate, sit on each of the Society's active subsidiary companies.

Detailed Board and Committee papers are distributed in advance of the meetings to provide the opportunity for Directors to fully prepare for meetings. The Minutes of all Board meetings are circulated to all Directors. The Board receives regular presentations from management at its meetings to increase Directors' understanding of the business, the markets in which the Society operates and the regulatory environment.

## **STATEMENT OF CORPORATE GOVERNANCE (continued)**

### **THE BOARD (continued)**

Where Directors require clarification and advice outside of the expertise of management there is an agreed procedure by which they may take independent professional advice at the Society's expense in furtherance of their duties.

The Society's Directors have attended the following Board and Committee meetings during the period:

	<b>Main Board</b>	<b>Audit Committee</b>	<b>Remuneration &amp; Appointments Committee</b>	<b>Chair's Committee</b>
Mr David Blowe	12 (12)		5 (5)	1 (1)
Mr Thomas Blair	11 (12)	2 (2)	4 (5)	1 (1)
Mr Glenn Heath	12 (12)	2 (2)		
Mr Michael Hastilow	12 (12)	2 (2)	5 (5)	0 (1)
Mrs Frances Hobson	10 (12)			
Mr Stephen Toone	12 (12)			
Mrs Amber Vincent-Prior	12 (12)			
Mrs Pauline Lympany	9 (12)			
Mr Neil Blanchard	11 (12)	2 (2)		

*The number in brackets indicates the total number of meetings the Director was eligible to attend during the period.*

**The Audit Committee** currently comprises four Directors including one with recent and relevant financial experience. The Chairman of the Committee is Mr Thomas Blair. In accordance with the Corporate Governance Code of Best Practice neither the Chairman nor the Chief Executive Officer sit on this Committee and employee Directors are barred from membership.

Under its terms of reference, the Committee:

- Monitors the integrity of the Group's financial statements, together with any significant financial reporting judgements contained within the statements;
- Reviews the consistency of, and any changes to, accounting policies and methods on a year on year basis, and across the Group;
- Reviews the effectiveness of the Society's internal controls and risk management systems;
- Monitors and reviews the effectiveness of the internal audit function outsourced to PricewaterhouseCoopers LLP, in the context of the Society's overall risk management system. Responsible for approving their remit, their appointment and removal and management's responsiveness to the findings and recommendations of the internal auditor;
- Reviews the Society's whistle blowing procedures, ensuring that appropriate arrangements are in place for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters;
- Monitors the effectiveness of the external audit process and makes recommendations to the Board in relation to the appointment, reappointment and remuneration of the external auditor; and
- Ensures that an appropriate relationship between the Society and the external auditors is maintained, including reviewing non-audit services and fees.

During the period, the Audit Committee discharged its responsibilities by considering the above issues during the two meetings held. The Committee met both the external auditor (Deloitte LLP) and the internal auditor (PricewaterhouseCoopers LLP) at each meeting. Both the external and internal auditors have direct access to the Chairman of the Board and the Chairman of the Committee at all times and the Committee meets with the Society's external auditors at least once each year with no members of management being present.

The Chair of the Audit Committee provides a report to the Board after each of its meeting and minutes of the Committee's meetings are circulated to all Directors.

All new appointees to the Committee receive an induction in order to prepare them for the role.

## STATEMENT OF CORPORATE GOVERNANCE (continued)

### THE BOARD (continued)

**The Remuneration and Appointments Committee** currently comprises three Directors and is chaired by Mr David Blowe, the Society Chairman. No employee or recently retired superannuated employee is permitted to serve on the Committee. The Committee meets as and when required but at least once per annum. The Chair of the Remuneration and Appointments Committee provides a report to the Board after each of its meeting and minutes of the Committee's meetings are circulated to all Directors.

The Committee's Remuneration Report can be found on pages 12-15.

The Board has determined not to establish a Search Committee but instead has incorporated the scope of operation of such a Committee into the terms of reference of the Remuneration and Appointments Committee.

**The Chair's Committee.** The Chair's Committee has the authority to consider issues of a very urgent nature in between Board meetings. The Committee met once during 2010 to discuss a retail acquisition of 5 stores and the full Board subsequently endorsed their decision to acquire.

The Chair of the Committee provides a report to the Board after each of its meetings and minutes of the Committee's meetings are circulated to all Directors together with any papers considered by the Committee in order that all Directors are fully informed.

### THE CHAIRMAN

The Rules of the Society clearly set out the separate responsibilities of the Board, the Chief Executive Officer and the Secretary.

The Chairman, like all the Directors of the Society, is a non-executive Director. He leads the Board in determination of its strategy and in the achievement of its long term objectives. The Chairman is responsible for organising the business of the Board, and ensuring its effectiveness. The Chairman has no involvement in the operational management of the business.

### THE CHIEF EXECUTIVE OFFICER

The Chief Executive is responsible for conducting the day-to-day business of the Society and is accountable to the Board for the performance of the business and for compliance with the Society's Rules and applicable legal and other regulations.

### THE SOCIETY SECRETARY

The Directors have access to the advice and services of the Secretary who has responsibility for advising the Board on governance matters. The Society's Rules provide that the appointment and removal of the Secretary is a matter for the full Board. The Rules of the Society provide that the roles of Chief Executive Officer and Society Secretary may not be held concurrently by the same individual.

### INTERNAL CONTROL

The Society has had arrangements in place that are consistent with the principles outlined in "Internal Control Guidance for Directors on the Combined Code" (The Turnbull Guidance) for the period under review, and up to the date the Annual Report and Financial Statements were approved. Further specific guidance for co-operative businesses is given in advice provided by Co-operatives<sup>UK</sup>.

## **STATEMENT OF CORPORATE GOVERNANCE (continued)**

### **CONTROL FRAMEWORK**

In accordance with the Corporate Governance Code of Best Practice published by Co-operatives<sup>UK</sup>, the Board has conducted a review of the Society's system of internal controls. The review covered financial, operational and compliance controls and risk management processes.

The Society's framework of internal controls consists of the following elements:-

- an organisational structure with clearly defined lines of responsibility, delegations of authority and reporting requirements;
- policies for expenditure, with set authorisation levels resulting in larger capital projects, acquisitions and disposals requiring Board approval;
- a comprehensive system of financial reporting where actual results together with budget and forecast comparisons are reported regularly to the Board throughout the period;
- Board review and approval of the annual budget and strategic plans;
- a code of business conduct covering relations with members, customers, employees, the community, the environment, suppliers, and competitors; and
- an Audit Committee that oversees the Society's system of internal control and the internal audit function.

### **CONTROL PROCEDURES**

The Society has implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud.

Measures taken include physical controls, segregation of duties, review by management, internal audit and external audit. However, the system of internal control 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.

### **MONITORING**

The Audit Committee receives and reviews the annual internal and external audit work plans. A summary of significant matters raised by internal audit is considered by the Committee at each meeting. The Committee also reviews the annual external audit management letter and the response of the Leadership Team to the auditors' report.

Having completed its work for the period under review, the Audit Committee considers that there have been no errors or control weaknesses that have resulted in any material losses or contingencies that require disclosure. The Board receives copies of all Audit Committee minutes, and the external audit management letter.

### **RISK MANAGEMENT**

The Board has primary responsibility for setting policies and procedures to manage the key risks facing the Society effectively. As such, the Board is responsible for the Society's system of internal control and for reviewing its effectiveness. The role of the Leadership Team is to identify key business risks arising, to assist the Board in developing policies and procedures to manage risk and to implement Board policies once established.

The Society operates a risk management process that identifies the key risks facing each part of the business. The risk assessments are consolidated and reports are made to the Audit Committee on how the material risks facing Southern Co-operatives Limited as a whole are being managed.

This process has been in place throughout the period and up to the date of approval of the Annual Report and Accounts. The risk management process and the prioritisation of key risks at Group level have been reviewed by the Audit Committee. The overall risk register for the Society as a whole is considered by the Board.

## STATEMENT OF CORPORATE GOVERNANCE (continued)

## KEY CO-OPERATIVE, ENVIRONMENTAL AND SOCIAL PERFORMANCE INDICATORS

NO	AREA	MEASUREMENT	OUTCOME
1	Member economic involvement	Trade (£) conducted with members as a proportion of turnover (%).	During 2010, our trade with members, as a proportion of total sales, was 14.27%. This has been measured by taking the spend accumulated on members' Share of the Profits cards which are used in the scheme to distribute a share of the profit of the Society to its members based on their spend with the Society. In 2010, 2p per £1 of eligible purchases was paid out to members. As this was the first full year of operation for the Share of the Profits scheme no year on year comparison is available.
2	Member democratic participation	Number of members voting in elections and as a % of total membership	In 2010 six nominations were received for three vacancies on the Board. An election was held during which 11,092 postal ballot papers (4,707 in 2009) were mailed to members registered on the Society's Voting Database and 10 ballot papers were distributed to members voting in person at the Society's Registered Office (11 in 2009). 4,034 members (2,120 in 2009) participated in the election by post, telephone, internet and in person voting, a return rate of 36% (45% in 2009).
3	Participation of employees and members in training and education schemes	All types of training. Member training includes attendance at TSC's Members' Convention	2,882 (3,225 in 2009) employees participated in education and training opportunities during 2010, ranging from training topics to long term study. For employees the total training hours as a % of total working hours equals 0.49% (1.2% in 2009) and the average number of hours of education or training per participant was 7.24 hours (14 in 2009). This reduction is due to the extended use of e-learning systems which has significantly reduced the time spent by colleagues on monthly 'training topics'. During 2010, 9,374 training units were completed using e-learning.  There were 1,036 instances by 650 active members (1,429 by 562 members in 2009) participating in member education training from formal Co-op College courses to informal educational Advantage activities. The average number of hours of education per member was 12.5 hours (15.7 in 2009).
4	Staff injury and absentee rates	Staff injury rates/number of accidents/number reportable. Total absentee rate	During 2010, there were 581 (588 in 2009) accidents involving our employees, of which 20 (18 in 2009) were reportable. The total employee absence rate for 2010 was 5.71% (3.9% in 2009).
5	Staff profile - gender and ethnicity %	% male/female and non-white British employees	Of our employees, 65% (67% in 2009) are female and 35% (33% in 2009) are male. Employees with ethnic origin other than White British is 4% (5.6% in 2009).
6	Customer satisfaction %	Number of customers satisfied as a %	We aspire to 100% customer satisfaction. We measure ourselves against the national Harris International Marketing (HIM) standard for customer satisfaction and at the time of our annual survey in 2010, the national level was 88% (84% in 2009). The Society scored 86% (83% in 2009). We also measure customer feedback (including complaints) and employ "mystery shoppers". 222 mystery shopper audits were carried out during the year, with the Society scoring an average of 94.4% against a pass rate of 92%. The information gained from this feedback helps to direct us to those areas that need improvement.

**STATEMENT OF CORPORATE GOVERNANCE (continued)**

**KEY CO-OPERATIVE, ENVIRONMENTAL AND SOCIAL PERFORMANCE INDICATORS (continued)**

NO	AREA	MEASUREMENT	OUTCOME
7	Considerations of ethical issues in procurement and investment decisions	Qualitative description of how these factors are considered in the course of business	A Code of Business Conduct has been produced and distributed across the Society. With regard to products, the Society is in membership of the Co-operative Retail Trading Group and shares the procurement policy of that body. The ethical trading policy and procedures in CRTG address the issues of sound sourcing, animal welfare, food integrity and health and ecological sustainability. In terms of energy and environmental factors, these are reported below. All wood used for coffins is sourced from sustainable forests.
8	Investment in community and co-operative initiatives	Annual proportion of pre-tax investment in community initiatives as a proportion of profit before tax (%)	<p>During 2010, £90,000 was given to our corporate partners, including Wildlife Trusts and environmental groups. Our corporate partners are based within our trading area and support a range of community activity, such as environmental projects and the support of small businesses producing local food.</p> <p>£117,500 was distributed through Community Support Card schemes together with £65,000 through direct donations plus an additional £16,000 to the Kingsley Centre and £32,000 through our facilitation fund. The community also benefited by £16,000 due to volunteering. In all over 1,400 donations were made to community based good causes.</p> <p>In addition to the above distributions:</p> <p>£10,000 was given to Portsmouth Festivities. Through this award we were able to work with them on a local school's outreach programme;</p> <p>£2,500 was sent to a Co-operative FairTrade wine supplier in Chile to assist in rebuilding the school used by the children of the vineyard's employees which was damaged by the Chilean earthquake;</p> <p>£58,000 was given to CHICKS, our corporate charity for 2010, through our former members; fund (as agreed at the 2010 AGM). In addition colleagues and suppliers raised a further £93,000 for the charity;</p> <p>The total community support strategy expenditure, excluding expenses, was £407,000 (£425,000 in 2009). The total represents 4.47% (4.32% in 2009) of pre-tax profit.</p>
9	Net carbon dioxide (CO <sub>2</sub> ) emissions arising from operations	Annual CO <sub>2</sub> emissions associated with energy used for all on-site operations, i.e. offices/shops	During 2010, we continued to purchase 100% green energy from our electrical supply contract, which resulted in 16,861 tonnes CO <sub>2</sub> (16,461 in 2009). For Natural Gas, the total usage for the year amounted to 336 tonnes of CO <sub>2</sub> (1,224 in 2009). This reduction is due to carbon reduction work taking place within the Society.
10	Waste recycled/reused as % of waste arising	% of recycled/reused	In conjunction with our environmental objectives, we aim to reduce waste contribution. During 2010 our total waste amounted to 63,275 cubic metres (55,628 in 2009). Of this 37,831 cubic metres was recycled (34,123 in 2009). This amounts to 59.79% (61.34% in 2009).

## **STATEMENT OF CORPORATE GOVERNANCE (continued)**

### **STATEMENT OF GOING CONCERN**

The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the Business Review on page 2 and within the Directors' Summary contained within the Annual Review and Summary Financial Statements booklet available on request from stores or from our website [www.thesouthernco-operative.co.uk](http://www.thesouthernco-operative.co.uk). The financial position of the group, its cash flows and liquidity position are described in the Chief Executive's review within the Annual Review and Summary Financial Statements booklet.

The Group has considerable financial strength arising from a broad range of customers and suppliers across different geographic areas. The Group has a strong balance sheet position, significant cash balances and an absence of external borrowings. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual report and accounts.

### **CREDITOR PAYMENT POLICY**

For trade creditors, it is the Society's policy to:

- agree the terms of payment at the start of business with that supplier;
- ensure that suppliers are aware of the terms of payment; and
- pay in accordance with its contractual and other legal obligations.

The Society does not follow a standard or code which deals specifically with the payment of suppliers.

Trade creditor days of the Group for the 52 weeks ended 29<sup>th</sup> January 2011 were 14.0 days (16.1 days for the 53 week period ended 30<sup>th</sup> January 2010), based on the ratio of trade creditors at the end of the period to the amounts invoiced during the period by trade creditors.

### **DISCLOSURE OF INFORMATION TO AUDITOR**

The directors who held office at the date of approval of this Statement of Corporate Governance confirm that, so far as they are each aware, there is no relevant audit information of which the Society's Auditor is 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 Society's Auditor is aware of that information.

### **AUDITOR**

Pursuant to Section 5(1) of the Friendly and Industrial and Provident Societies Act 1968, Deloitte LLP are deemed to continue as Auditor.

### **STATEMENT OF COMPLIANCE**

The Board is committed to the principles set out in Co-operative<sup>UK</sup>'s Corporate Governance Code of Best Practice. However there are some areas where the Board have chosen not to fully comply and these areas are set out below:

D1.2 In view of the size and complexity of the Society, the Board does not believe it necessary at the current time to produce an interim statement of trading activities for members. However, a performance update was given at the Members' Convention held in October 2010.

D2.1 The Terms of Reference of the Audit Committee bars employee Directors, the Chairman and the Chief Executive Officer from membership, however, recently retired and superannuated Directors are permitted to serve.

### **BOARD CERTIFICATION**

**STATEMENT OF CORPORATE GOVERNANCE (continued)**

The Statement of Corporate Governance is hereby signed on behalf of the Board and the Financial Statements and notes on pages 21 to 42 are hereby signed on behalf of the Board of Directors pursuant to Section 3(5)(c) of the Friendly and Industrial and Provident Societies Act 1968.

D J Blowe      Chairman

M K Hastilow      Vice Chairman

S J Dominy      Secretary

14 April 2011

## **REMUNERATION REPORT**

The Remuneration Committee is pleased to present its Remuneration Report to members for the 52 weeks ended 29<sup>th</sup> January 2011.

This report, which is published in accordance with the Corporate Governance Code of Best Practice published by Co-operatives<sup>UK</sup>, aims to provide members with an overview of the role of the Remuneration and Appointments Committee together with information on the remuneration policies and practices applicable to the Leadership Team. Details of the remuneration and pension benefits for the year for Senior Members of the Leadership Team, the Society Secretary and Directors are provided within the report.

The report will be presented at the Annual General Meeting on 24<sup>th</sup> May 2011 and will be subject to an advisory vote by members.

### **THE REMUNERATION AND APPOINTMENTS COMMITTEE**

Membership of the Remuneration and Appointments Committee is appointed by and from the Board. The Committee Chairman reports to the Board on its proceedings at the next available meeting.

The Committee currently comprises the Chairman (Mr D J Blowe), Vice Chairman (Mr M K Hastilow) and one other Director (Mr T P Blair). The members of the Committee have no personal financial interests in the Committee's decisions. No Directors who are also employees of the Southern Co-operatives' Group, or are former employees who have left the Southern Co-operatives' Group's employment within the last three years, are eligible to sit on this committee. During the year the Committee met five times.

The Committee has formal terms of reference, set by the Board which provide that the Committee:

- Determines and effects, on behalf of the Board, the policy and actual remuneration and other main terms and conditions of employment for the Chief Executive Officer, Secretary and such other senior managers as the Board may determine and oversees their contractual arrangements using the services of an independent adviser;
- Considers board and senior management succession issues and makes recommendations to the Board;
- Considers and makes informed recommendations to the Board in relation to board appointments, including membership of sub-committees of the Board;
- Determines the frequency and method of appraisal for the Board, individual directors and the Chairman including the method of reviewing the skills and knowledge of directors to determine training requirements; and
- Makes recommendations to the board on the level of remuneration for directors, as and when appropriate, and is responsible for proposing any changes to the expenses policy for directors.

### **EXTERNAL ADVICE**

During the year the Committee sought independent advice on remuneration and other personnel matters from Lewis Consulting (NW) Limited and The Hay Group Management Limited. Lewis Consulting (NW) Limited has not provided any other services to the Society however The Hay Group have provided services to the Society's Human Resources function.

### **REMUNERATION POLICIES AND PRACTICES**

The Board's policy is to remunerate fairly and responsibly. Directors' fees are recommended to members taking into account the need to attract suitable candidates, the time commitment of the Board members, comparisons with other societies' fees and the responsibilities undertaken by the Board.

In determining the remuneration policy for senior members of the Leadership Team, a number of factors are considered, including:

- The importance of attracting, retaining and motivating senior management of the appropriate calibre to further the success of Southern Co-operatives Limited;
- The linking of reward to both individual and business performance; and
- Ensuring that the interests of senior management are aligned with those of the Society and its members.

## **REMUNERATION REPORT (continued)**

### **REMUNERATION POLICIES AND PRACTICES (continued)**

The current policy is to pay remuneration at a level close to the market median, subject always to personal performance, when compared with other businesses of comparable size and complexity, with particular regard to companies in the same business sector. The Committee adopts the principle of performance-related pay and operates both an annual incentive scheme and long-term incentive scheme.

In accordance with best practice, the main components of remuneration for the five most senior members of the Leadership Team, identified in the table on page 14, are disclosed below:

#### **Basic Pay**

The Committee reviews the basic salaries of individuals under its remit on an annual basis. It is the Committee's policy to ensure that basic salaries are appropriate and competitive for the responsibilities involved. The Committee will have regard to median salary data for organisations of a similar size within the retail sector and will also consider individual performance and the level of salary increases elsewhere in the Society.

#### **Annual Incentive Scheme**

Each member of the Leadership Team is eligible to participate in an annual performance-related bonus scheme which is open to all levels of management in the Society. The structure of the scheme is designed to drive team behaviours and encourage individual contributions towards the achievement of the Society's aims and objectives. The Committee reviews and sets bonus targets for individuals under its remit on an annual basis. Participants can potentially receive on target bonuses of up to 25% of basic salary and bonuses of up to 50% of basic salary where targets are exceeded. Performance is measured on a combination of profit before interest, tax, depreciation and amortisations and personal performance against set targets with the proportions of each varying in accordance with individual roles. Those with business unit responsibilities are measured on the profit from their business unit, whilst Group profit is used as the measure for members of the Leadership Team with Group responsibilities.

#### **Long Term Incentive Scheme**

The four most senior members of the Leadership Team participate in a long-term incentive scheme, employing cumulative targets across a three-year period. The structure of the scheme is designed to drive team behaviours and encourage individual contributions and long-term commitment to the achievement of the Society's strategic aims and objectives. It is also designed to obviate any long-term risk to the Society and its assets. The current scheme operates for the financial years 2010-2012. Participants can potentially receive on target bonuses of up to 50% (up to 75% for outperformance) of their average annual basic salary over the three years of the scheme. The targets are set as part of the Strategic Plan of the Society for the three year's ending January 2013. The targets are both financial and non-financial and include growth in profit before interest, tax, depreciation and amortisations; growth in total Society net assets; colleague engagement; membership activity and customer satisfaction. Financial measures are based upon the results agreed by the external auditors of the Society and signed off by the Society's Audit Committee. Non-financial performance measures are assessed by the Remuneration and Appointments Committee, in conjunction with the Chief Executive and an Independent Adviser utilising third party data, where available, to ensure consistency of application.

#### **Benefits in Kind**

The benefits in kind provided during the year were the provision of a car or a cash alternative, fuel card, medical insurance, and travel insurance.

## SOUTHERN CO-OPERATIVES LIMITED

### REMUNERATION REPORT (continued)

Name	Position	Commenced in Current Role (Date)	Basic Salary £	Annual Incentive £	Long Term Incentive £	Benefits in kind £	2010/11 Total Emoluments £
Mark Smith	Chief Executive Officer	01/10/2008	217,063	81,723	-	10,663	309,449
Philip Ponsonby	Chief Operating Officer – Food Retail and Services	18/08/2008	151,311	44,800	-	6,611	202,722
Stephen Pearce	Chief Operating Officer – End of Life Services	03/07/2006	90,000	27,992	-	16,908	134,900
Andrea Dipple	Managing Director – Co-operative Xest	31/03/2008	79,845	18,360	-	17,700	115,905
Silena Dominy	Society Secretary	01/07/2008	70,000	13,520	n/a	10,554	94,074

### PENSIONS

The Society has a defined benefit pension scheme that is closed to new members and a defined contribution scheme for Colleagues who wish to save for their retirement. The defined benefit scheme provides pensions based on 1/60<sup>th</sup> of final pensionable salary for each year of pensionable service as at a member's date of retirement. Pensions are also payable to dependants on death and a lump sum is payable if death occurs in service. Members of the defined benefit scheme currently contribute 5% of their pensionable salary with the Society making contributions of 15.1% of basic salary. The defined contribution pension scheme is a stakeholder pension provided by Co-operative Insurance Society Limited. The Society matches the contributions of members of this scheme up to 5% of basic salary.

Name	Position	DB/DC	Age at end of financial year	Years of society service	Total accrued pension at end of financial year £	Increase in accrued pension during year £
Mark Smith	Chief Executive Officer	DB	51	5	20,126	3,708
Philip Ponsonby	Chief Operating Officer – Food Retail and Services	DB	45	26	64,340	5,430
Stephen Pearce	Chief Operating Officer – End of Life Services	DB	45	26	38,534	5,685
Andrea Dipple <sup>1</sup>	Managing Director – Co-operative Xest	-	-	-	-	-
Silena Dominy	Society Secretary	DB	41	20	23,601	2,768

<sup>1</sup> Andrea Dipple is not a member of either the TSC Group Defined Benefit Pension Scheme or the TSC Stakeholder Pension Scheme

### SERVICE CONTRACTS

It is the policy of the Society for the notice period in service contracts not to exceed one year. The notice period for the Chief Executive Officer and Chief Operating Officer – Food Retail and Services is 12 months. All other members of the Leadership Team have notice periods of 13 weeks. In the event of termination, any payments due to a member of the Leadership Team would be based on the value of these notice periods together with the value of other contractual benefits.

### NON EXECUTIVE DIRECTORSHIPS

Mark Smith, the Chief Executive Officer of the Society is a director of the Co-operative Group Limited and a number of its subsidiary companies, and a Trustee of the Portsmouth Cultural Trust.

## **REMUNERATION REPORT (continued)**

### **DIRECTORS**

The Board of the Society is a lay board of non-executive Directors. Directors do not have service contracts. Directors are elected by the Members of the Society from their number for terms of 3 years. The years of election and expiry of their current terms can be seen in the table below. The Society does not have a policy of co-opting professional external directors onto the Board.

Directors' fees are approved by the Society's members. The current fee levels were recommended to the membership and approved by them in May 2009 following a detailed review by the Society Secretary whereby comparisons were made with the fees paid by other societies and the varying responsibilities and time commitments of Directors' roles considered. The fees agreed include a formula for updating fees in line with the average earnings and retail prices indices.

The annual base fees with effect from 25<sup>th</sup> May 2010 are: Chairman £6,483, Vice Chairman £5,413 and directors £4,457. Further to the payment of the base fee a payment of £500pa is made per Sub-Committee or similar appointment held by a director and where a director acts as Chair of such Committee or Board a further £250pa is paid to that director. In addition to their fees, directors are able to claim expenses reasonably incurred in carrying out Society business.

Name	First Elected	Term Expires	Total 2010/11 Remuneration £	Total Expenses Claimed 2010/11 £
David Blowe (Chairman)	1991	2011	8,608	568.10
Thomas Blair	1997	2012	6,120	256.00
Glenn Heath	2003	2011	4,874	258.50
Michael Hastilow (Vice Chairman)	2005	2012	7,308	85.50
Frances Hobson	2006	2013	4,376	-
Stephen Toone	2008	2011	4,376	293.35
Amber Vincent-Prior	2008	2013	4,376	202.50
Pauline Lympany	2009	2012	4,376	-
Neil Blanchard	2009	2013	4,874	164.20

On behalf of the Remuneration and Appointments Committee

D J Blowe  
Chairman

14 April 2011

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

United Kingdom Industrial and Provident Society Law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Group at the end of the financial period, and of the income and expenditure of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002 and the Industrial and Provident Societies (Group Accounts) Regulations 1969. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

We have audited the financial statements of Southern Co-operative Limited for the 52 week period ended 29 January 2011 which comprise the statement of accounting policies, group revenue account, group statement of total recognised gains and losses, note of historic cost profits and losses, group balance sheet, group cash flow statement, reconciliation of movements in shareholders' funds, and related notes 1 to 28. 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).

This report is made solely to the society's members, as a body, in accordance with section 9 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the board and auditor**

As explained more fully in the Directors Responsibilities Statement, the board is 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 (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **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 board; 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 29 January 2011 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts, 1965 to 2002.

### **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 Acts, 1965 to 2002 requires 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 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.

### **Deloitte LLP**

Chartered Accountants and Statutory Auditor

April 2011

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHERN CO-OPERATIVES LIMITED**

The financial statements are prepared in accordance with applicable United Kingdom Generally Accepted Accounting Practice. The particular accounting policies adopted by the Directors are described below.

## **Accounting convention**

The financial statements have been prepared under the historical cost convention as modified by the annual revaluation of certain investments which are carried at market value.

## **Going concern**

The Group has considerable financial strength arising from a broad range of customers and suppliers across different geographic areas. The Group has a strong balance sheet position, significant cash balances and an absence of external borrowings. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

## **Accounting date**

The financial statements are made up for the 52 weeks to 29 January 2011 with comparative figures for the 53 weeks to 30 January 2010.

## **Basis of consolidation**

The Group financial statements consolidate the accounts of the Society and all its subsidiaries. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

## **Turnover**

Turnover includes cash sales, goods sold on credit, property rental and concession income, inclusive of Value Added Tax. Sales within the profit and loss account are net of value added tax. Income is recognised on delivery of goods or related services. Property rental income is recognised on a straight line basis over the lease term.

## **Change of comparatives**

Management has reassessed the disclosure of certain staff related funeral costs which in prior years have been included in trading expenses. It has been decided given the service nature of the funeral business that staff costs other than central management staff costs should more correctly be included in cost of sales. The comparatives for 2010 have been adjusted to reflect this treatment.

The effect of this change is to take £2m out of trading expenses and to add £2m to Cost of sales, there is no impact on the Trading Surplus.

## **Other operating income**

Other operating income represents commissions receivable on funeral bond investments.

## **Investments and investment income**

Interest and dividends received are accounted for on an accruals basis.

Investments held as fixed assets are carried at cost, less provision for any impairment in value.

Investments held as current assets are carried at market value with movements being taken annually to the revenue account.

## **STATEMENT OF ACCOUNTING POLICIES**

### **Investment properties**

Investment properties are professionally valued annually to open market value in accordance with Statement of Standard Accounting Practice 19 (SSAP 19). All gains and losses arising from revaluation, other than permanent diminutions in value, are taken through the statement of total recognised gains and losses directly to reserves. Permanent diminutions in value are taken through the Revenue Account.

No depreciation is charged on investment properties.

### **Associated companies**

In the Group financial statements, investments in associates are accounted for using the equity method. The consolidated revenue account includes the Group's share of the associates' profits less losses whilst the Group's share of the net assets of the associates is shown in the consolidated balance sheet.

### **Fixed assets and depreciation**

Land and buildings are stated at historic cost less depreciation. No depreciation is provided on freehold land.

Tangible fixed assets are depreciated by equal annual instalments over their estimated useful economic lives based on cost as follows:

Freehold buildings	2.5% per annum
Fixtures and fittings	12.5 % per annum
Plant and machinery	15.0% per annum
Motor vehicles	25.0% per annum
Hearses	16.6% per annum

Leasehold property is depreciated at 2.5% per annum or over the unexpired period of the lease, if shorter.

The gain or loss arising on the disposal or retirement of fixed assets is determined as the difference between the sales proceeds (or value of the option to replace the asset) and the carrying amount, and is recognised in the profit and loss for the period.

### **Goodwill and intangible assets**

Goodwill represents any excess of the fair value of the consideration given over the identifiable assets and liabilities acquired. For acquisitions of a business, goodwill is capitalised in the period in which it arises and amortised over its estimated useful life up to a maximum of 20 years. The directors regard 20 years as a reasonable maximum for the estimated useful life of goodwill since it is difficult to make projections exceeding this period.

Goodwill which arose on the acquisition of a business prior to the implementation of FRS 10, which was written off to revenue reserves as a matter of accounting policy, remains eliminated in that reserve and will be charged or credited in the revenue account as appropriate on the subsequent disposal of the business to which it relates.

Post office licences are amortised by equal annual instalments over their estimated useful lives at a rate of 5.0% per annum.

### **Impairment of goodwill**

Determining whether goodwill is impaired requires estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

### **Leased assets**

Assets held under finance leases are capitalised at their fair value on the inception of the leases and depreciated over the estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital outstanding. Rentals due under operating leases are charged to the revenue account in the period that the cost accrues.

## **STATEMENT OF ACCOUNTING POLICIES (continued)**

### **Taxation**

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

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. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is not provided on unremitted earnings where there is no binding commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured at the 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.

### **Financial assets**

Financial assets, including options to obtain replacement fixed assets, are initially recognised at fair value on the date the underlying contract is entered into.

### **Stocks**

Retail stocks are valued at purchase price less provisions for slow moving and obsolete stock. Other stock is valued at the lower of cost or net realisable value.

### **Repairs**

Repairs expenditure is charged to the revenue accounts in the period that costs are incurred.

### **Funeral bond schemes**

Custodian trustee scheme:

The liability for funeral bonds is based on the retail value of the total commitment within the client's contract at the balance sheet date. The funds for all bonds outstanding are invested externally through the scheme's custodian trustee, State Street Trustees Limited, and held on the Society's balance sheet.

Insurance backed scheme:

The liability for funeral bonds is held at historical cost on the balance sheet as are the scheme's assets. The funds, as received from the funeral bond customer are invested externally in whole life, with profits insurance policies with the Co-operative Insurance Society Limited (CIS). Proceeds are payable on the death of the customer or upon early surrender.

### **Pension costs**

For defined benefit schemes the amounts charged to the trading surplus are the current service costs and gains and losses on settlements and curtailments, and are included as part of staff costs. Past service costs are recognised immediately in the revenue account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

For defined contribution schemes the employer costs are charged to the profit and loss account in the period in which they are incurred.

**SOUTHERN CO-OPERATIVES LIMITED**

**GROUP REVENUE ACCOUNT**

52 weeks ended 29 January 2011

		2011			
	Note	Before operating exceptional items £'000	Operating exceptional items £'000	Total £'000	53 weeks ended 30 January 2010 £'000
<b>TURNOVER: continuing operations</b>		283,133	-	283,133	261,470
Less Value Added Tax		<u>(22,789)</u>	-	<u>(22,789)</u>	<u>(18,442)</u>
Sales:					
Existing operations		260,094	-	260,094	243,028
Acquisitions		<u>250</u>	-	<u>250</u>	-
	1	<u>260,344</u>	-	<u>260,344</u>	<u>243,028</u>
Cost of sales		<u>(181,995)</u>	-	<u>(181,995)</u>	<u>(169,575)</u>
<b>Gross profit</b>		78,349	-	78,349	73,453
Trading expenses	2	(68,400)	-	(68,400)	(64,557)
Operating exceptional items	2	-	(645)	(645)	742
Reversal of impairment of investment properties		-	-	-	70
<b>Total trading expenses</b>		<u>(68,400)</u>	<u>(645)</u>	<u>(69,045)</u>	<u>(63,745)</u>
Other operating income		<u>118</u>	-	<u>118</u>	<u>103</u>
<b>TRADING SURPLUS:</b>					
Existing operations		10,180	(645)	9,535	9,811
Acquisitions		<u>(113)</u>	-	<u>(113)</u>	-
		<u>10,067</u>	<u>(645)</u>	<u>9,422</u>	<u>9,811</u>
Share of operating loss in associated undertaking		<u>(8)</u>	-	<u>(8)</u>	-
<b>TOTAL TRADING SURPLUS: Group and share of associated undertaking</b>		10,059	(645)	9,414	9,811
Investment income and interest receivable	4	<u>1,568</u>	-	<u>1,568</u>	<u>882</u>
<b>SURPLUS ON ORDINARY ACTIVITIES BEFORE INTEREST PAYABLE</b>		11,627	(645)	10,982	10,693
Interest payable		(269)	-	(269)	(503)
Share of interest payable by associated undertaking		<u>(28)</u>	-	<u>(28)</u>	-
Total interest payable	5	<u>(297)</u>	-	<u>(297)</u>	<u>(503)</u>
<b>SURPLUS FOR THE PERIOD BEFORE MINORITY INTEREST</b>		11,330	(645)	10,685	10,190
Minority interest	18	<u>(21)</u>	-	<u>(21)</u>	<u>(23)</u>
<b>SURPLUS FOR THE PERIOD BEFORE DISTRIBUTIONS</b>		11,309	(645)	10,664	10,167
Distributions	6	<u>(1,551)</u>	-	<u>(1,551)</u>	<u>(327)</u>
<b>SURPLUS FOR THE PERIOD BEFORE TAXATION</b>		9,758	(645)	9,113	9,840
Taxation	19	<u>(3,213)</u>	-	<u>(3,213)</u>	<u>(3,152)</u>
<b>SURPLUS FOR THE PERIOD AFTER TAX TRANSFERRED TO RESERVES</b>	16	<u>6,545</u>	<u>(645)</u>	<u>5,900</u>	<u>6,688</u>

The above results have been presented on a historical cost basis, with the exception of the revaluation of investment properties and investments (note 7).

**SOUTHERN CO-OPERATIVES LIMITED**

**GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**52 weeks ended 29 January 2011**

	<b>Note</b>	<b>2011 £'000</b>	53 weeks ended 30 January 2010 £'000
Surplus for the financial period		<b>5,900</b>	6,688
Unrealised deficit on revaluation of investment properties		<b>(369)</b>	(200)
Revaluation of investment properties recognised in revaluation reserve		<b>(161)</b>	205
Unrealised surplus arising from valuation in respect of retirement benefits			
Pension fund related deferred tax credit	<b>21</b>	<b>2,214</b>	2,336
		<b>(620)</b>	(654)
<b>TOTAL GAINS AND LOSSES RECOGNISED SINCE THE LAST ANNUAL REPORT</b>		<b><u>6,964</u></b>	<b><u>8,375</u></b>

**NOTE OF HISTORIC COST PROFITS AND LOSSES**

	<b>2011 £'000</b>	2010 £'000
Reported profit on ordinary activities before taxation	<b><u>9,113</u></b>	<u>9,840</u>
Historic cost profit on ordinary activities before taxation	<b><u>9,113</u></b>	<u>9,840</u>
Historic cost profit on ordinary activities after taxation	<b><u>5,900</u></b>	<u>6,688</u>

**SOUTHERN CO-OPERATIVES LIMITED**

**GROUP BALANCE SHEET**

At 29 January 2011

	Note	2011 £'000	2010 £'000
<b>Fixed assets</b>			
Intangible assets	7	16,755	15,766
Tangible assets	7	58,016	50,095
Investments	8	9,579	7,960
		<u>84,350</u>	<u>73,821</u>
<b>Current assets</b>			
Stocks – good for resale		9,237	10,145
Debtors			
- Due within one year	10	7,645	6,303
- Due after one year	10	1,768	-
Investments	11	11,657	11,004
Cash at bank		13,325	22,577
		<u>43,632</u>	<u>50,029</u>
<b>Creditors</b>			
Amounts falling due within one year	12	(17,309)	(20,360)
		<u>26,323</u>	<u>29,669</u>
<b>Net current assets</b>		<b>26,323</b>	<b>29,669</b>
<b>Total assets less current liabilities</b>		<b>110,673</b>	<b>103,490</b>
<b>Creditors</b>			
Amounts falling due after more than one year	12	(12,881)	(11,310)
<b>Provisions for liabilities</b>			
Other provisions	13	(1,390)	(677)
Deferred tax	20	(485)	(168)
		<u>95,917</u>	<u>91,335</u>
<b>Net assets excluding pension deficit</b>		<b>95,917</b>	<b>91,335</b>
<b>Pension scheme</b>			
Pension deficit	21	-	(2,146)
		<u>95,917</u>	<u>89,189</u>
<b>Equity</b>			
<b>Financed by:</b>			
Share capital	15	683	940
Reserves	16	93,404	86,279
Revaluation reserve	17a	50	211
Other reserves	17b	401	401
		<u>94,538</u>	<u>87,831</u>
Minority interest	18	1,379	1,358
Total equity		<u>95,917</u>	<u>89,189</u>

These financial statements of Southern Co-operatives Limited were approved by the Board of Directors and authorised for issue on 14 April 2011.

Signed on behalf of the Board of Directors

Director

## GROUP CASH FLOW STATEMENT

52 weeks ended 29 January 2011

	Note	52 weeks ended 29 January 2011 £'000	53 weeks ended 30 January 2010 £'000
<b>Net cash inflow from operating activities</b>	22	<b>14,261</b>	13,902
Returns on investments and servicing of finance	23	<b>180</b>	308
Taxation		<b>(2,706)</b>	(2,966)
Capital expenditure and financial investment	24	<b>(16,419)</b>	(13,788)
Acquisitions	25	<b>(4,534)</b>	(5,464)
<b>Net cash outflow before financing</b>		<b>(9,218)</b>	(8,008)
<b>Financing</b>	26	<b>(34)</b>	(111)
<b>Decrease in cash in the period</b>		<b>(9,252)</b>	(8,119)
		<b>52 weeks ended 29 January 2011 £'000</b>	53 weeks ended 30 January 2010 £'000
<b>Reconciliation of net cashflow to movement in net funds</b>			
Decrease in cash		<b>(9,252)</b>	(8,119)
<b>Movement in net funds</b>		<b>(9,252)</b>	(8,119)
<b>Net funds at start of period</b>		<b>22,577</b>	30,696
<b>Net funds at end of period</b>		<b>13,325</b>	22,577
		<b>Cash flow £'000</b>	<b>As at 29 January 2011 £'000</b>
<b>Analysis of net funds</b>			
Cash at bank and cash in hand		22,577	(9,252)
<b>Total</b>		<b>22,577</b>	<b>13,325</b>

**SOUTHERN CO-OPERATIVES LIMITED**

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

**52 weeks ended 29 January 2011**

	<b>52 weeks ended 29 January 2011 £'000</b>	53 weeks ended 30 January 2010 £'000
Surplus for the financial period	<b>5,900</b>	6,688
Other gains relating to the period	<b>1,225</b>	1,482
	<hr/> <b>7,125</b>	<hr/> 8,170
Revaluation of investment properties during the period	<b>(161)</b>	205
Movement in share capital	<b>(257)</b>	(110)
Net addition to shareholders' funds	<hr/> <b>6,707</b>	<hr/> 8,265
Opening shareholders' funds	<hr/> <b>87,831</b>	<hr/> 79,566
Closing shareholders' funds	<hr/> <b>94,538</b>	<hr/> 87,831

## NOTES TO THE ACCOUNTS

52 weeks ended 29 January 2011

## 1. SALES

Results for the period are attributable to retail and concession agreements, funeral services and property rental. The origin and destination of the sales is wholly within the United Kingdom.

Analysis of turnover:

	<b>52 weeks ended 29 January 2011 £'000</b>	53 weeks ended 30 January 2010 £'000
Retail	<b>247,515</b>	230,548
Funeral services	<b>10,075</b>	10,148
Property rental	<b>2,754</b>	2,332
	<b><u>260,344</u></b>	<u>243,028</u>

Within retail, revenue of £249,576 has arisen in the Group following the acquisition of Benefits Now Limited on 25 April 2010.

Turnover consists entirely of sales in the United Kingdom. No disclosure of the trading surplus or net assets by each segment has been made as the Directors' consider this would be detrimental to the business.

## 2. TRADING EXPENSES AND OPERATIONAL EXCEPTIONAL ITEMS

	<b>52 weeks ended 29 January 2011 £'000</b>	53 weeks ended 30 January 2010 £'000
Personnel expenses	<b>36,825</b>	33,729
Occupancy costs	<b>6,745</b>	6,708
Depreciation:		
- owned assets	<b>6,189</b>	5,196
- amortisation of goodwill	<b>1,426</b>	1,349
(Surplus)/loss on disposal of fixed assets	<b>(155)</b>	144
Impairment:		
- on goodwill	<b>124</b>	144
- on owned assets	<b>164</b>	-
Operating leases:		
- land and buildings	<b>4,257</b>	4,050
- plant and machinery	<b>455</b>	272
Onerous contract provision (non-exceptional items)	<b>154</b>	217
Auditors' remuneration:		
- audit fees	<b>83</b>	89
- other services	<b>63</b>	56
Other expenses	<b>12,070</b>	12,603
	<b><u>68,400</u></b>	<u>64,557</u>

**NOTES TO THE ACCOUNTS (continued)**

**52 weeks ended 29 January 2011**

**2. TRADING EXPENSES AND OPERATIONAL EXCEPTIONAL ITEMS (continued)**

	<b>52 weeks ended 29 January 2011 £'000</b>	<b>53 weeks ended 30 January 2010 £'000</b>
<b>Operating exceptional items:</b>		
Past service credit (note 21)	-	(3,832)
Somerfield integration costs	-	3,090
Onerous contract provision (note 13)	<b>645</b>	-
	<b>645</b>	<b>(742)</b>

**3. EMPLOYEES**

	<b>52 weeks ended 29 January 2011 No.</b>	<b>53 weeks ended 30 January 2010 No.</b>
The average number employed by the Group was:		
Full-time	<b>831</b>	874
Part-time	<b>2,632</b>	2,361
	<b>3,463</b>	<b>3,235</b>
	<b>£'000</b>	<b>£'000</b>
<b>The costs incurred in respect of these employees were:</b>		
Wages and salaries	<b>35,634</b>	32,742
Social security costs	<b>2,333</b>	1,977
Other pension costs	<b>814</b>	1,011
	<b>38,781</b>	<b>35,730</b>

Of the above salaries £1,956,492 (2010: £2,000,760) is included in cost of sales.

Other pension costs include £801,000 (2010: £941,000) in respect of defined benefit schemes and £90,112 (2010: £69,582) in respect of defined contribution schemes. Included in the £801,000 charge is £77,000 (2010:£nil) accrued in the prior year and paid in the current year.

## NOTES TO THE ACCOUNTS (continued)

52 weeks ended 29 January 2011

## 4. INVESTMENT INCOME AND INTEREST RECEIVABLE

	52 weeks ended 29 January 2011 £'000	53 weeks ended 30 January 2010 £'000
Southern Co-operatives investment fund	268	266
Funeral bond scheme investment fund	213	277
Co-operative societies	47	50
Pension scheme financing	801	-
Short term deposits	58	212
Long term deposits	78	65
Other interest receivable	61	12
East Devon Loan	42	-
	<u>1,568</u>	<u>882</u>

## 5. INTEREST PAYABLE

	52 weeks ended 29 January 2011 £'000	53 weeks ended 30 January 2010 £'000
Bank overdraft, other interest and commission	269	339
Pension scheme financing	-	164
	<u>269</u>	<u>503</u>
Share of interest payable by associated undertaking	28	-
	<u>297</u>	<u>503</u>

## 6. DISTRIBUTIONS

	52 weeks ended 29 January 2011 £'000	53 weeks ended 30 January 2010 £'000
Share interest	1	1
The Co-operative club	5	18
Pensioners' welfare	86	84
Donations	81	69
Corporate partnerships	103	30
Facilitation fund	32	9
Volunteering	16	4
Community support card	118	112
Colleague share of profits	798	-
Members share of profits	119	-
Administration costs of share of profits schemes	192	-
	<u>1,551</u>	<u>327</u>

**NOTES TO THE ACCOUNTS (continued)**  
**52 weeks ended 29 January 2011**

**7. FIXED ASSETS – TANGIBLE AND INTANGIBLE**

	Land and buildings £'000	Plant and fixtures £'000	Vehicles £'000	Total £'000	Goodwill and intangible assets £'000
<b>Cost or valuation</b>					
As at 31 January 2010	30,664	48,432	2,554	81,650	22,101
Additions	4,051	11,534	98	15,683	2,539
Revaluation	(530)	-	-	(530)	-
Disposals	(650)	(618)	(360)	(1,628)	-
As at 29 January 2011	<u>33,535</u>	<u>59,348</u>	<u>2,292</u>	<u>95,175</u>	<u>24,640</u>
<b>Accumulated depreciation and amortisation</b>					
As at 31 January 2010	2,551	27,328	1,676	31,555	6,335
Provided this period	477	5,465	247	6,189	1,426
Impairment	-	164	-	164	124
Disposals	(10)	(384)	(355)	(749)	-
As at 29 January 2011	<u>3,018</u>	<u>32,573</u>	<u>1,568</u>	<u>37,159</u>	<u>7,885</u>
<b>Net book value at 29 January 2011</b>					
	<u><b>30,517</b></u>	<u><b>26,775</b></u>	<u><b>724</b></u>	<u><b>58,016</b></u>	<u><b>16,755</b></u>
Net book value at 30 January 2010	<u>28,113</u>	<u>21,104</u>	<u>878</u>	<u>50,095</u>	<u>15,766</u>

The net book value of assets held under finance leases included above is £nil (2010: £nil).

An impairment charge of £288,307, included in amortisation for the period (2010: £144,202), has been made following an impairment review.

The Society prepares cash flow forecasts derived from the most recent financial budgets approved by management and extrapolates cash flows based on an estimated growth rate of 2.5%. This rate does not exceed the average long-term growth rate for relevant markets. The rate used to discount the forecast cash flows is 5.6% (2010: 6.2%).

Goodwill and intangible additions of £2,539,335 in the period include acquisitions of trade of £1,759,779, lease premiums of £479,394 and £300,162 of goodwill acquired with Benefits Now Limited (note 9).

Included in land and buildings are investment properties of £12,045,000 (2010: £12,574,683) which are valued each year on an open market basis by external chartered surveyors. The valuation in 2011 on certain properties was performed by Vail Williams, based on open market values at 29 January 2011.

The net book value of land and buildings is as follows:

	<b>2011</b> <b>£'000</b>	2010 £'000
Cost or valuation	<b>30,467</b>	27,902
Revaluation	<b>50</b>	211
Net book value	<u><b>30,517</b></u>	<u>28,113</u>

**NOTES TO THE ACCOUNTS (continued)**

52 weeks ended 29 January 2011

**7. FIXED ASSETS – TANGIBLE AND INTANGIBLE (continued)**

At the 29 January 2011 the total value in use of those investment properties with a greater value in use than open market value was £16,833,000. This resulted in £369,000 (unrealised deficit on revaluation of investment properties taken to profit and loss reserves) and £161,000 (reversal of amount previously taken to revaluation reserve) being included in the statement of total recognised gains and losses with respect to these investment properties. The assumptions used in the value in use calculation were:

• Valuation date	29 January 2011
• Discount factor	5.6%
• ERV growth rate % pa	3.0%
• Post current lease average occupancy	75.0%
• Costs	11.8%
• Void period following current lease	12 months
• Future lease terms	60 months

The net book value of land and buildings comprises:

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Cost or valuation:		
Land	<b>9,651</b>	8,607
Freehold buildings	<b>8,015</b>	6,037
Investment properties	<b>12,045</b>	12,575
Long leasehold buildings	<b>806</b>	894
	<u><b>30,517</b></u>	<u>28,113</u>

There are capital commitments contracted for, amounting to £1,139,628 (2010: £5,939,852), which have not been provided for in these accounts.

<b>Operating Lease Commitments</b>	<b>2011</b>	2010
	<b>£'000</b>	£'000
Operating leases expiring:		
Within one year	<b>332</b>	153
In the second to fifth year inclusive	<b>767</b>	704
Over five years	<b>3,927</b>	3,543
	<u><b>5,026</b></u>	<u>4,400</u>

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

**8. INVESTMENTS – LONG TERM**

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Co-operative Group Limited	<b>780</b>	780
Other Co-operative organisations	<b>7</b>	1
CIS Funeral Bond Scheme	<b>8,720</b>	7,179
East Devon Crematorium Limited	<b>72</b>	-
	<u><b>9,579</b></u>	<u>7,960</u>

**NOTES TO THE ACCOUNTS (continued)**

52 weeks ended 29 January 2011

**8. INVESTMENTS – LONG TERM (continued)**

Share of net assets in associated undertaking:	<b>2011</b>	2010
	<b>£'000</b>	£'000
Acquisition of shares in East Devon Crematorium Ltd	<b>108</b>	-
Loss in the period	<b>(36)</b>	-
At end of period	<u><b>72</b></u>	<u>-</u>

On 29<sup>th</sup> March 2010 South of England Funeral Partners Limited acquired 4,499 ordinary shares in East Devon Crematorium Limited bringing its total shareholding to a total of 4,500 ordinary shares from a total of 9,800 issued. Accordingly, East Devon Crematorium Limited has been accounted for as an associated undertaking under the equity accounting method in these financial statements.

Movement on the CIS Funeral Bond Scheme during the period:	<b>2011</b>	2010
	<b>£'000</b>	£'000
At start of period	<b>7,179</b>	5,791
Additions	<b>2,345</b>	2,095
Transfer to short term investment	<b>(804)</b>	(707)
At end of period	<u><b>8,720</b></u>	<u>7,179</u>

**9. ACQUISITIONS**

On 21 April 2010 the Company acquired the entire issued share capital of Benefits Now Limited for £300,162. The acquisition has been accounted for under the acquisition method.

The book values of the identifiable assets and liabilities acquired and the fair value to the Group were negligible therefore goodwill is deemed to equal the cost of acquiring the company:

	<b>£'000</b>
Goodwill (note 7)	<u><b>300</b></u>
Satisfied by:	
Cash	<u><b>300</b></u>

The post acquisition results for Benefits Now Limited are:

	<b>£'000</b>
Turnover	<b>250</b>
Cost of sales	<u><b>(163)</b></u>
Gross profit	<b>87</b>
Trading expenses	<u><b>(200)</b></u>
Trading deficit	<b>(113)</b>
Taxation	<u>-</u>
Surplus for the period after tax transferred to reserves	<u><b>(113)</b></u>

**NOTES TO THE ACCOUNTS (continued)**

52 weeks ended 29 January 2011

**10. DEBTORS AND PREPAYMENTS**

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Customer accounts	<b>3,291</b>	3,277
Expenses prepaid and other debtors	<b>4,354</b>	3,026
	<b><u>7,645</u></b>	<u>6,303</u>
These amounts are net of a provision for bad and doubtful debts of	<b><u>171</u></b>	<u>210</u>
Falling due in more than one year:		
Loan to East Devon Crematorium Limited	<b><u>1,768</u></b>	<u>-</u>

The loan has been issued to East Devon Crematorium Limited, a company set up as an associate between South of England Funeral Partners Limited, a group company, and East Devon Crematorium Limited to acquire, develop crematorium facilities and trade on land at Whimple, Devon. The loan is for a maximum principal sum of £3,200,000 and is solely for the purpose described above.

Interest is receivable on the loan at a rate of 4.5% during the construction phasing increasing to 5% in the 1<sup>st</sup> trading year and then in 1% increments to 8% in the fourth and subsequent trading years.

The loan is repayable in quarterly instalments from the 1st quarter day in trading year 2 at £12,500 and rising to £182,500 on the 3<sup>rd</sup> quarter day in trading year 11 with the final balancing amount due on the 4<sup>th</sup> quarter day in trading year 11.

**11. INVESTMENTS – SHORT TERM**

	<b>2011</b>	2010
	<b>£'000</b>	£'000
State Street Funeral Bond Scheme	<b>3,594</b>	3,381
CIS Funeral Bond Scheme	<b>969</b>	798
Southern Co-operatives Investment Fund	<b>7,094</b>	6,825
	<b><u>11,657</u></b>	<u>11,004</u>

Amounts are held with third party investment managers which are readily available but not accessible within twenty four hours.

The funeral bond money market deposits are to meet liabilities that fall due under the Funeral Bond Schemes. The custodian trustee is State Street Trustees Limited. With effect from 31 December 2001, the Funeral Bond scheme was closed to new business. A new bond scheme was opened on 1 January 2002 and all funds received are invested through the Co-operative Insurance Society Limited (CIS).

	<b>2011</b>	2010
	<b>£'000</b>	£'000
The total value of Funeral bond investments are:		
State Street Funeral Bond Scheme	<b>3,594</b>	3,381
CIS Funeral Bond Scheme	<b>969</b>	798
	<b><u>4,563</u></b>	<u>4,179</u>

**NOTES TO THE ACCOUNTS (continued)**

52 weeks ended 29 January 2011

**12. CREDITORS**

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Falling due within one year:		
Trade creditors	<b>6,820</b>	7,424
VAT	<b>1,028</b>	648
Corporation tax	<b>1,016</b>	960
Funeral bonds and prepayment plans	<b>910</b>	800
Taxation and social security	<b>607</b>	539
Other creditors	<b>6,928</b>	9,989
	<b><u>17,309</u></b>	<u>20,360</u>
Falling due after more than one year:		
Funeral bonds and pre-payment plans	<b><u>12,881</u></b>	<u>11,310</u>

**13. OTHER PROVISIONS**

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Onerous property lease	<b>1,235</b>	677
Dilapidation provision	<b>155</b>	-
	<b><u>1,390</u></b>	<u>677</u>
Movements in the period:		
As at beginning of period	<b>677</b>	1,083
Additions	<b>873</b>	239
Utilised in the period	<b>(189)</b>	(611)
Charge/(released) in the period	<b>29</b>	(34)
<b>As at end of period</b>	<b><u>1,390</u></b>	<u>677</u>

The onerous property lease provision relates to the sub-letting of Winklebury and Milford-on-Sea and the vacant Denmead, Fareham, Southsea, Solent, Mere, Freshwater, Newport and Bognor sites. The costs provided for relate to the remaining lease terms of 9, 10, 20, 3, 10, 12, 5, 1, and 3 years respectively over which period the provision will be released.

**14. OPERATING LEASE COMMITMENTS**

Amounts due under non-cancellable operating leases for vehicles are:

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Operating leases expiring:		
In less than one year	<b>119</b>	-
In the second to fifth year inclusive	<b>252</b>	308
	<b><u>371</u></b>	<u>308</u>

Amounts due under non-cancellable operating leases for land and buildings are shown in note 7.

**NOTES TO THE ACCOUNTS (continued)**

52 weeks ended 29 January 2011

**15. SHARE CAPITAL**

	<b>2011</b>	2010
	<b>£'000</b>	£'000
As at beginning of period	<b>940</b>	1,050
Contributions	<b>32</b>	17
Southern Co-operative (SIP) Trustee Limited	<b>33</b>	-
Interest	<b>-</b>	1
	<b>1,005</b>	1,068
Withdrawals	<b>(322)</b>	(128)
<b>As at end of period</b>	<b>683</b>	940

The society abides by a code of practice which requires it to provide a statement to its shareholders of the nature of their investment and any change affecting it. The position that a shareholder of the Society occupies is no different from that of a shareholder in any other corporate body in the sense that, if the Society fails, not all or any of their investment may be returned to them. Investments are withdrawable without penalty. The Society, unlike banks and building societies, is not subject to prudential supervision by the Financial Services Authority.

Any questions regarding the code should be addressed to the Secretary at the Society's registered address at 44 High Street, Fareham, Hampshire, PO16 7BN.

**16. RESERVES**

	<b>2011</b>	2010
	<b>£'000</b>	£'000
As at beginning of period	<b>86,279</b>	78,109
Other net recognised gains in the period	<b>1,594</b>	1,682
Unrealised revaluation of investment properties	<b>(369)</b>	(200)
Transfer from revenue account	<b>5,900</b>	6,688
<b>As at end of period</b>	<b>93,404</b>	86,279

**17. a) REVALUATION RESERVE**

	<b>2011</b>	2010
	<b>£'000</b>	£'000
As at beginning of period	<b>211</b>	6
(Deficit)/surplus on property revaluation in period	<b>(161)</b>	205
<b>As at end of period</b>	<b>50</b>	211

**b) OTHER RESERVES**

	<b>2011</b>	2010
	<b>£'000</b>	£'000
<b>At beginning and end of period</b>	<b>401</b>	401

**NOTES TO THE ACCOUNTS (continued)**

52 weeks ended 29 January 2011

**18. MINORITY INTEREST**

	<b>2011</b>	2010
	<b>£'000</b>	£'000
As at beginning of period	1,358	1,335
Transfer from revenue account	21	23
<b>As at end of period</b>	<b><u>1,379</u></b>	<b><u>1,358</u></b>

**19. TAXATION**

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Current tax		
United Kingdom corporation tax:2011: 28% (2010:28%)	2,971	2,390
Adjustments in respect of prior period	(277)	97
Group relief	-	-
Total current taxation	<b><u>2,694</u></b>	<b><u>2,487</u></b>
Deferred tax		
Timing differences, origination and reversal	367	738
Decrease in tax rate	(13)	-
Adjustment to the estimated recoverable amounts of deferred tax asset arising in previous periods	(1)	(2)
Adjustments in respect of prior periods	166	(71)
	<b><u>519</u></b>	<b><u>665</u></b>
	<b><u>3,213</u></b>	<b><u>3,152</u></b>

The tax assessed for the period is higher (2010: lower) than that resulting from applying the standard rate of corporation tax in the UK: 2011: 28% (2010: 28%).

	<b>2011</b>	2010
	<b>%</b>	%
The differences are explained below:		
Standard tax rate for period as a percentage of profits	28	28
Effects of:		
Gains not taxable, expenses not deductible for tax purposes	9	7
Other timing differences - Pension	(2)	(9)
Capital allowances in excess of depreciation	(2)	1
Deduction for pre-trading expenditure	(1)	(3)
Prior period adjustment	(3)	1
Current tax rate for period as a percentage of profits	<b><u>29</u></b>	<b><u>25</u></b>

Factors that have affected the future tax charge:

- a. A deferred tax asset has not been recognised in respect of timing differences relating to funeral bonds as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £665,003 (2010: £614,096);
- b. Deferred tax has not been provided in respect of gains realised of that have been rolled over into the acquisition cost of replacement assets. This tax will become payable if the replacement assets are sold and further rollover relief is not obtained. The taxable gain that would arise in these circumstances is £607,802 (2010 £607,802).

**NOTES TO THE ACCOUNTS (continued)**

52 weeks ended 29 January 2011

**19. TAXATION (continued)**

- c. A deferred tax asset has not been recognised in respect of timing differences relating to capital losses as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £258,246 (2010: £375,391).
- d. Deferred tax has not been provided on revaluations of investment properties. This tax will only become payable if the assets are sold and rollover relief is not obtained. The estimated amount of tax that would become payable in these circumstances is £13,500 (2010 £39,480).
- e. Finance (No 2) Act 2010 was substantively enacted on 27 July 2010 and included legislation to reduce the main tax rate of corporation tax from 28% to 27% from 1 April 2011. The 2011 Budget has proposed reducing the main rate of corporation tax further to 26% effective from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014 and are expected to be enacted separately each year. For the year ended 31 January 2011, as the reduction in statutory rate by 1% has been substantively enacted, deferred tax has been recognised on the balance sheet at 27%.

**20. DEFERRED TAX**

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Analysis of deferred tax balance:		
Capital allowances in excess of depreciation	<b>506</b>	222
Other short term timing differences	<b>(21)</b>	(42)
Pension creditor	-	(12)
	<u><b>485</b></u>	<u>168</u>
Movements in deferred tax during the period:		
As beginning of period	<b>168</b>	435
Charge to revenue account	<b>317</b>	(267)
<b>As at end of period</b>	<u><b>485</b></u>	<u>168</u>
<b>Tax movement on pension deficit:</b>		
At beginning of period	<b>(835)</b>	(2,421)
Movement for the period – revenue account	<b>215</b>	932
Movement for the period – statement of total recognised gains and losses	<b>620</b>	654
<b>As at end of period</b>	<u><b>-</b></u>	<u>(835)</u>

**NOTES TO THE ACCOUNTS (continued)****52 weeks ended 29 January 2011****21. PENSION SCHEME**

FRS 17 'Retirement Benefits' has been fully adopted in these financial statements. The Society operated a defined benefit scheme in the UK. A full actuarial valuation was carried out as at 24 January 2009 and updated to 29 January 2011 by a qualified independent actuary. The major assumptions used by the actuary were:

	<b>2011</b>	2010	2009	2008	2007
	<b>%</b>	%	%	%	%
Discount rate	<b>5.60</b>	5.50	6.50	6.10	5.30
Rate of increase in salaries	<b>4.10</b>	4.00	4.80	5.00	4.45
Rate of increase in deferred pensions	<b>3.60</b>	3.50	3.30	3.50	3.20
Rate of increase in pensions in payment accrued after 5 April 1997	<b>3.50</b>	3.50	3.30	3.50	3.20
Rate of increase in pensions in payment accrued before 6 April 1997	<b>2.30</b>	2.40	2.50	2.50	2.50
Inflation assumption	<b>3.60</b>	3.50	3.30	3.50	3.20

Mortality assumption – uses the S1N A table using the CMI 2010 projection model rated up to 1 year for males with default parameters and a 1% per annum long term rate of improvement (2010: PNA 00 medium cohort birth year tables with a plus 2 year rating for males and a 1.5% pa underpin).

The Society's contributions during the 52 week period amounted to £766,000 (2010: £603,000) and the agreed Society contribution rate for the coming period is 15.1% (2010: 15.1%) of pensionable payroll. The best estimate of contributions to be paid to the scheme by the Society for the 52 weeks ended 28 January 2012 is £707,000.

The scheme is closed to new entrants so the average age of membership is expected to increase over time. The projected unit method is used to calculate the current service cost. This calculates the value of the following year's pension accrual and expresses it as a percentage of pensionable pay. This percentage will increase as the members of the Scheme approach retirement.

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

	<b>2011</b>		2010		2009	
	<b>Long term rate of return expected</b>	<b>Value £'000</b>	Long term rate of return expected	Value £'000	Long term rate of return expected	Value £'000
Equities and property	<b>7.63%</b>	<b>58,908</b>	7.90%	51,847	8.20%	41,836
Gilts and bonds	<b>5.30%</b>	<b>33,603</b>	5.30%	31,672	5.60%	28,364
Other	<b>0.25%</b>	<b>355</b>	0.25%	585	1.30%	709
Total market value of assets		<b>92,866</b>		84,104		70,909
Present value of scheme liabilities		<b>(88,745)</b>		(87,083)		(79,555)
Surplus/(deficit) in scheme		<b>4,121</b>		(2,981)		(8,646)
Restriction of surplus		<b>(4,121)</b>		-		-
Related deferred tax asset		-		835		2,421
Net pension liability		<b>-</b>		<b>(2,146)</b>		<b>(6,225)</b>

The scheme surplus at 29 January 2011 was identified of £4,121,000. This surplus has not been recognised as an asset under FRS 17 as it does not represent an unconditional economic benefit available to the Group (2010: deficit of £2,146,000 which was included in the balance sheet).

**NOTES TO THE ACCOUNTS (continued)**  
**52 weeks ended 29 January 2011**

**21. PENSION SCHEME (continued)**

The expected return on assets is derived from the assumptions of long term expected returns on each asset class, these are shown below:

	<b>2011</b>	2010	2009
	%	%	%
Equities	<b>7.75</b>	8.00	8.20
Bonds	<b>5.30</b>	5.30	6.90
Gilts	-	-	4.30
Property	<b>6.25</b>	6.50	8.20
Other investments	<b>0.25</b>	0.25	1.20

The overall expected return on assets of 6.76% pa is the weighted average of the expected returns on each individual asset class.

**Analysis of amount charged to trading surplus**

	<b>2011</b>	2010
	£'000	£'000
Current service cost	<b>801</b>	941
Total operating charge	<b>801</b>	941

**Analysis of amount credited/(charged) to other finance income**

	<b>2011</b>	2010
	£'000	£'000
Expected return on pension scheme assets	<b>5,681</b>	4,914
Interest on pension scheme liabilities	<b>(4,726)</b>	(5,078)
Restriction on expected return	<b>(154)</b>	-
<b>Net return</b>	<b>801</b>	(164)

**Analysis of amount recognised in statement of total recognised gains and losses (STRGL)**

	<b>2011</b>	2010
	£'000	£'000
Actual return less expected return on pension scheme assets	<b>5,458</b>	11,524
Limit on recognition of assets	<b>(3,967)</b>	-
Gain/(loss) arising from changes in assumptions underlying the scheme liabilities	<b>723</b>	(9,188)
Actuarial gain recognised in STRGL	<b>2,214</b>	2,336

The cumulative amount of gains and losses recognised in the STRGL is (£12,518,000).

**NOTES TO THE ACCOUNTS (continued)**

52 weeks ended 29 January 2011

**21. PENSION SCHEME (continued)****Reconciliation of the present value of the defined benefit obligation**

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Present value of the defined benefit obligation at the beginning of the year	<b>87,083</b>	79,555
Movement in year:		
Current service cost	<b>801</b>	941
Interest cost	<b>4,726</b>	5,078
Members' contributions	<b>234</b>	252
Past service costs	-	(3,832)
Benefits paid	<b>(3,376)</b>	(4,099)
Actuarial (gain)/loss	<b>(723)</b>	9,188
	<b><u>88,745</u></b>	<u>87,083</u>

The past service credit in the prior period arose due to the application of the decision by the Court of Appeal in *Foster Wheeler vs Hanley* to the valuation of the scheme liabilities.

**Reconciliation of the fair value of scheme assets**

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Fair value of scheme assets at the start of the year	<b>84,103</b>	70,909
Movement in year:		
Expected return on scheme assets	<b>5,681</b>	4,914
Actuarial gain on scheme assets	<b>5,458</b>	11,524
Employer contributions	<b>766</b>	603
Members' contributions	<b>234</b>	252
Benefits paid	<b>(3,376)</b>	(4,099)
	<b><u>92,866</u></b>	<u>84,103</u>

**History of experience gains and losses**

	<b>2011</b>	2010	2009	2008	2007
	<b>£'000</b>	£'000	£'000	£'000	£'000
Difference between the expected and actual return on scheme assets	<b>5,458</b>	11,524	(17,698)	(3,889)	105
Percentage of scheme assets	<b>6%</b>	14%	(25%)	(5%)	0%
Experience (loss)/gain on scheme liabilities	<b>(358)</b>	2,530	-	-	444
Percentage of the present value of the scheme liabilities	<b>0%</b>	3%	0%	0%	1%
Total amount recognised in statement of total recognised gains and losses before the restriction of surplus	<b>6,181</b>	2,336	(10,041)	(4,033)	3,122
Percentage of the present value of the scheme liabilities	<b>7%</b>	3%	(13%)	(5%)	4%

**Defined contribution scheme**

For new employees, the group provides a stakeholder pension scheme to which it contributes. The cost to the group in the 52 week period ended 29 January 2011 was £90,112 (2010 £69,582). The amount payable to the scheme at the end of the period was £nil (2010: £nil).

**NOTES TO THE ACCOUNTS (continued)**

52 weeks ended 29 January 2011

**22. RECONCILIATION OF TRADING SURPLUS TO NET CASH INFLOW FROM TRADING ACTIVITIES**

	2011 £'000	2010 £'000
Trading surplus	9,414	9,811
Share of operating loss in associated undertaking	8	-
Grants and donations	(1,381)	(299)
Depreciation	6,188	5,266
Amortisation	1,427	1,350
Impairment on goodwill	124	144
Impairment on owned assets	164	-
Operating costs capitalised	(32)	-
Reversal of impairment of investment properties	-	(70)
Difference between pension contributions paid and amount recognised in profit and loss	35	339
Past service credit	-	(3,832)
Forfeited shares written back	(256)	-
(Profit)/loss on sale of fixed assets	(155)	144
Decrease/(increase) in stocks	908	(1,062)
Increase in debtors	(1,062)	(1,486)
(Decrease)/increase in creditors	(1,121)	3,597
	<u>14,261</u>	<u>13,902</u>

**23. RETURNS ON INVESTMENTS AND SERVICE OF FINANCE**

	52 weeks ended 29 January 2011 £'000	53 weeks ended 30 January 2010 £'000
Interest paid	(11)	(31)
Interest received	191	339
	<u>180</u>	<u>308</u>

**24. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT**

	52 weeks ended 29 January 2011 £'000	53 weeks ended 30 January 2010 £'000
Payments to acquire tangible fixed assets	(13,611)	(12,330)
Net decrease in financial investments	(1,826)	(1,542)
Proceeds from sale of fixed assets	744	84
Loan to East Devon Crematorium	(1,726)	-
	<u>(16,419)</u>	<u>(13,788)</u>

**NOTES TO THE ACCOUNTS (continued)**

**52 weeks ended 29 January 2011**

**25. ACQUISITIONS**

	<b>52 weeks ended 29 January 2011 £'000</b>	53 weeks ended 30 January 2010 £'000
Payments for trade and assets	<b>(4,233)</b>	(2,647)
Payments for Benefits Now Ltd (2010: Caring Ladies Funeral Directors Limited)	<b>(301)</b>	(2,927)
Net cash acquired with purchase of Caring Ladies Funeral Directors Limited	-	110
	<u><b>(4,534)</b></u>	<u>(5,464)</u>

**26. FINANCING**

	<b>52 weeks ended 29 January 2011 £'000</b>	53 weeks ended 30 January 2010 £'000
Repayment of share capital	<u><b>(34)</b></u>	<u>(111)</u>

**27. RELATED PARTY DISCLOSURE**

The society has taken advantage of the exemption within FRS 8 which provides exemption from disclosing of transactions between two or more members of a group providing that all subsidiaries which are party to the transaction are wholly owned by the group.

**NOTES TO THE ACCOUNTS (continued)**  
**52 weeks ended 29 January 2011**

**28. SUBSIDIARIES**

The financial statements consolidate the results of the society and the following subsidiaries, all of which are incorporated in Great Britain.

<b>Subsidiary</b>	<b>Type of registration</b>	<b>Activity</b>	<b>Percentage of shares held %</b>
Southern Co-operative Dairies Ltd	Industrial & Provident Society	Property Management	91
Mutual Associates Ltd	Limited Company	Property investment	100
Mutual Services (Portsmouth) Ltd	Limited Company	Funeral furnishing	100
Southern Co-operative Retailers Ltd	Limited Company	Property investment and management	100
Raeburn Dairy Ltd	Limited Company	Dormant	100
SCL (Members) Trustee Ltd	Limited Company	Trustee	100
J Edwards & Son (Funeral Directors) Ltd	Limited Company	Non - trading	100
Southern Co-operative Funerals Ltd	Limited Company	Funeral furnishing	100
Southern Co-operative Properties Ltd	Limited Company	Property management	100
Co-operative Franchising Ltd	Limited Company	Grocery retail licensing agent	100
Co-operative Independent Living Ltd	Limited Company	Disability products	100
Caring Ladies Funeral Directors Ltd	Limited Company	Funeral furnishing	100
South of England Funeral Partners Ltd	Limited Company	Investment	100
Benefits Now Ltd	Limited Company	Disability products	100

Copies of financial statements of Southern Co-operatives Ltd can be obtained from the Secretary at 44 High Street, Fareham, Hampshire, PO16 7BN.

**SOUTHERN CO-OPERATIVES LIMITED**

**FIVE PERIOD COMPARATIVE STATEMENT**

**52 weeks ended 29 January 2011**

<b>Year ending January</b>	<b>2007 52 weeks</b>	<b>2008 52 weeks</b>	<b>2009 52 weeks</b>	<b>2010 53 weeks</b>	<b>2011 52 weeks</b>
Membership ('000)	85	78	71	93	100
£'000					
Turnover (including VAT)	179,437	198,101	220,170	261,470	283,133
Depreciation and amortisation	4,242	5,262	5,323	6,616	7,615
Trading surplus	6,404	6,676	5,895	9,811	9,422
Retained surplus	6,031	7,071	4,371	6,688	5,900
Fixed assets	55,753	61,547	61,576	73,821	84,350
Net current assets	32,814	33,550	36,588	29,669	26,323
Total assets less current liabilities	88,567	95,097	98,164	103,490	110,673
Long term liabilities including pension liabilities	5,178	8,751	17,263	14,301	14,756
Net assets including pension liabilities	83,389	86,346	80,901	89,189	95,917
Share capital	1,310	1,169	1,050	940	683
Reserves	80,865	83,127	78,109	86,279	93,404
Minority interest	1,214	1,280	1,335	1,358	1,379
Total sales area (sq. ft '000)	258	268	277	316	346