

Co-operative Legal Services Limited

Financial statements

Registered number 05671209

1 January 2011

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## Directors' report

The Directors present their report and financial statements for the period ended 1 January 2011

### Principal activities

The principal activities of the Company during the period related to legal services and insurance claims handling

### Business review

The results for the period are set out on page 5 of the financial statements. During the period, the Company made a profit before taxation of £4,249,000 (period ended 2 January 2010: profit of £3,249,000)

The Company continues to operate using an overdraft facility provided by its ultimate parent society, which has provided confirmation of its continued support

The Company uses both financial and non-financial key performance indicators to manage the business. For the in-house personal injury practice, the business monitors the number of new cases commenced, the number of cases closed, the average value of revenue and the total practice revenue. For the year, the number of cases commenced was 11,484. The number of cases settled was 7,260. The average settled revenue for the year was £1,360 per case and the total revenue for the practice was £13.1m. In addition, the Company monitors the value of fees receivable from its panel solicitors in respect of personal injury cases referred to them. During the year the fees totalled £333,645.

The key indicator for claims handling is the level of revenue generated from both the claims handling activities and the ancillary commission fees this work generates. In the year, the business recorded claims handling revenue of £2.1m and commission fees of £1.7m.

### Parent Key Performance Indicators

In addition to monitoring revenue and profitability of the Company, the Directors also monitor a number of key performance indicators of the Co-operative Group ('the group'). These include financial performance, growth in and engagement of members of the group, growing customer loyalty and corporate reputation of the group. Further details on these key measures can be found on pages 40-41 of the Group's annual report.

### Principal risks and uncertainties

The Company has a small number of contractual relationships with referrers of work. Adherence to these contracts represents a risk to the business and as such, the performance of the contracts is monitored at a high level within the Company and regular review meetings are held with the contracting parties.

There is additional risk to the business in that the assessment of liability is a key activity and the standard of the assessments needs to be consistent. In order to ensure this is achieved, regular training is performed and is backed up by a team infrastructure which provides guidance, tuition and review.

Further discussion of risks and uncertainties, in the context of the group as a whole, is provided on pages 42-45 of the group's annual report which does not form part of this report.

### Dividend

The Directors do not recommend the payment of a dividend (2010: £nil).

### Directors

The Directors who held office during the period were as follows:

Jonathan Gulliford	Rodger Pannone
Robert Labadie	Edward Ryan
Timothy Lock	Neil Braithwaite
David Neave	Ian Mackie

### Employees

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

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

### Creditor payment terms

The group's Code on Business Conduct sets out the Company's and its subsidiaries' relationships with its suppliers and its undertaking to pay its suppliers on time and according to agreed terms of trade.

## Directors' Report (continued)

### Corporate responsibility and the environment

The Company closely follows the group's corporate responsibility and environmental policies. The group provides a sustainable development section in its annual report. This can be found on pages 32-35. In addition, the group's Sustainability Report, which will be published towards the latter half 2011, describes how the group manages its social, ethical and environmental impact.

### Political and charitable contributions

The Company made no political or charitable donations or incurred any political expenditure during the period (2010: £nil).

### Going concern

The financial statements have been prepared on a going concern basis, notwithstanding the overdraft facility, as an assurance has been received from the ultimate parent undertaking that financial support will continue to be made available for the foreseeable future.

### Disclosure of information to auditors

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

### Auditors

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

By order of the Board

  
Caroline Sellers  
Secretary

11 July 2011

Registered Office  
New Century House  
Corporation Street  
Manchester  
M60 4ES

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

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

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

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.



## KPMG Audit Plc

### **Independent auditors' report to the members of Co-operative Legal Services Limited**

We have audited the financial statements of Co-operative Legal Services Limited for the period ended 1 January 2011 set out on pages 5 to 25. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the Directors are responsible for the preparation of the financial statements and for being satisfied that they 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 (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.fic.org.uk/apb/scope/private.cfm](http://www.fic.org.uk/apb/scope/private.cfm).

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 1 January 2011 and of its profit for the period then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion,

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**AC Campbell-Orde (Senior Statutory Auditor)**  
for and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
100 Temple Street  
Bristol  
BS1 6AG

19 July 2011

**Income statement**  
*for the period ended 1 January 2011*

	Notes	For period ended 1 January 2011 £'000	For period ended 2 January 2010 £'000
Revenue	2	20,516	19,769
Cost of sales		(6,167)	(5,166)
<b>Gross profit</b>		<b>14,349</b>	<b>14,603</b>
Other expenses		(9,977)	(11,227)
<b>Operating profit</b>		<b>4,372</b>	<b>3,376</b>
Financial expenses	6	(123)	(127)
<b>Profit before taxation</b>	2-3	<b>4,249</b>	<b>3,249</b>
Taxation	7	36	113
<b>Profit for the period</b>		<b>4,285</b>	<b>3,362</b>

All amounts relate to continuing activities

**Statement of comprehensive income**  
*for the period ended 1 January 2011*

The Company has no recognised income or expenses in the current or prior period other than those included in the income statement shown above

**Balance Sheet**  
**at 1 January 2011**

	Notes	For period ended 1 January 2011 £'000	For period ended 1 January 2011 £'000	For period ended 2 January 2010 £'000	For period ended 2 January 2010 £'000
<b>Non-current assets</b>					
Property, plant and equipment	8	1,111		1,452	
Intangible assets	9	926		1,210	
Investments in subsidiaries	10	100		100	
Deferred tax assets	14	89			
<b>Total non-current assets</b>			<b>2,226</b>		<b>2,762</b>
<b>Current assets</b>					
Inventories	11	334		260	
Trade and other receivables	12	21,912		18,988	
<b>Total current assets</b>			<b>22,246</b>		<b>19,248</b>
<b>Total assets</b>			<b>24,472</b>		<b>22,010</b>
<b>Current liabilities</b>					
Bank overdraft	13	13,861		12,688	
Trade and other payables	13	1,105		4,100	
<b>Total current liabilities</b>			<b>14,966</b>		<b>16,788</b>
<b>Total liabilities</b>			<b>14,966</b>		<b>16,788</b>
<b>Net assets</b>			<b>9,506</b>		<b>5,222</b>
<b>Equity</b>					
Equity Capital & Reserves			<b>9,507</b>		<b>5,222</b>
<b>Total equity</b>			<b>9,507</b>		<b>5,222</b>

These financial statements were approved by the Board of Directors on  
signed on its behalf by

*11<sup>th</sup> July 2011*

and were



Timothy Lock  
Director

**Statement of changes in equity  
for the period ended 1 January 2011**

	Called up share capital £'000	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 2 January 2010	-	-	5,222	5,222
Profit for the period	-	-	4,285	4,285
<b>Balance at 1 January 2011</b>	<b>-</b>	<b>-</b>	<b>9,507</b>	<b>9,507</b>
Balance at 10 January 2009	-	-	1,860	1,860
Profit for the period	-	-	3,362	3,362
<b>Balance at 2 January 2010</b>	<b>-</b>	<b>-</b>	<b>5,222</b>	<b>5,222</b>

All items are shown net of tax

**Statement of cash flows**  
**for the period ended 1 January 2011**

	Notes	For period ended 2 January 2011 £'000	For period ended 2 January 2010 £ 000
<b>Profit before taxation</b>		<b>4,249</b>	<b>3,249</b>
<b>Cash generated from operations</b>	<b>16</b>	<b>(844)</b>	<b>118</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment	8	(160)	(75)
Purchase of intangible assets	9	(82)	(49)
<b>Net cash from investing activities</b>		<b>(242)</b>	<b>(124)</b>
<b>Cash flows from financing activities</b>			
Interest paid on borrowings		(123)	(127)
Tax paid		36	113
<b>Net cash from financing activities</b>		<b>(87)</b>	<b>(14)</b>
Net decrease in cash and cash equivalents		(1,172)	(20)
Cash and cash equivalents at 2 January 2010		(12,688)	(12,668)
<b>Cash and cash equivalents at 1 January 2011</b>		<b>(13,860)</b>	<b>(12,688)</b>

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

#### Reporting entity

Co-operative Legal Services Limited is a Company domiciled in England and Wales. The address of the Company's registered office is PO Box 53, New Century House, Manchester, M60 4ES.

#### Basis of preparation

The financial statements have been prepared in accordance with applicable International Financial Reporting Standards as endorsed by the EU (IFRS) for the period ended 1 January 2011 and are prepared on the historical cost basis. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare consolidated accounts as it is a wholly owned subsidiary of Co-operative Group Limited, a society incorporated in England and Wales. These financial statements present information about the Company as an individual undertaking only. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

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

#### Accounting date

The financial statements for the Company are made up for the 52 weeks to 1 January 2011. This financial period's figures below are headed 2011 and the corresponding figures for the previous year (51 weeks ended 2 January 2010) are headed 2010 below. Therefore, the comparative amounts are not entirely comparable as they are based on a longer period.

#### Going concern

The financial statements have been prepared on a going concern basis, notwithstanding the overdraft facility, as an assurance has been received from the ultimate parent undertaking that financial support will continue to be made available for the foreseeable future.

#### Standards and interpretations issued but not yet effective

The Company has not early adopted the following standards and statements which have been endorsed by the EU but are not yet effective. The adoption of these standards is not expected to have a material impact on the Company's accounts when adopted, except where stated.

In August 2009, IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments was issued. This interpretation deals with the accounting involved when renegotiating debt instruments into equity instruments. The interpretation is effective for annual periods beginning on or after 1 July 2010 and it is expected that this will not have a significant impact on the Company's financial statements.

In November 2009, the IASB issued amendments to IAS 24 Related Parties Disclosures. These amendments changed the definition of related parties. The standard is effective from 1 January 2011 and it is expected that these amendments will not have a significant impact on the Company's financial statements.

In November 2009, the IASB issued Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14). Without the amendments, in some circumstances entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. The amendments are effective for annual periods beginning 1 January 2011 and must be applied retrospectively. These amendments will not have a significant impact on the group's financial statements.

In May 2010, the IASB issued Improvements to IFRSs 2010, which comprises amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard-by-standard basis. The majority of the amendments will be effective for the group from 1 January 2011. The amendments are unlikely to have a material impact on the Company's financial statements.

In October 2010, the IASB reissued IFRS 9, incorporating new requirements on accounting for financial liabilities, and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities. IFRS 9 has not yet been endorsed by the European Union but if endorsed, the standard will be effective for periods beginning on or after 1 January 2013 and will have a significant effect on the group's financial statements. The group does not plan to judge the extent of this impact until after IFRS 9's endorsement.

**Notes (continued)**

**1 Accounting Policies (continued)**

**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Co-operative Legal Services Limited cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

**Cash flow statement**

In the cash flow statement the reconciliation to cash has been performed from operating profit in note 16 in order that the cash flows of the entity can be compared consistently with those of the group accounts.

**Property, plant and equipment and depreciation**

**(i) Owned assets**

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Plant and equipment	-	5 years
Fixtures and fittings	-	5 years
Computer Software	-	2-5 years

The residual value, if not insignificant, is reassessed annually.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

No depreciation is provided on freehold land.

**(ii) Leased assets**

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. Where the Company makes improvements to property that is rented under operating leases these are classified as leasehold improvements and depreciated over life of the lease.

The estimated useful lives are as follows:

Leasehold improvements	-	8 years
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**Intangible assets**

**(i) Exclusive Rights**

The intangible asset relates to the purchase of exclusive rights to the Co-operative Financial Services Ltd household and motor legal expense insurance claims handling service.

**(ii) Amortisation**

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill is tested annually for impairment and is not subject to amortisation. Where there is indication of impairment an impairment review will be performed.

**(iii) Subsequent expenditure**

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to

**Notes (continued)**

**1 Accounting Policies (continued)**

**Impairment**

The carrying amount of the Company's assets other than biological assets, investment property, inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated.

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

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

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

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

**Pensions and other post-retirement benefits**

The Company's employees are members of a Group-wide pensions scheme, the Co-operative Group Pension (Average Career Earnings) Scheme (the PACE Scheme). The Company contributes to the PACE Scheme in respect of its employees who are members of the Scheme. The PACE Scheme is a defined benefit scheme but the Company is unable to identify its share of the underlying assets and liabilities of the scheme and therefore contributions to the scheme are accounted for as if it were a defined contribution scheme. There is no contracted agreement or stated Group policy for charging the net defined benefit cost for the plan as a whole measured in accordance with IAS 19 to individual Group entities, therefore Co-operative Legal Services Limited, in its individual financial statements, cannot recognise the net defined cost so charged. Refer to disclosure of information relevant to the scheme on note 5.

**Inventories**

Inventories and work in progress are stated at the lower of cost including attributable overheads, and net realisable value. Work in progress represents staff costs incurred on personal injury claims that have yet to reach the stage where revenue is recognised.

**Operating segments**

The Company's chief operating decision makers are the Board of Directors. The Company does not have any different components of its business which would need to be disclosed separately under IFRS 8 Operating Segments.

**Taxation**

**(i) Income tax**

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

**(ii) Deferred taxation**

Deferred tax is provided, with no discounting, using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profits and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. In the case of investment properties it is assumed that uplifts on valuation principally reflect future rentals.

**Notes (continued)**

**1 Accounting Policies (continued)**

**Revenue**

Revenue is recognised when the right to consideration is earned to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales tax or duty. The following criteria must be met before revenue is recognised:

*Personal injury claims*

Revenue on injury claims processed by the in-house solicitor is accrued over the life of the case as certain case milestones are achieved. No revenue is booked beyond the extent of recoverable costs until the admission of liability is received from the third party insurer. Revenue on injury claims referred to the Company's external panel of solicitors is booked when the Company has a right to consideration in accordance with the arrangement with the panel solicitor.

*Claims handling*

Revenue for claims handling represents the right to consideration earned in respect of claims handling services performed during the period through performance of contractual obligations, net of any sales tax. All income arises within the UK.

*Wills*

Revenue on wills written by the in-house team is booked on receipt of payment, which is received on instruction. From the year ended 1st January 2011, Wills revenue is recorded in the statutory accounts of The Co-operative Trust Corporation, a subsidiary company of Co-operative Legal Services.

*Commissions*

Commissions are earned for referring car hire opportunities to a third party hire provider. Turnover represents the gross amount of commissions earned and is recognised on hire acceptance.

In addition, commissions are received on the referral of conveyancing work to an external solicitor. Turnover represents the gross amount of commissions earned and is recognised on completion of the conveyance.

*Service charges*

The Company invoices its subsidiary, The Co-operative Trust Corporation Limited, for both the secondment of staff and the use of the Company's facilities. The costs are invoiced at a fair market rate.

**Operating Leases**

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

**Provisions**

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Notes (continued)

2 Revenue

	2011 £'000	2010 £'000
<i>Revenue comprises the following</i>		
Personal injury claims	13,547	10,900
Claims handling	2,131	2,005
Commissions	1,722	1,806
Service Charges	3,116	4,610
Will Writing	-	448
	<u>20,516</u>	<u>19,769</u>

3 Profit before taxation

	2011 £'000	2010 £'000
<i>Profit before taxation is stated after charging / (crediting)</i>		
Depreciation	500	466
Amortisation of intangibles	366	348
Operating lease rental charges - plant and	171	86
Operating lease rental charges - land and	<u>379</u>	<u>379</u>

The auditor's remuneration of £18,360 (2010: £18,000) is borne by the ultimate parent undertaking. The Company is exempt by virtue of s494 of the Companies Act 2006 from further disclosures in relation to auditors' remuneration as it is a wholly owned subsidiary of the Co-operative Group Limited for which consolidated financial statements are prepared disclosing non-audit fee information on a group wide basis.

4 Staff numbers and costs

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

	Number of employees 2011	Number of employees 2010
Full-time	286	237
	<u>286</u>	<u>237</u>

The aggregate payroll costs of these persons were as follows:

	2011 £'000	2010 £'000
Wages and salaries	7,843	6,340
Social security costs	777	574
Other pension costs (see note 5)	455	346
	<u>9,075</u>	<u>7,260</u>

Directors' remuneration in respect of services provided to the Co-operative Legal Services Limited were £931,000 (for the year ended 2 January 2010: £762,000).

Notes (continued)

5 Pension Scheme

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

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

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

The actuarial valuation of the PACE Scheme as noted above has been updated to 1 January 2011

	2011	2010
<b>The principal assumptions used to determine the liabilities of the Group's pension schemes were</b>		
Discount rate	5.20%	5.60%
Rate of increase in salaries	5.20%	5.30%
Future pension increases where capped at 5.0% pa	3.70%	3.80%
Future pension increases where capped at 2.5% pa	2.50%	2.50%
<b>Assumptions used to determine net pension cost for the PACE scheme are</b>		
Discount rate	5.60%	5.70%
Expected long-term return on scheme assets	6.50%	6.40%
Rate of increase in salaries	5.30%	4.75%

The average life expectancy (in years) for mortality tables used to determine scheme liabilities for the various different schemes at 1 January 2011 are as follows

	Male	Female
Member currently aged 65 (current life expectancy)	21.7	23.3
Member currently aged 45 (life expectancy at age 65)	23.2	24.9

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

	2011 £m	2010 £m
<b>The amounts recognised in the balance sheet are as follows</b>		
Present value of funded obligations	(5,794.2)	(5,509.0)
Present value of unfunded liabilities	(4.1)	(0.3)
Fair value of plan assets	6,071.3	5,514.4
Net retirement benefit asset	273.0	5.1

	2011 £m	2010 £m
<b>Changes in the present value of the scheme liabilities are as follows</b>		
Opening defined benefit liabilities	5,512.8	4,803.4
Current service cost	48.1	36.4
Interest on liabilities	304.9	264.9
Contributions by members	21.3	20.4
Actuarial losses recognised in equity	123.5	581.3
Benefits paid	(210.3)	(193.6)
Gains on settlements and curtailments	-	-
Closing defined benefit liabilities	5,798.3	5,512.8

Notes (continued)

5 Pension Scheme (continued)

	2011 £m	2010 £m
<b>Changes in the fair value of the scheme assets are as follows</b>		
Opening fair value of scheme assets	5,514.4	5,204.6
Expected return on scheme assets	354.2	322.9
Actual gains recognised in equity	334.2	106.8
Contributions by the employer	57.4	53.2
Contributions by members	21.3	20.4
Benefits paid	(210.2)	(193.5)
Closing fair value of scheme assets	6,071.3	5,514.4
<b>The weighted-average asset allocations at the period end were as follows</b>		
Equities	31%	35%
Liability-driven investments	54%	54%
Alternative growth	9%	6%
Property	4%	4%
Cash	2%	1%
	100%	100%

To develop the expected long-term rate of return on assets assumption, the Group considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the 6.5% (2009: 6.4%) assumption for the period ended 1 January 2011.

The group expects to contribute £67.7m to its PACE scheme in 2011.

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

Co-operative Legal Services contributes towards the same pension scheme as the ultimate parent Society, Co-operative Group Limited. The scheme is a defined benefit scheme but the Company is unable to identify its share of the underlying assets and liabilities of the scheme and therefore contributions to the scheme are accounted for as if it were a defined contribution. Co-operative Legal Services then recognises a cost equal to its contribution payable for the period, which was £455,000 (2010: £346,000). Based on advice from a qualified actuary, the contributions payable by the participating entities were 16% of pensionable salaries.

Notes (continued)

6 Financial expenses

	2011 £'000	2010 £'000
Interest expense	123	127

7 Taxation

Analysis of charge/credit in period

	2011 £'000	2011 £'000	2010 £'000	2010 £'000
<i>UK corporation tax</i>				
Current tax on income for the period	-	-	-	-
Adjustments in respect of prior periods	-	-	-	-
Total current tax		-		-
<i>Deferred tax (see note)</i>				
Origination/reversal of timing differences		(56)		(113)
Deferred tax - change in rate to 27%		20		
Tax credit on profit on ordinary activities		(36)		(113)

The Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of 4 years from 2011. The subsequent budget on 23 March 2011 announced that the first reduction in the UK corporation tax rate would be from 28% to 26% with the rate reducing to 23% in 2014. The reduction in the rate to 26% was substantively enacted on 29 March 2011 and is effective from 1 April 2011. This will reduce the company's future current tax charge accordingly. The tax disclosures for the period reflect the deferred tax at the 27% substantively enacted rate. It has not yet been possible to quantify the full anticipated effect of the further 4% rate reduction although this will further reduce the company's future tax charge [and reduce the company's deferred tax liabilities/ assets accordingly].

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2010: lower) than the standard rate of corporation tax in the UK 28% (2010: 28%). The differences are explained below:

	2011 £'000	2010 £'000
<i>Current tax reconciliation</i>		
Profit before tax	4,249	3,249
Current tax at 28% (2010: 28%)	1,189	909
<i>Effects of</i>		
Expenses not deductible for tax purposes	2	-
Change in deferred tax rate to 27%	2	-
Non deductible depreciation and amortisation	104	-
Non taxable income	-	-
Adjustments to tax charge in respect of previous periods	20	97
Group relief not paid for [other]	(1,353)	(1,119)
Total income tax charge (see above)	(36)	(113)

Notes (continued)

8 Property, plant and equipment

For the year ended 1 January 2011

	Leasehold improvements	Plant and machinery	Fixtures and fittings	Total
	£'000	£ 000	£ 000	£'000
<b>Cost</b>				
At 2 January 2010	264	2 000	486	2,750
Additions	-	114	46	160
<b>At 1 January 2011</b>	<b>264</b>	<b>2,114</b>	<b>532</b>	<b>2,910</b>
<b>Depreciation</b>				
At 2 January 2010	111	990	197	1 298
Charge for the period	34	367	99	500
<b>At 1 January 2011</b>	<b>145</b>	<b>1,357</b>	<b>296</b>	<b>1,798</b>
<b>Net book value</b>				
At 1 January 2011	119	757	236	1,111
At 2 January 2010	153	1,010	289	1,452

For the year ended 2 January 2010

	Leasehold improvements	Plant and machinery	Fixtures and fittings	Total
	£'000	£ 000	£ 000	£'000
<b>Cost</b>				
At 10 January 2009	264	1,936	475	2 675
Additions	-	64	11	75
<b>At 2 January 2010</b>	<b>264</b>	<b>2,000</b>	<b>486</b>	<b>2,750</b>
<b>Depreciation</b>				
At 10 January 2009	78	649	105	832
Charge for the period	33	341	92	466
<b>At 2 January 2010</b>	<b>111</b>	<b>990</b>	<b>197</b>	<b>1,298</b>
<b>Net book value</b>				
At 2 January 2010	153	1,010	289	1,452
At 10 January 2009	186	1 287	370	1,843

Notes (continued)

9 Intangible Assets

For the year ended 1 January 2011

	Exclusive Rights	Computer software	Total
	£ 000	£ 000	£ 000
<b>Cost</b>			
At 2 January 2010	2 250	123	2 373
Acquisitions in period	-	82	82
<b>At 1 January 2011</b>	<b>2,250</b>	<b>205</b>	<b>2,455</b>
<b>Amortisation</b>			
At 2 January 2010	1,112	51	1,163
Charge for the period	321	45	366
<b>At 1 January 2011</b>	<b>1,433</b>	<b>96</b>	<b>1,529</b>
<b>Net book value</b>			
At 1 January 2011	817	109	926
At 2 January 2010	1,138	73	1 210

Amortisation charges of £366 000 (2010 £348 000) are recognised in operating expenses within the income statement

The licences / software have a useful economic life of 2 - 5 years and are amortised on a straight line basis over those years

For the year ended 2 January 2010

	Licences	Computer software	Total
	£'000	£'000	£'000
<b>Cost</b>			
At 10 January 2009	2 250	74	2 324
Acquisitions in period	-	49	49
<b>At 2 January 2010</b>	<b>2,250</b>	<b>123</b>	<b>2,373</b>
<b>Amortisation</b>			
At 10 January 2009	791	24	815
Charge for the period	321	27	348
<b>At 2 January 2010</b>	<b>1,112</b>	<b>51</b>	<b>1,163</b>
<b>Net book value</b>			
At 2 January 2010	1,138	72	1,210
At 10 January 2009	1 459	50	1 509

Notes (continued)

10 Investments

The Company holds an investment of £100,000 representing 100% of the ordinary share capital of The Co-operative Trust Corporation Limited (year ended 2 January 2010 £100 000), a Legal Services Company registered in England and Wales

Investments

	Amount of investment £'000	Nature of share capital	Principal activity	Country of origin	% Ownership
The Co-operative Trust Corporation Limited	100 000	Original	Legal Services	England and Wales	100%

11 Inventories

	2011 £'000	2010 £ 000
Work in progress	334	260

12 Trade and other receivables

	2011 £'000	2010 £ 000
<i>Current assets</i>		
Trade receivables	353	353
Amounts owed by group undertakings	5,029	5 228
Amounts recoverable on contracts	15,650	12,071
Prepayments and accrued income	880	1,336
	<u>21,912</u>	<u>18,988</u>

All of the above financial assets are classified as loans and receivables

Trade debtors include amounts totalling £292k (year ended 2 January 2010 £184k), which are overdue but not considered to be impaired, age analysed as follows

	2011 £'000	2010 £'000
<b>Amounts overdue</b>		
Less than 3 months	263	128
3 to 6 months	28	31
More than 6 months	1	26
	<u>292</u>	<u>185</u>

Amounts overdue but not impaired typically comprise high volume/low value balances for which the individual trading businesses do not seek collateral but continue to work with counterparties to secure settlement. No other debtors are overdue.

Amounts owed by group undertakings are repayable on demand

**Notes (continued)**

**13 Trade and other payables**

	2011 £'000	2010 £'000
<i>Current liabilities</i>		
Bank loans and overdrafts	13,861	12,688
Trade payables	362	2,818
Amounts owed to group undertakings	-	461
Other payables including taxation and social security	119	37
Accruals and deferred income	624	784
	<u>14,966</u>	<u>16,788</u>

**14 Deferred Taxation**

Deferred income taxes are calculated on all temporary differences under the liability method using an effective rate of X% (2010 28%)

	£'000
<i>Deferred taxation asset / (liability)</i>	
At 2 January 2010	53
Income statement charge / credit in the period	36
At 1 January 2011	<u>89</u>
Comprising	
Short term timing differences	-
Accelerated tax depreciation	89
Tax losses	-
At 1 January 2011	<u>89</u>

**15 Called up share capital**

	2011 £	2010 £
<i>Authorised</i>		
A Ordinary shares of £1 each	75	75
B Ordinary shares of £1 each	25	25
	<u>100</u>	<u>100</u>
<i>Allotted, called up and fully paid</i>		
A Ordinary shares of £1 each	75	75
B Ordinary shares of £1 each	25	25
	<u>100</u>	<u>100</u>

IFRIC 2 determines the features, which allow shares to be classified as equity capital

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company

Consideration for all issues was at par and received in cash

The A shareholders have the right to appoint up to four Directors to the Board of Directors and to appoint one of their four Directors to serve as Chairman of the Board. The B shareholders have the right to appoint four Directors to the Board of Directors. At a meeting of the Board of Directors the A shareholder appointed Directors are deemed to have three votes and the B shareholder appointed Directors are deemed to have one vote in relation to any resolutions of the Board.

Notes (continued)

16 Cash flows from operating activities

	2011 £'000	2010 £'000
<b>Cash flows from operating activities</b>		
Profit for the year	4,285	3,362
<i>Adjustments for</i>		
Depreciation	500	466
Amortisation	366	348
Interest paid on borrowings	123	127
Taxation	(36)	(113)
<b>Operating profit before changes in working capital and provisions</b>	<b>5,238</b>	<b>4,190</b>
(Increase) / decrease in trade and other receivables	(2,924)	(5 493)
(Decrease) / increase in trade and other payables	(3,084)	1 494
(Increase) / decrease in stock	(74)	(73)
<b>Cash generated from the operations</b>	<b>(844)</b>	<b>118</b>

17 Commitments and contingent liabilities

(i) There are no capital commitments at the end of the current period and preceding financial year

(ii) The future minimum lease payments under non-cancellable operating leases are as follows

	2011 Land and buildings £'000	2011 Other £'000	2010 Land and buildings £'000	2010 Other £'000
<i>Operating leases which expire</i>				
Within one year	379	154	379	86
In the second to fifth years inclusive	1,287	396	1,441	32
Over five years	479	-	704	-
	<b>2,145</b>	<b>550</b>	<b>2 524</b>	<b>118</b>

18 Group Entities

Control of the group

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

**Notes (continued)**

**19 Related parties**

**Co-operative Financial Services Limited (CFS)**

The Company has a contract with CFS, a fellow subsidiary at Co-operative Group Limited to provide claims handling services relating to the legal expense insurance cover provided as part of the CFS motor and home general insurance policies. The duration of the agreement is seven years from 14 August 2007. The Company paid CFS £2.25m for exclusive rights to the provision of services which is shown as an intangible asset in these financial statements. At the period end, the amount outstanding to CFS was £22,000.

**The Co-operative Trust Corporation (CTC)**

The Company owns 100% of CTC. During the period, CLS seconded staff to CTC and provided use of its facilities and infrastructure. The amount due from CTC at the year end amounts to £5,029,000 which is the value of CTC costs that have been incurred by CLS on its behalf.

During the period the directors sold their ownership of the Company's shares to the ultimate parent undertaking for £15m. The parent undertaking now has 100% ownership of the Company.

The key management personnel compensations are as follows:

	2011 £'000	2010 £'000
Short-term employee benefits	893	731
Post-employment benefits	37	31
Termination benefits	-	-
	<u>931</u>	<u>762</u>

Total remuneration is included in "administrative expenses".

**20 Events after the reporting date**

There are no subsequent events to report since the period end.

**21 Accounting estimates and judgements**

**Key sources of estimation uncertainty**

The nature of all accounting estimates and judgements are shown in the relevant accounting policies in note 1.

The critical accounting estimates and judgements relate to revenue recognition whose relevant accounting policy is shown in note 1.

Notes (continued)

22 Financial instruments and financial risk management

*(a) Financial risk management*

The principal financial risk of the Company relates to the generation and availability of sufficient funds to meet business needs, including payments to members

The Board is responsible for approving the Company's strategy, its principal markets and the level of acceptable risks. The Company operates a risk management process that identifies the key risks to the business. Each operation has a risk register that identifies the likelihood and impact of those risks occurring and the actions being taken to manage those risks.

*(b) Determination of fair values of financial instruments*

*Trade and other receivables*

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

*Trade and other payables*

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

*Cash and cash equivalents*

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

*Trade Receivables*

The Company is exposed to trade receivable credit risk through normal on-going business trade to a wide range of customers. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk and the industry and country in which customers operate, has less of an influence on credit risk.

Geographically, there is no concentration of credit risk.

Credit risk is managed as follows:

- aged analysis is performed on trade receivable balances and reviewed on a monthly basis
- credit ratings are obtained on any new customers and the credit ratings of existing customers are monitored on an on-going basis
- credit limits are set for customers, and,
- trigger points and escalation procedures are clearly defined
- Customers considered "high risk" are placed on a restricted customer list, monitored and future sales are only made on a pre-paid basis

**Notes (continued)**

**22 Financial instruments and financial risk management (continued)**

A table showing the ageing profile totals of trade receivables and the provision for doubtful debts for each ageing band is disclosed below

*Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. Therefore the maximum exposure to credit risk at the balance sheet date was £21.9m (2010 £19.0m)

The maximum exposure to credit risk for trade receivables at the reporting date by type of counterparty was

	2011 £'000	2010 £'000
Trade receivables due from the Co-operative Financial Services Limited	-	96
Trade receivables	353	353
Amounts owed by group undertakings	5,029	5,132
Amounts recoverable on contracts	15,650	12,071
Prepayments and accrued income	880	1,336
	<b>21,912</b>	<b>18,988</b>

*Credit quality of financial assets and impairment losses*

The ageing of trade receivables at the balance sheet date was

	Gross	Impairment	Net	Gross	Impairment	Net
	2011 £'000	2011 £'000	2011 £'000	2010 £'000	2010 £'000	2010 £'000
Not past due	290	-	290	168	-	168
Past due 1 - 28 days	102	-	102	82	-	82
Past due 29 - 56 days	161	-	161	46	-	46
Past due 57 - 84 days	-	-	-	31	-	31
Past due 84+ days	29	-	29	26	-	26
	<b>582</b>	<b>-</b>	<b>582</b>	<b>353</b>	<b>-</b>	<b>353</b>

The Company does not hold any collateral against the above debtors (2010 £nil)

**(a) Liquidity risk**

*Financial risk management*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due

The policy on overall liquidity is to ensure that the Company has sufficient funds to facilitate all on-going operations. As part of the annual budgeting and long term planning process, the Company's cash flow forecast is reviewed and approved by the Board. The cash flow forecast is amended for any material changes identified during the period e.g. material acquisitions and disposals.

Where funding requirements are identified from the cash flow forecast appropriate measures are taken to ensure these requirements can be satisfied.

Cash held at 1 January 2011 amounted to a bank overdraft of £13,861k (2010 £12,688k)

**(b) Market Risk**

*Financial risk management*

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**(i) Currency risk**

The Company is not exposed to currency risk, as all revenue is derived from the United Kingdom and all expenditure incurred is from other trading group subsidiaries within the United Kingdom.

Notes (continued)

22 Financial instruments and financial risk management (continued)

(ii) Interest rate risk

Sensitivity analysis

A change in 50 basis points in interest rates would have increased/ (decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular foreign exchange rates, remain constant. This analysis is performed on the same basis for 2010.

	Profit or loss		Equity	
	50bp increase £'000	50bp decrease £'000	50bp increase £'000	50bp decrease £'000
<b>1 January 2011</b>				
Variable rate instruments	(109)	109	(109)	109
Cash flow sensitivity (net total)	(109)	109	(109)	109
<b>2 January 2010</b>				
Variable rate instruments	(108)	108	(108)	108
Cash flow sensitivity (net total)	(108)	108	(108)	108

23 Capital Management

The Company's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for the shareholder and benefit for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company sets the amount of capital in proportion to the risk. The Company manages the capital structures and makes adjustment to it in light of changes in economic conditions and the risk characteristic of the underlying assets. In assessing the level of capital, all components of equity are taken into account.

There were no changes to the Company's approach to capital management in the period.