

COMPETITION COMMISSION



Annual Report and Accounts 2005/2006

COMPETITION COMMISSION Annual Report and Accounts 2005/2006

Contents



Chairman's foreword	2
Chief Executive's report	4
CC work in 2005/06	8
Published reports	16
References in the review period	29
Financial statements	30
Members	66
Senior staff	74

Competition Commission
Annual Report and Accounts for the year ended 31 March 2006
Presented to Parliament pursuant to section 186 of the Enterprise Act 2002
Ordered by the House of Commons to be printed 11 July 2006
London: The Stationery Office

Chairman's foreword

Increased competition promotes greater efficiency and drives down prices. When obstacles are put in the way of this process, the competition authorities must intervene to put things right, in the interests of consumers and of efficient businesses.

The Competition Commission (CC), as the ultimate decider in the United Kingdom on whether a merger is bad for competition or whether a market is working in a way that harms consumers, plays a central role in this endeavour.

2005 was a very significant year for the CC: we completed our first Market Investigation under the Enterprise Act 2002 (Store Cards); we survived our first review process before the Competition Appeal Tribunal (Somerfield); and our decision on the two prospective bids for the London Stock Exchange (LSE), a complex and difficult investigation, was widely recognized as well-informed, pragmatic and fair. But in one particular sense, 2005 was uniquely tragic and will be remembered for the death in office of my predecessor as Chairman, Professor Paul Geroski. No account of the past year could fail to pay tribute to Paul's ability, enthusiasm and enormous talent; all the more so as he had scarcely more than a year as Chairman. We stand in his shadow, with affection and great respect.

Nevertheless, the business of competition must go on and the CC withstood this loss with considerable accomplishment. This was in large measure due to the senior team of Christopher Clarke, Diana Guy and Martin Stanley. Of the two cases Paul Geroski was chairing, Christopher Clarke took over the Store Cards case while Jeremy Seddon did the same for LSE. All members and staff of the CC reacted with great resilience and I am grateful too for the consideration shown by those under investigation at the time. All this goes to show the respect in which Paul was held and also how much we rely, in carrying out our tasks, on the cooperation of parties and their advisers.

I am pleased to announce the appointment of Dr Peter Davis as Deputy Chairman, joining the CC in September 2006 from his current position as Leverhulme Lecturer at the London School of Economics. My thanks for all their hard

work must also go to the 13 outgoing members: Professor Paul Klempner, David Newkirk and Richard Rawlinson (Reporting Panel members) and Specialist Panel members: Sarwar Ahmed, Linda Christmas, William Gibson, Anthony Hadfield, Gerald Holbrook, Joyce Hopkirk, Nigel Macdonald, Eve Pollard, Professor Donald Treford and Charles Wilson.

But besides noting the events of the year, we need to think carefully about the future, both for competition enforcement in the UK and for the CC's contribution. The CC is an old and venerable institution but it has changed out of all recognition in the past decade and it must now change further. We must, of course, keep our ability to come to rational and authoritative decisions on all the complex cases we receive; and we must keep our hard-won reputation for fair and open process. But we must increasingly see our role as part of a wider system—both vertically and horizontally.

Vertically in that, on mergers and markets, we share the task of investigation with the Office of Fair Trading (OFT) (and, to a degree, with the other regulators). The OFT and the CC in particular must together make the UK system work properly in the interests of consumers and efficient businesses.

Horizontally in that both the OFT and ourselves are making competition decisions in a regional context—as part of the decentralised European Union (EU) enforcement network—and increasingly in collaboration with our colleagues in further jurisdictions, the USA, Canada, Australia and Japan. Recognizing that the CC, with its particular function in market investigations, and a separate,

Phase II role in mergers, is part of this wider system can sometimes be a challenge. But our markets work covers much the same ground as prohibition-based systems, and our mergers work is directly comparable to Phase II assessments elsewhere. We therefore have much to contribute to EU and wider international practice. Our participation in the work of EU competition bodies, the International Competition Network (ICN) and the Organisation for Economic Co-operation and Development (OECD), as well as the strong bilateral links we have formed with individual authorities, show how seriously we take this part of our duties.

Closer to home, the generally high reputation of the CC gives no ground at all for complacency. There is much to be done to make our processes more efficient and effective, and above all quicker. We recognize the need to place as light a burden as possible, in terms of resources and time, on the parties we investigate and we are keen to avoid the length of inquiries defaulting to the statutory limits. For our part, we are introducing measures such as the use of more focused questionnaires, removing unnecessary formality and streamlining inquiry teams. The Chief Executive's report on page 4 describes our efficiency programme in more detail. In return, we expect, from parties and advisers, full cooperation and recognition that the task is a shared one. In this striving for improvement, however, we are unlikely to abandon the CC's important contribution to the world of competition, that is the principle of 'peer review' and the giving of a structured opportunity to parties under investigation to justify their position, in

person, to the decision-makers. Process is one thing, but it is only a means of delivering appropriate decisions. The CC has devoted much time and effort to ensuring that decisions are made taking full account of all the evidence and on the basis of sound economics applied in the proper legal framework. As competition economics becomes ever more sophisticated, there is always the danger of coming to decisions that are not sufficiently based on the reality of the situation investigated. While the same criticism can be made of systems based more on rules and presumptions, the CC will continue to seek solutions which are soundly based in theory but recognizably sane in practice.

And here, in particular, we shall continue to operate under the watchful eye of the Competition Appeal Tribunal, whose presence fulfils a crucial role in the UK system. But it is important to note a possible tension between our wish to produce efficient, timely decisions and what might be seen as our self-interest in rendering decisions less susceptible to judicial review by extending the length and depth of our analysis and the scope of our proceedings to ever greater levels. We intend to resist this temptation and continue to produce decisions that are not only fair, thorough and speedy, but also contain conclusions and remedies that are based on correct and rational analysis and are of real benefit to consumers and hence to efficient businesses.



Peter Freeman
Chairman

Chief Executive's report

As can be seen from the Chairman's statement, the Council has set the CC the following objectives:

- to become more efficient;
- to carry out its investigations more quickly; and
- to be less burdensome on business;

while maintaining high quality, rigorous and rational analysis.

I describe below our progress to date in achieving these objectives.

Efficiency: outputs

Our value for money depends on both outputs and inputs. On the output side, we have this year, for the first time, sought to quantify the good that we do and estimate this at a minimum of £250 million over three years. This has inevitably required us to make a number of assumptions and estimates, and we recognize that others might have calculated the figures in a different way. We provide a summary of our methodology below and have published an explanatory note on our website. We intend to build on this work in future years. We also recognize that the CC is one part of the UK competition regime, and the full benefits to consumers and the economy accrue as a result of the combined activities of ourselves and the Office of Fair Trading (OFT), with the Competition Appeal Tribunal (CAT) as review body for our decisions.

Our outputs can be divided into three.

First, there is the direct benefit that arises from our interest in company mergers, which clearly will differ from year to year,

depending on the types and sizes of businesses that we have investigated. In the past year, the CC reported on 11 mergers and blocked, or placed conditions on, four of these. We estimate that our actions this year have saved consumers around £31 million per annum, largely in the form of lower prices in those markets which would have been affected by the mergers. For example, absent the CC's remedies, it is estimated that the Somerfield/Wm Morrison Supermarkets merger would have led to annual additional costs to consumers of about £5.5 million. The proposed London Stock Exchange mergers could have led to detriment worth around £11.8 million annually. The total estimate includes the benefits arising from the SDEL/Coors inquiry which reported at the very end of 2004/05, but for which remedies were finalized in this financial year.

Second, there is the direct benefit that arises from our market investigations. We completed the first of these—into Store Cards—in 2005/06 and designed remedies to tackle competition problems which, we estimated, had cost consumers at least £55 million per annum since 1999, and possibly significantly more. Again, the magnitude of the problems will differ between markets, as will our ability to attach a firm number to the detriment suffered by consumers.

Third, there is the undoubtedly significant, but clearly unquantifiable, deterrent effect of our existence. The fact that we can block or remedy mergers means that business will not even try to complete obviously anti-competitive mergers, which would cause consumer detriment. It is less clear that our market investigation powers have a significant deterrent effect, but

this might become more apparent as we complete further investigations.

All in all, and ignoring the deterrent effect, we estimate the costs to consumers from problems identified and addressed by the CC in the last year at over £80 million per annum. If, at a conservative estimate, it is assumed that the problems would have continued for three years if not remedied by the CC, the detriment we have sought to remedy this year can be estimated to be around £250 million.

We are working with the OFT to improve these figures and to meet the aspirations summarized in the Government's 2001 White Paper *A World Class Competition Regime*. The first five market investigations are certainly allowing us to 'help consumers get a good deal' (White Paper, page 1), but we feel that we could make more of an impact in major areas of concern for the UK's economic performance. Identifying and starting work on such markets is becoming an urgent priority for both the OFT and ourselves.

Efficiency: inputs

Our inputs are easier to measure. We measure the average monthly cost of work on an inquiry for a month. Key data is summarized in the charts on page 6.

The first chart (Figure 1) summarizes our workload, which rose substantially in 2005/06.

The second chart (Figure 2) summarizes our total expenditure (excluding the cost of property which is either unoccupied or let to other organizations). This has risen substantially as a result of the changes introduced by the Enterprise Act, and because of our sharply increased

workload. Looking forward, however, we are developing a number of new 'streamlined procedures', ways of working which focus on the most important activities during the more straightforward merger inquiries. We are also continuing to look for other ways of saving money, including making more effective use of remote access to our IT systems, and reducing our administrative overheads and other support costs. We therefore expect our costs to fall in 2006/07, assuming that our workload does not increase any further.

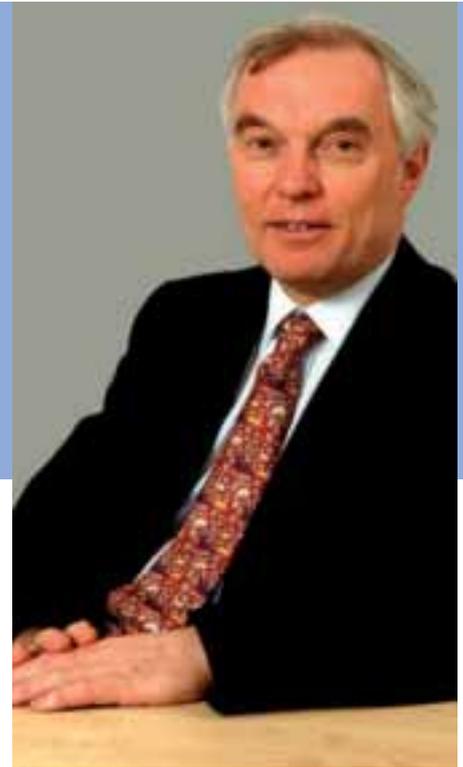
The net effect is that the cost per inquiry month, calculated by dividing our costs by our workload, has fallen for two years in a row (see Figure 3).

Speed

We have continued to publish Provisional Findings in merger inquiries in around 16 weeks and we have published all final reports within the 24-week statutory period, except for the LSE inquiry which was an unusually complicated international merger covering two separate references (Euronext and Deutsche Börse), and for which the remedies stage required us to make use of the statutory eight-week extension.

We have similarly completed the first post-Enterprise Act market investigation (Store Cards) within the two-year statutory period, of which six months were taken up in constructing and consulting on appropriate remedies (a new responsibility awarded to the CC in the Enterprise Act); and we will similarly meet our deadlines in respect of the other five ongoing market investigations.

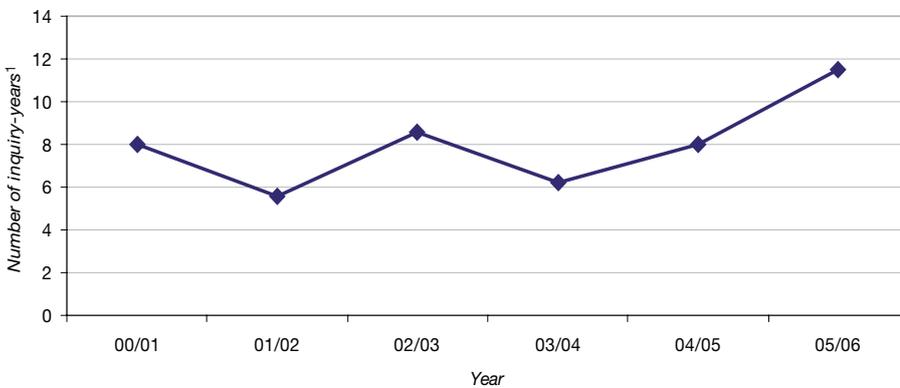
The Enterprise Act has required us to



Martin Stanley
Chief Executive

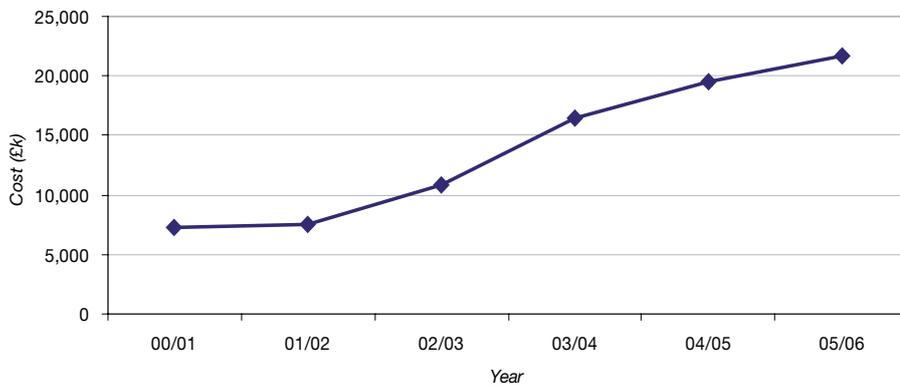
Chief Executive's report (continued)

FIGURE 1 Annual workload



introduce a number of time-consuming processes which have greatly improved the robustness and transparency of our analysis, but which have made it much harder to complete inquiries—and particularly market investigations—within reasonable timescales. But we have improved our project management and have learnt a number of useful lessons from the first few market investigations, so we are quietly confident that we will complete at least some of our future investigations well within the two-year time limit.

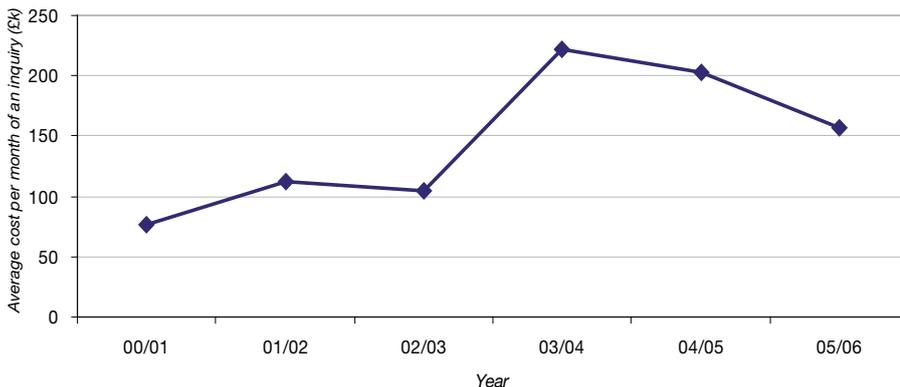
FIGURE 2 CC costs



Burdens on business

We seek to minimize the burdens we place on business by working quickly and efficiently. We aim to achieve a balance between the speed of our inquiries, and their thoroughness and fairness: we consider it is very important that we consult interested parties and have transparent procedures. While the earlier part of this report concentrates on our own cost-savings, we believe that our improved efficiency will also lead to cost savings and other benefits for parties to inquiries, for instance by requesting information in electronic rather than paper format, and by conducting fewer hearings. Concluding inquiries more quickly will also free senior managers to concentrate on running their businesses. We have been discussing with the Department for Trade and Industry (DTI) and the OFT how the market investigation regime can be made to work most effectively within the framework for enforcement of EU competition rules. One option under consideration is for the CC to be designated to apply Articles 81 and 82 where relevant in the course of a market investigation.

FIGURE 3 Cost per inquiry month



Relations with companies and their advisers

In order to complete our inquiries within the tight timescales we set ourselves, and ensure that we reach robust decisions which take full account of all relevant evidence, we need full cooperation from the parties involved in our investigations. This includes, for example, timely provision of accurate information in response to questionnaires and in oral hearings. In general, we find we get excellent cooperation from parties to our investigations and they keep in touch with us if there are likely to be any problems. But where we do not get the information we need within appropriate timescales, it can impede our processes and have an adverse effect on other parties to an investigation. If parties do not respond to informal requests, we are ready to use the extensive formal powers given to us to

facilitate the conduct of our investigations.

Thus, on several occasions in the past few months, we have issued formal notices under section 109 of the Enterprise Act 2002, requiring supply of information or attendance of witnesses. Moreover, where we have had reason to believe that information provided to us has been incomplete or inaccurate we have conducted a full investigation and required explanations.

We have also taken action in respect of actual, or suspected, breach of interim undertakings put in place to safeguard the position pending completion of our investigation.

Effectiveness

In order to take forward the initiatives outlined above, we have established a

number of work streams, each supervised by a Council subgroup and charged with evaluating the quality and effectiveness of various aspects of our work, and achieving continuous improvement. In 2005/06, projects taken forward by the work stream groups included efficiency savings in Corporate Services, new approaches resulting from a review of our procedures in the first two weeks of inquiries, research on the effectiveness of remedies we impose, and development of new streamlined ways of working on less complex merger inquiries. Summaries from those involved in each work stream can be found in the following section.

The role of the CC

The CC is an independent non-departmental public body. The CC conducts in-depth inquiries into mergers, markets and the regulation of the major regulated industries (relating to sectors such as utilities, postal services, railways, airports, air traffic control and financial services).

Most inquiries are undertaken in response to a reference made to the CC by another authority: usually the Office of Fair Trading (OFT) but in certain circumstances the Secretary of State, or by the regulators under sector-specific legislative provisions relating to regulated industries. The CC also conducts appeals in respect of modifications to the codes covering the energy industry. The CC has no power to conduct inquiries on its own initiative. It undertakes inquiries only where serious competition problems are thought to exist: the OFT investigates around 200 mergers a year, of which it refers around 15 cases to the CC. If the CC finds there is a

substantial lessening of competition resulting from a merger, or that features in a market cause an adverse effect on competition, it can seek to remedy the problems identified, for example by blocking a merger, requiring a firm to adopt certain forms of behaviour or requiring a firm to divest some of its functions.

Each inquiry is undertaken by a group of members, who are supported by staff. Members are appointed by the Secretary of State for Trade and Industry for an eight-year term following an open competition. They are appointed for their individual experience, ability and diversity of background, not as representatives of particular organizations, interests or political parties. The Chairman of the CC is also a member of the CC and chairs the Council (the strategic management board). The Council also includes the Deputy Chairmen, the Chief Executive, and two non-Executive Council members.

CC work in 2005/06

In April 2005, the CC agreed the following key performance indicators (KPIs) with the DTI:

- to monitor the level of satisfaction of the CC's stakeholders as surveyed annually by an independent third party;
- to commission a peer review, which assesses the CC's performance against the objectives of being a world-class competition authority and carried out by independent consultants (every three years; the next one is due in 2006/07); and
- to monitor the CC's financial performance as measured by budget compliance, and progress in achieving annual efficiency improvements.

The CC conducted a pilot survey with the DTI to understand our stakeholders' views. The results concluded that users are positive about our performance: both how we work and what we produce, and note that we are encouraged to improve the dissemination of information about our activities. The survey will be repeated, with a larger sample size, in the next financial year.

The Corporate Plan 2005/06 divided the CC's work into six work streams:

- investigations;
- resources;
- analysis;
- remedies;
- process; and
- contribution to the competition regime.

We use these work streams to identify and manage the operational objectives of the CC. The next section reports on the key issues being addressed by the work stream groups and the main outcomes achieved this year; the table at the beginning of each work stream contains the highlights of the year.

Work stream 1

Objective: To carry out investigations and publish decisions within the time limits

Key issues for 2005/06	Outcome
To maintain average 15 weeks to publication of Provisional Findings on merger inquiries	Average 16.4 weeks to Provisional Findings
No more than one or two extensions for merger inquiries in the year	One extension (merger inquiry into proposed London Stock Exchange mergers)
Market investigations to be completed within 24-month statutory timetable	One market investigation completed within 24 months: Store Cards

Numbers and types of references

The majority of the CC's resources are devoted to carrying out in-depth investigations of matters referred to it by the OFT and the economic regulators. A significant feature of the CC's workload is its unpredictable nature, as shown in Figure 1 covering the past five years. Figure 1 summarizes the number of active inquiries year by year. No regulatory inquiries and no Energy Code Modification Appeals were received by the CC during the course of the financial year.

Market investigations

The CC published its first market investigation report, into Store Cards, at the beginning of March 2006. As a result, the parties will implement a variety of measures over the next year. At the end of the financial year, March 2006, the CC was working on a further four investigations—supply of bulk liquefied petroleum gas (LPG) for domestic use; home credit; classified directory advertising services; and personal current account banking services in Northern Ireland. In May 2006, the CC began a market investigation into the groceries market. The CC has published its Provisional Findings in relation to the LPG investigation, and its Emerging Thinking document on the investigations into home credit and classified directory advertising services during the financial year.

Merger investigations

Table 1 indicates the number of merger inquiries for 2005/06. The references related to a range of sectors from electronic document



TABLE 1		
Work load	No. of inquiries	Outcome
Merger inquiries received 2005/06	17	
Merger inquiries carried over to 2004/05	5	
Merger inquiries cancelled in 2005/06	6	
Merger inquiries completed in 2005/06	11	4 SLC found
Merger inquiries carried into 2006/07	5	

interchange to bus and train routes. Figure 4 shows a clear upward trend in the annual merger reference rate over the past five years; although since the year end, the number of referrals has declined.

The average time taken during the year to publish provisional findings on merger references was 16.4 weeks. There was an extension to the statutory time limit to report on the merger references relating to the London Stock Exchange. The CC's decisions on the Somerfield/Wm Morrison Supermarkets merger inquiry were the subject of a judicial review by the CAT, brought by Somerfield. The CAT dismissed Somerfield's application.

Of the 11 inquiries reported, the CC found a substantial lessening of competition (SLC) in four cases, and seven mergers were cleared. The CC put in place structural or behavioural remedies in all cases; no mergers were blocked completely. At the end of March, undertakings were being negotiated for one case. Figure 5 shows the clearance rate¹ of mergers. The key points from published reports are given on pages 16 to 28 and a full list is shown on page 29.

FIGURE 4 Annualized referral rates of mergers²

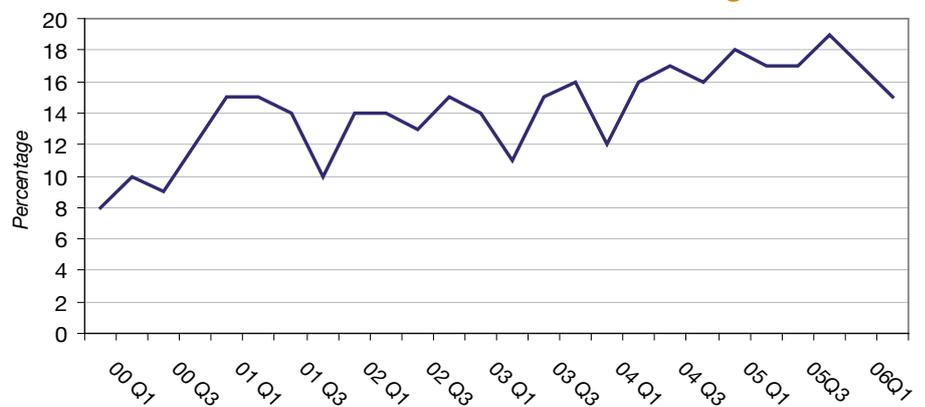
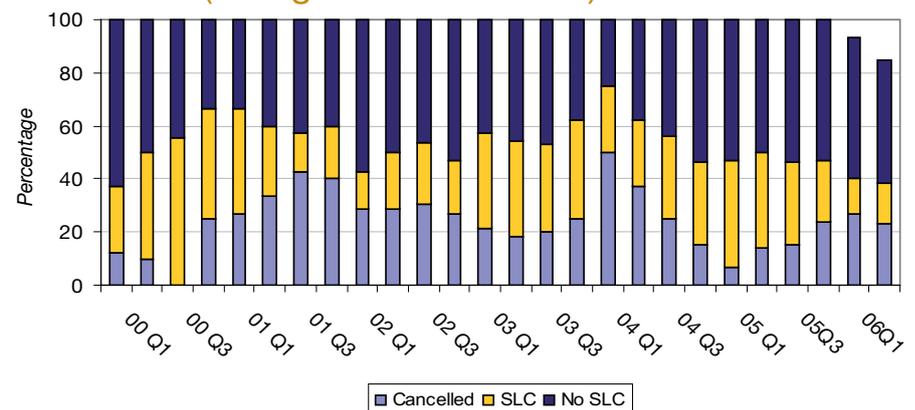


FIGURE 5 Percentage of cleared references (rolling 12-month totals)



1 The clearance rate is defined as the number of completed inquiries in which there was no finding of an SLC, compared with all mergers referred to us.

2 The LSE inquiry was two referrals; the Greater Western Franchise was three referrals.

CC work in 2005/06 (continued)

Work stream 2

Objective: The CC will make efficient and effective use of all its resources; have high quality staff and a safe and healthy working environment.

Key issues for 2005/06	Outcome
To make 10 per cent savings on 2005/06 budget by 2008	Compared with 2005/06, accommodation project forecast to save £623,000 per annum; Corporate Services forecast to save £433,000 per annum for 2006/07 and beyond
Review the current pay and performance system	Results included new performance assessment criteria, Child Care Voucher Scheme, bonus scheme and a revised standard setting and moderating process
Roll out Electronic Document and Records Management (EDRM) and full review of the project	<ul style="list-style-type: none"> Roll out of EDRM completed March 2006 IT service department received ISO 20,000 accreditation
Safe and healthy working environment	<ul style="list-style-type: none"> Staff survey led to focus groups and a management development programme
Good internal communications	<ul style="list-style-type: none"> carried out a benchmarking survey Human Resources department now runs internal communications, and has reviewed the Chief Executive's seminar and introduced a weekly bulletin email update to all staff

Efficiency savings and budgets

The CC has continued successfully to achieve efficiency savings in 2005/06. We have managed the savings by reducing the office space required, restructuring within the Corporate Services Directorate to improve service delivery and performance, introducing improved information systems for remote working and introducing the EDRM system.

Two Efficiency Projects remained under way at the end of the financial year: the procurement project (which aims to establish systems, policies and procedures to save money on the procurement budget) and the Inquiry Ways of Working project which aims to achieve more effective and efficient working on inquiries. One element of this project is the development of a simpler process on certain merger inquiries, which we estimate may save the CC around £100,000 per merger and has the potential to reduce the burdens on parties.

Market conditions mean little progress has been made in reducing our financial liabilities by disposing of space in the CC's former office, New Court. Given the difficulty of leasing the space, the basis of the provision for New Court has been reviewed for the financial year to 31 March 2006. Previously, a three-year view was taken, but the decision has been altered to consider the full term of the lease to 2012. As a result, the provision has been increased to £4.8 million as of 31 March 2006, having risen from £3.6 million as of 31 March 2005.

Financial reporting on budgetary compliance and unit costs continues every month.

Information Technology

The CC is committed to providing high quality Information Technology, providing effective support to the work of staff and members.

The EDRM system has been implemented and is being used effectively by all new inquiries; it will be reviewed in 2006/07.

In February 2006, the CC successfully met the ISO 20,000 standard for providing IT support. It encourages coordination, integration and implementation of service management processes, therefore leading to ongoing control, greater efficiency and opportunities for continual improvement.

The CC's remote working infrastructure has been upgraded this year. CC staff and members can now work securely and more flexibly and effectively using laptops both externally and through a wireless connection within our offices.

Our people and the working environment

The CC employs just under 180 staff, who provide the expert support to members working on inquiries, and ensure that

the organization runs smoothly. A breakdown of staff diversity, numbers and people is in the Management Commentary (paragraph 2, page 34). The CC continues to promote a diverse workforce and a Diversity Report was delivered to the Executive Group (management team) in 2005.

The CC is committed to ensuring its pay and performance system attracts and retains high-quality staff by rewarding and incentivizing them appropriately. This year, the CC updated its performance assessment criteria and procedures, and successfully introduced a Child Care Voucher scheme. We have started work to review our current flexitime and flexible working arrangements. We are currently considering further improvements to the pay and performance system, such as introducing a non-pay-based reward strategy and a revised bonus system.

The project to provide feedback on Council members' performance has been deferred until late 2006/07 due to the recruitment of new Council members. However, feedback for Reporting Panel members began in January 2006 and so far has been very successful.

In order to provide efficient support for staff training needs, the CC has tendered for a managed service to cover training administration and delivery of the management development programme. The robust, but lengthy, EU tender process was completed in April 2006. It will allow HR staff to focus on coaching and career or succession planning, which will add greater value to the future of the CC.

We ran the first staff 'well-being' survey in October 2005. The purpose of the survey was to collect information on well-being and stress and gain feedback on staff readiness to change. The survey results are very encouraging and show that 84 per cent of the respondents have a positive feeling about the organization. The survey naturally identified a few areas in which we could improve, which are being tackled through focus groups, the Management Development Programme and improved internal communications.

Work stream 3

Objective: to ensure that the CC makes the right decisions

Key issues for 2005/06	Outcome
Establish Analysis Group to coordinate analysis of issues arising in inquiries and to commission research	Issues arising in mergers and through research assessed and disseminated by Analysis Group
Internal discussion group of staff and some members continues to 'brainstorm' key issues of relevance to multiple inquiries	Topics reviewed by discussion group include: <ul style="list-style-type: none"> • market definition • the counterfactual in merger inquiries • consumer choice • pricing institutions • the use of customer surveys
Analytical procedures review of first two weeks of inquiries	Results of the review are being put into practice, a clearer hypothesis approach is now used
Analytical procedures review of quantitative techniques in inquiries	In progress: will be reported in 2006
Ex post review of past CC inquiries and ongoing reviews of completed inquiries	Draft report on four past inquiries completed for internal review. Established procedure for internal review of every completed inquiry, and applied from Autumn 05 onwards
Review of surveys in inquiries	Completed. Internal report published and presented to members and staff

Although all inquiry groups are independent from each other, they take into account guidance, guidelines and prior experience of similar issues and industries. The CC accordingly:

- reviews and evaluates its overall effectiveness; and
- reviews and evaluates the appropriateness of its earlier decisions.

CC work in 2005/06 (continued)

Then, if appropriate, it modifies its analysis, which can involve modifying its guidance and guidelines. It also publishes material to help stakeholders and others understand how the CC reaches its decisions.

Internal staff and members' Analysis Group established

The CC established a new committee in 2005, the 'Analysis Group', with an overall aim of improving the quality of the CC's (non-remedies) decision-making. The Analysis Group considers matters arising in inquiries and has responsibility for evaluation.

It considered how to treat potential competition from outside the relevant market in merger inquiries, following the London Stock Exchange case. In addition, issues of recurrent importance are discussed in a wider 'brainstorming' forum, attended by all interested staff and sometimes by members. Topics covered in 2005/06 included market definition, the counterfactual in merger inquiries, consumer choice, pricing institutions and the use of customer surveys.

As for evaluation, in 2005/06, the CC continued to work to evaluate its own performance and, where feasible, sought to quantify the value of the decisions that it takes, in the interests of consumers. Some of this work was backward-looking, examining decisions made on past cases, but we established a procedure of estimating the damage to consumers remedied in each of our adverse findings (mergers and markets) on completion of each case.

Analytical procedures review of first two weeks of inquiries

Externally, NERA Economic Consulting completed the first in what will be a series of 'analytical procedures reviews', looking at past CC cases to determine whether the analysis could have been improved. This first review focused on the staff economists' work in the 'first two weeks' of a merger inquiry. It concluded that the CC could adopt a clearer 'hypothesis-based approach', in which the theories of harm (ways in which the merger might result in an SLC) are identified early, along with a research programme to prove or disprove each such hypothesis. The approach is now being followed in merger inquiries.

Analytical procedures review of quantitative techniques in inquiries

The Analysis Group agreed to commission an external review to

identify missed opportunities for quantitative analysis in CC merger inquiries. An invitation to tender will be sent to consultants and academic economists in 2006/07.

Ex post review of CC inquiries

Internally, we continued our work assessing the quality of decision-making on our main findings and on remedies in several past CC inquiries. This work builds on the external review conducted by PricewaterhouseCoopers in 2004/05, following a similar methodology to reassess several merger and other inquiries completed by the CC before the Enterprise Act came into effect. The separate studies on the main findings and remedies will be published in 2006.

Post-inquiry reviews

After every inquiry, members, staff and parties are invited to comment on our analysis and procedures and a paper is prepared by the Inquiry Director. This is discussed at a meeting of senior staff; the lessons learned are reviewed by the Analysis Group. The economists' team also review data collection and economic analysis at the end of each case.

Work stream 4

Objective: to ensure the CC takes the right remedial action

Key issues for 2005/06	Outcome
Research the effectiveness of remedies	Conducted throughout the year and presented to Remedies Standing Group in January 2006
International Competition Network (ICN) Remedies study	Presented to the ICN meeting in Bonn in June 05 and was well received
Training: members and staff	Induction and update training provided at intervals during the year
To revise and publish guidance on remedies	Revised guidance on interim measures and interim undertakings published February 2006

The CC's Remedies Standing Group aims to develop the CC's remedies approach in the light of experience, research and changes in international practice. It reviews learning points arising on remedies from current inquiries and seeks to ensure that members and staff are fully conversant with the CC's evolving approach to remedies.

In 2005/06, the CC's inquiry into the proposed acquisition of London Stock Exchange resulted in Deutsche Börse AG and Euronext NV agreeing packages of structural and behavioural remedies with the CC. These measures were widely supported by market participants and sought to remove the prospective acquirers' ability and incentive to foreclose entry and expansion in equities trading services.

During the year, the CC imposed divestiture remedies in the Somerfield/Wm Morrison Supermarkets and Vue Entertainment Holdings (UK)/A3 Cinema inquiries. In the former case, Somerfield appealed to the CAT regarding certain aspects of the CC's decisions on remedies. The CAT upheld the CC's approach to remedies and dismissed Somerfield's application for review.

In March, the CC published its final report into Store Cards. This included the first set of remedies to be determined by the CC for

a market investigation under the Enterprise Act. The remedies comprise a range of measures which will facilitate greater competition and informed customer choice in the store cards market.

Research the effectiveness of remedies

The CC continually strives to improve the effectiveness of its approach to remedies. To this end, the CC completed research into a number of past cases during the year to ascertain whether remedies had worked as expected. The results were presented to the Remedies Standing Group and will be circulated more widely in 2006/07.

ICN Remedies study

This study provides a practical guide outlining the key principles and range of tools for use in merger remedies. The study also includes ten case studies drawn from around the world which illustrate key factors in choice and implementation of remedies. The study was well received when presented at the Bonn 2005 conference.

Training of members and staff

This year, attention was given to improve the information and training members received to understand the remedies process. Presentations and workshops were conducted for members, and staff training is planned for 2006/07.

Publication of revised guidance

In addition, as inquiries were completed, learning points were identified and incorporated in the CC's procedures. One of the results of this process was the publication of revised guidance for interim measures and interim undertakings. Further guidance to clarify the CC's approach to remedies is planned for later in 2006/07.

CC work in 2005/06 (continued)

Work stream 5

Objective: To ensure the CC has first class procedures that will enable it to conduct inquiries efficiently and effectively, to be fair to all parties, transparent and consultative

Key issues for 2005/06	Outcome
Implementation of a streamlined procedure for less complex merger cases	Processes have been developed and are currently being piloted
Use of formal information-gathering powers in mergers	CC concluded it should use formal powers as soon as it encounters unreasonable delay or obstruction, but not as a matter of course. This year it has used its powers on several merger inquiries
Tackle the provision of incomplete or misleading information in mergers	Cases in which incomplete information appeared to have been provided have been investigated
Capture procedural lessons from inquiries	The feedback process after each inquiry identifies any procedural issues which have arisen during the inquiry and recommendations for improvements
Assess market investigation procedures	The CC has begun to discuss improvements to market investigations, and will make further progress in 2006/07
Review of Energy Code Modifications and Communications Act price control appeals	No cases received in 2005/06

Conduct of merger investigations

The CC has continued to keep under review its procedures for handling merger investigations. Three particular areas of focus have been:

(a) Implementing a streamlined procedure for less complex cases

We recognize that our procedures can impose a significant burden on parties. As a publicly-funded body, we are also

committed to ensuring that we provide value for money. We have been considering ways to simplify the procedure for conducting investigations into less complex transactions (typically smaller cases or those which raise only a few clear issues).

The CC is currently piloting simplification measures (including asking parties whether they would like us to rely on material they have already submitted to the OFT to avoid duplication, a reduced number of hearings, an early focus on key issues, and a smaller CC staff team). If these prove successful in reducing the cost and burdens both for parties and for the CC, then a simplified investigation procedure will be reflected in revised guidance which will be the subject of consultation.

(b) Assessing use of formal information-gathering powers

The CC has been reviewing whether it should make more systematic use of its formal powers to require production of information under section 109 of the Enterprise Act 2002. This is partly a response to delays in provision of information and a tendency of some parties to investigations not to exercise proper care to ensure the provision of full and accurate information. The CC has concluded that for the time being it will not use its formal powers as a matter of course, but will use them as soon as it encounters unreasonable delay or obstruction. In accordance with this policy, the CC has issued formal notices (which carry penalties for non-compliance) to third parties in several recent merger inquiries.

(c) Tackling provision of incomplete or misleading information

The CC has taken steps to investigate several cases in which parties to merger investigations appeared to have supplied incomplete or inaccurate information in hearings or in written submissions and responses. The deliberate or reckless provision of false or misleading information to the CC can constitute a criminal offence. The CC will seek explanations from parties and their legal advisers where it has grounds to suspect that it has been misled and will consider the case for prosecution where this appears to be warranted.

The review and feedback process conducted after each inquiry identifies any procedural issues which have arisen during the inquiry and any recommendations from members or staff for improvements to practice. These are discussed by the Practices and Procedures Group, a Committee of members and staff established during the course of 2005 to exercise supervision

of the practices and procedures work stream under the overall direction of the Council.

Market investigation procedures

The CC has started to evaluate the conduct of its initial market investigations, looking in particular at methods of ensuring transparency without imposing undue burdens, the stages of investigations and the purpose and value of the various key documents which the CC issues during an investigation.

Work stream 6

Objective: the CC will contribute effectively to the development of competition policy and practice in the UK and internationally

Key issues for 2005/06	Outcome
Work with OFT, DTI and HM Treasury to review and improve the Enterprise Act regime	Improved interface with the OFT before a reference is made, during consideration of remedies and after the CC has reported
Increase the CC's participation in international competition organizations and links with overseas competition authorities	The CC has made significant and worthwhile contributions to the ICN and OECD Competition Committee round tables. The CC participated in the United Nations Conference on Trade and Development's annual conference for the first time. Bilateral visits have been made to authorities in Europe and the United States and CC staff have provided assistance to newly-established competition authorities
Communicate the benefits of competition	The Chairman and Deputy Chairmen spoke at high profile competition events this year and the CC held two seminars on competition law and policy

Review of the UK competition regime

During 2005, HM Treasury and the DTI led a stock take of the

Enterprise Act regime since its implementation in June 2003. The CC and OFT used the review as an opportunity to discuss ways in which the interface between the two organizations could be improved. The CC now receives more advance warning of the OFT's intention to make a reference so that it is more prepared when an inquiry arrives. Other achievements include the CC becoming more involved in the OFT's procedures for selecting potential market studies and the CC ensuring that the OFT is more fully consulted on remedies that it might put in place.

Participation in public forums on competition issues

The CC has benefited from increased involvement in international competition organizations. The CC co-chaired with the Irish Competition Authority a study on merger remedies within the framework of the ICN. CC staff participated in the OECD roundtable discussions and prepared papers jointly with the OFT, sharing experiences and lessons learnt with other OECD countries. The CC also participated for the first time in the proceedings of the Fifth United Nations Conference to Review Aspects of the set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices.

During 2005, CC staff visited newly-establishing competition authorities in Egypt, India and Albania to share experience of competition case work. The CC has also hosted visits from a wide range of overseas competition authorities, including the Netherlands, Germany, Australia, Japan, South Africa, Nigeria and Kenya.

Communicating the benefits of competition policy and the CC's work

Senior members of the CC frequently speak at events on topical competition issues. The CC held two evening seminars over the past year, which included speeches given by Dr Ulf Böge, Chairman of the Bundeskartellamt (the German competition authority) and Sir John Vickers (former Chairman of the OFT) in the spring. Mario Monti, the former European Competition Commissioner, and Sir Callum McCarthy, Chairman of the Financial Services Authority, gave speeches in the autumn.

Over the coming year, the CC will continue to keep under review the workings of the UK competition regime and in particular the nature of inquiries referred, look to increase its involvement in the work of international competition organizations and, as far as resources allow, share its experience with establishing competition authorities.

Reports published

1 April 2005 to 31 March 2006

Merger inquiries

**Francisco Partners LP and
G International, Inc**

**Somerfield plc and Wm
Morrison Supermarkets plc**

**Bucher Industries AG and
Johnston Sweepers Limited**

**Deutsche Börse AG, Euronext
NV and London Stock
Exchange plc**

**British Salt Limited and New
Cheshire Salt Works Limited**

**Ardagh International Holdings
Limited and Redfearn Glass
Limited (formerly Rexam Glass
Barnsley Limited)**

**Vue Entertainment Holdings
(UK) Ltd and A3 Cinema
Limited**

**National Express Group plc
and Thameslink and Great
Northern franchise**

**FirstGroup plc and the Greater
Western Passenger Rail
franchise**

HJ Heinz and HP Foods

**Market investigation
Store Cards**

During this period 11 reports were published. The following section describes briefly the key points in those reports.

For a full account, refer to the published report available on our website: www.competition-commission.org.uk/rep_pub/reports



Referred
22 March 2005

Published
2 September 2005

Inquiry Group
Diana Guy, Chairman
Dr Diane Coyle
Peter Stoddart FCA
Richard Taylor
Alan Young

Parties
Francisco Partners LP
G International, Inc

Market
Electronic data interchange
(EDI) communications services

Outcome
Clearance

Francisco Partners LP and G International, Inc

There was limited competition between these companies prior to the merger. The CC found that customers would have sufficient viable alternatives for these services that would act as a competitive constraint on the merged company. The merger was cleared.

The inquiry concerned the completed acquisition of G International, Inc's (G International) global EDI VAN business from International Business Machines Corporation (IBM) by Francisco Partners LP, parent of Global eXchange Services, Inc (GXS).

EDI is an electronic tool which was developed in the 1980s to provide a more efficient exchange of business information between trading partners. EDI refers to a specific means of formatting (a message content standard) and transmitting data. Intermediaries, called VANs (value-added networks), were also created in the 1980s to facilitate the EDI process.

Findings

We found that traditional EDI VANs accessed using the Internet and more modern Internet VANs were very similar in nature, and that these were part of the relevant product market as substitution between them was technically feasible and economically viable.

We found that the use of a direct Internet trading relationship using point-to-point Internet EDI based on technologies such as Applicability Statement 2 (AS2) was part of the relevant product market. We also found web EDI (where the interface used by one trading partner is a web page, but the other trading partner can process the transaction automatically) was part of the relevant product market. We decided that,

at present, the relevant geographic market is the UK.

We concluded that before the merger there was limited competition between G International (and resellers of G International's services) and GXS. The direct competition between GXS and G International where it existed was generally for larger customers, but appeared minimal for small customers which tended to follow their trading partners' preferences. The resellers provided some competition for new users of EDI communication services, rather than existing users, which related to only a very small part of the overall market.

We concluded that we expected growth in point-to-point Internet EDI. It was difficult to judge the speed and extent of the likely change. We did not expect rapid movement in the short term, but we did conclude that the possibility of customers switching to this method of interchange would act as a constraint on GXS.

The pre-merger situation was characterized by the presence of one competitor with a very large market share, three with relatively small shares and several other participants with very low market shares. The merger removed one of the three competitors with a relatively small market share.

We identified certain groups of customers that appeared to have viable alternatives.

We considered that for each of these groups (large retailers, software providers to personal lines insurance brokers, and resellers) the existence of these alternatives would be sufficient to ensure that the loss of G International would not have an appreciable effect.

Conclusions

In summary, we found that in those areas where G International would have provided competition, customers will have sufficient viable alternatives to resist any lessening of competition.

We therefore concluded, with two members of the group dissenting, that the merger had not resulted in a substantial lessening of competition in any market or markets in the UK for goods or services.

Outcome

We cleared the acquisition.

Referred
23 March 2005

Published
2 September 2005

Inquiry Group
Christopher Clarke, Chairman
Nicholas Garthwaite
Christopher Goodall
Robert Turgoose
Professor Stephen Wilks FCA

Parties
Somersfield plc
Wm Morrison Supermarkets plc

Market
Retail grocery

Outcome
Undertakings given to remedy
adverse effects



The CC had competition concerns in 12 local markets, with the adverse effects of higher prices to customers or reduction in quality, range or service, and reduction of choice between competing stores. To remedy this, Somersfield was required to divest a store in each of the 12 localities. Somersfield applied to the Competition Appeal Tribunal (CAT) for an order quashing those parts of the report that dealt with divestment but its application was dismissed. This was the first CC decision post Enterprise Act 2002 that was challenged on appeal.

The inquiry concerned the completed acquisition by Somersfield plc (Somersfield) of 115 grocery stores and other assets from Wm Morrison Supermarkets plc (Morrison's). The stores had been owned by Safeway plc before its acquisition by Morrison's in March 2004. Most were mid-range stores, ie between 280 and 1,400 sq metres.

Findings

Somersfield was the fifth-largest operator in the national retail grocery market, with a share of all grocery sales of just under 6 per cent. We had no concerns about the effects of the merger at a national level.

Our competitive assessment took account of the diverse characteristics of mid-range stores and the local markets they served. Our analysis was in two stages. First, we identified the relevant product market as the market for secondary shopping, including top-up and convenience shopping, as distinct from one-stop shopping (ie the main weekly shop). We identified local markets with reference to drive-times of 5 minutes around each of the acquired stores in urban areas and 10 minutes in rural areas. We also examined the effects of the merger in similar areas

around stores that Somersfield already operated at the time of the acquisition, around stores operated by competitors and around population centres and more closely defined areas of population. We selected for further investigation areas where the number of competing fascias (ie multiple grocery retailer brands) had fallen to three or fewer as a result of the merger.

The second stage of the analysis sought to measure the extent of rivalry between the acquired stores under previous ownership and stores already operated by Somersfield in the same local market. We used the results of a consumer survey carried out for us at 56 of the acquired stores to estimate the diversion ratio between the stores, ie the proportion of revenue from customers who would choose another Somersfield store as their alternative in preference to other local stores. We also included diversion to all other stores, and considered evidence on the gross margins of the stores, the potential for price increases or deterioration in quality, range or service after the merger and other evidence on the local markets.

Conclusions

In our provisional findings, we identified

14 stores whose acquisition had, in our view, led to a substantial lessening of competition (SLC). We did not believe we could rely on the prospect of new entry to resolve the lessening of competition in any of these local markets. Somersfield put forward further evidence and arguments which led us to a revised conclusion, namely that the acquisition might be expected to result in an SLC in each of the local markets served by 12 stores. We concluded that Somersfield should be required to divest 12 stores to a suitable purchaser able to maintain and develop the divested store as a viable and active competitor in the relevant local market.

Outcome

On 29 September 2005, Somersfield applied to the CAT for an order quashing those parts of our report that dealt with divestment. In a judgment given on 13 February 2006, the CAT dismissed the application. Undertakings given to divest 12 stores were subsequently agreed with Somersfield (now registered as Somersfield Limited) and accepted by the CC on 9 March 2006.



Bucher Industries AG and Johnston Sweepers Limited

Referred
6 April 2005

Published
15 September 2005

Inquiry Group
Peter Freeman, Chairman
Dr John Collings
Richard Holroyd
Alexander Johnston
Professor David Parker

Parties
Bucher Industries AG
Johnston Sweepers Limited

Market
Outdoor sweepers

Outcome
Clearance

The merger would not weaken competition given the current and likely future market conditions. If the merger had not taken place, it was unlikely that Bucher, assuming that it relaunched in the UK, would have posed any significant competitive constraint on Johnston over the next few years. The CC cleared the acquisition.

The inquiry concerned the completed acquisition of Johnston Sweepers Limited (Johnston) by Bucher Industries AG (Bucher). Prior to the reference being made, the acquisition had been subject to merger control clearances in the UK, Spain and Germany. Clearances were obtained in Spain and Germany and the condition requiring UK clearance was waived by Bucher.

Bucher is a publicly-listed company with its headquarters in Switzerland. One of its business divisions is Bucher Municipal, the largest manufacturer of outdoor sweepers in Europe. Johnston is the largest supplier of outdoor sweepers in the UK.

As this was a completed merger, we obtained on 15 April 2005 interim undertakings requiring Bucher and Johnston to act as separate entities. During the course of the inquiry, we became aware that Bucher had failed to comply with these undertakings and, on 13 July 2005, the CC issued written directions requiring Bucher to put in place a Monitoring Trustee to ensure compliance.

Findings

We defined the relevant markets to be no wider than the supply of outdoor sweepers in the UK.

Had the merger not taken place, we concluded that Johnston would have been sold to one of the trade or non-trade purchasers that had expressed interest during the original sale process. We also concluded that in the absence of the merger Bucher would have made significant efforts to relaunch itself in the UK but we did not expect it to impose a significant constraint on Johnston over the next few years.

We found that barriers to expansion for Bucher appeared to be higher than those for the main and middle-tier incumbents, and some of the recent entrants and smaller players. We noted that when purchasing an outdoor sweeper, buyers generally attached more importance to reliability and performance of sweepers than price. The ability to source sweepers from a UK distributor and the presence of an after-sales service network were also considered to be extremely important. Customers would consider a supplier's reputation in meeting all these criteria. Immediately prior to the merger, Bucher did not have UK distribution arrangements and had achieved very limited sales. We considered that it would take a number of years to overcome these barriers. We therefore concluded that, prior to the merger, Bucher was not a direct competitive constraint on Johnston and

any possible relaunch in the UK by Bucher was not exerting any significant competitive constraint on Johnston at the time of the merger.

Conclusions

We concluded that the merger had not resulted, and may not be expected to result, in any substantial lessening of competition within any market or markets in the UK.

Outcome

The acquisition was cleared.

Referred
29 March 2005

Published
1 November 2005

Inquiry Group
Jeremy Seddon, Chairman¹
Jayne Almond
Professor Alan Gregory FCMA
Dame Barbara Mills DBE QC

Parties
Deutsche Börse AG
Euronext NV
London Stock Exchange plc

Market
On-book equities trading services

Outcome
Undertakings given to remedy adverse effects



The CC found that either merger would make it difficult for other exchanges to compete with LSE in trading UK equities due to both bidders' direct control or influence over the provision of clearing services. Both bidders agreed a package of behavioural and structural undertakings which they would put in place if either were successful in gaining control of LSE.

The inquiry concerned the proposed acquisition of London Stock Exchange plc (LSE) by Deutsche Börse AG (DBAG) or Euronext NV (Euronext) (two separate references, each sent to the CC on 29 March). DBAG, a German company listed on the Frankfurt Stock Exchange, operated a vertically-integrated business model in Germany, trading equities mainly on its electronic platform (Xetra) and then clearing and settling these through two subsidiary companies, Eurex Clearing AG (Eurex Clearing) and Clearstream International SA, respectively. Euronext, a Dutch company listed on the Paris Stock Exchange, also traded equities on its own electronic platform (NSC) but cleared them through LCH.Clearnet Group Limited (LCH.Clearnet) and settled them through both subsidiary and third-party companies. LSE had several platforms for trading equities, including its electronic order book, SETS, and cleared trades through LCH.Clearnet, settling them through CRESTCo.

Findings

We concluded that in terms of trading services, the product market was the provision of on-book equities trading services. The geographic market was defined to include all exchanges placing a competitive constraint on the pricing and behaviour of LSE in the UK through the threat of head-to-head competition, including those in Europe and the USA, in addition to those exchanges competing head-to-head with LSE for UK trading of equities.

We concluded that neither of the proposed mergers would give rise to a substantial lessening of competition (SLC) within the market for on-book equities trading services within the UK, by virtue of the removal of the constraint currently imposed on LSE by DBAG or Euronext alone.

We also concluded that a potential competitor to LSE would be able to access LSE's clearing services in the UK today. However, we concluded that the proposed acquisition of LSE by DBAG may be expected to give rise to an SLC in the market for the provision of on-book equity trading services within the UK because DBAG/LSE would have the incentive and ability to foreclose entry or expansion to other providers of trading services by introducing Eurex Clearing (or another company under DBAG's control or influence) as LSE's provider of clearing services.

We found that Euronext had a 41.5 per cent shareholding in LCH.Clearnet (with its voting rights capped at 24.9 per cent) and four of the 18 board seats. Furthermore, Euronext/LSE would have around two-thirds of LCH.Clearnet's total fee income. We concluded that, as a result, the proposed acquisition of LSE by Euronext may be expected to give rise to an SLC in the market for the provision of on-book equities trading services within the UK because of the ability and incentive to foreclose entry or expansion to other providers of trading services.

Conclusions

We concluded that for DBAG, a remedy combining structural measures, including limits on its shareholding and board representation in any clearing provider it sought to appoint to LSE, together with behavioural commitments was, subject to prior CC approval, the most appropriate remedy.

We concluded that for Euronext, a remedy combining structural measures, including limits on its shareholding and board representation in LCH.Clearnet or any other clearing provider it sought to appoint to LSE, together with behavioural commitments, was the most appropriate remedy.

We concluded that both DBAG and Euronext should be asked to agree undertakings to give effect to these remedies. We considered that this would be possible but, if it was not achieved within a reasonable time period, we proposed giving effect to these remedies by order. In each case, the undertakings or orders must be given prior to the acquisition of LSE by DBAG or Euronext.

Outcome

Following negotiations, undertakings from Euronext and DBAG were accepted and published on 14 and 15 March 2006 respectively.



Referred
26 May 2005

Published
8 November 2005

Inquiry Group
Professor John Baillie,
Chairman
Dr John Collings
Professor Bruce Lyons
Rob Murray
Jonathan Whiticar

Parties
British Salt Ltd
New Cheshire Salt Works Ltd

Market
Vacuum salt

Outcome
Clearance

This merger reduced the number of UK vacuum salt producers from three to two. While this gave rise to concerns, the CC did not find that there was a substantial lessening of competition because New Cheshire Salt Works Limited was likely to have closed by the end of 2006 if the merger had not taken place.

The inquiry concerned the completed acquisition of New Cheshire Salt Works Ltd (NCSW) by British Salt Ltd (British Salt), two of three UK vacuum salt producers.

Findings

Both companies produce salt by the evaporation of brine, pumped from underground deposits, in enclosed pressure vessels. This process results in what is known as vacuum salt. Both companies produce pure dried vacuum salt (PDV—salt with a very low water content and with a wide range of end-uses, including in food) and compacted salt (PDV that is processed to form granules, tablets or blocks, primarily for water softening).

We concluded that the relevant product market was the supply of PDV and compacted salt and that the geographic market was no wider than the UK and the Republic of Ireland.

Our analysis of competition before the merger found a market characterized by high concentration, long-term relationships, little evidence of buyer power, considerable over-capacity, high barriers to entry, and limited competitive constraint from imported salt or UK distributors. We also found that NCSW was competing effectively.

We found that the effect of the merger was to make the market more concentrated. We also concluded that the loss of NCSW as an independent competitor, in a market with only three UK producers and with the other characteristics we identified, could be expected to lead to a loss of competition and to higher prices. We found that importers, distributors, and the third UK producer, Salt Union Ltd, were unlikely to respond to the merger in ways that would reduce this loss of competition.

We did not consider this to be a substantial lessening of competition (SLC) because of the limited period in which NCSW was likely to remain a competitor in this market, had the merger not taken place. The former owners of NCSW had been seeking to exit the business for some time for a range of reasons, one of which was rising energy prices. Our analysis of the effect on the NCSW business of the steep increases in actual and projected gas prices that took place in the second half of 2005 led us to conclude that, in the absence of the merger, it was likely to have closed in late 2006. There would thus have been a period of less than two years from the date of the merger, in which NCSW would have remained as an effective competitor. We also formed the view that the competitive impact of NCSW would have diminished in the run-up to closure as, for example, it sought new customers less aggressively.

Conclusions

We concluded that the acquisition of NCSW by British Salt had not resulted, and may not be expected to result, in an SLC.

Outcome

We cleared the acquisition.

Referred
1 August 2005

Published
20 December 2005

Inquiry Group
Diana Guy, Chairman
Carolán Dobson
Richard Farrant
Professor Michael Waterson
Professor Stephen Wilks FCA

Parties
Ardagh International Holdings Limited
Redfearn Glass Limited

Market
Glass containers

Outcome
Cleared



Ardagh International Holdings Limited and Redfearn Glass Limited

The CC was concerned with the loss of the third-largest independent competitor, which reduced the number of major competitors from four to three. However, a number of factors meant that it could not form an expectation that Ardagh would have the incentive or ability to use its position to the detriment of customers. The merger was cleared.

The inquiry concerned the completed acquisition of Redfearn Glass Limited (Redfearn) by Ardagh International Holdings Limited (Ardagh). Ardagh and Redfearn overlapped in the manufacture of glass containers used in packaging in the food and beverage industries.

Findings

We compared the likely effect of the merger with what might have happened if the merger had not gone ahead. While our analysis suggested that Redfearn was in decline, we saw no evidence that it was likely to have closed or otherwise ceased to compete effectively. We considered that Redfearn would have remained a competitive force in the short to medium term, though possibly as a less strong competitor than before.

We considered the effect of the merger in the light of the patterns of capacity and demand which we expected to occur:

- a period of overcapacity in the market where additional capacity shortly due to be brought on line by another competitor (Quinn Glass) would cause overall productive capacity to exceed demand; and
- a period where the market would have returned to approximate balance.

Where the supply of glass containers exceeds demand, we considered whether the merged company would have the incentive to reduce the amount that it would produce, and whether that incentive had been increased by the merger.

We doubted that Ardagh would attempt to reduce the amount that it produced in order to bring the market back into balance. Ardagh had a viable alternative strategy (to continue to produce efficiently at full capacity and seek to win business from other suppliers) and there was no evidence that Ardagh intended to close down part of its capacity. There was also uncertainty as to the level of overcapacity in the market (and thus the level of capacity reduction necessary to restore balance) and it was difficult to identify with any precision the length of time in which this imbalance would continue.

Where capacity and demand have broadly moved to balance (which we considered would shortly be the case in the market) we might expect that players in the market would have the incentive to increase their prices. This might be the case regardless of the merger.

We considered whether Ardagh would raise prices and tolerate a level of reduced business as a result. Ardagh told us that it

was not realistic for it to act in this manner due to the level of competition from the existing players in the market and the risk of attracting imports.

We considered that, for the foreseeable future, uncertainty on Ardagh's part about the potential reaction by rival manufacturers, including potential importers, reduced Ardagh's incentive to exercise any market power which might arise from the merger. We considered that the threat or reality of a response by other players in the market would be sufficient to resist even a modest price rise by Ardagh, and the threat of an increasing number of imports to constrain a larger one.

Conclusion

The evidence did not support a conclusion that the merger would give rise to a substantial lessening of competition.

Outcome

The acquisition was cleared.



Referred
3 August 2005

Published
22 December 2005

Inquiry Group
Dr Diane Coyle, Chairman
Ivar Grey
Jeremy Peat
Peter Stoddart FCA

Parties
National Express Group plc

Market
Rail and coach passenger
services

Outcome
Clearance

The CC found that, were NEG to acquire the Thameslink and Great Northern rail franchise, it would not expect NEG to raise fares or reduce services on the overlapping routes.

We were asked to investigate the proposed acquisition of the Thameslink and Great Northern (TGN) rail franchise by National Express Group (NEG).

Findings

NEG is among the largest public transport companies in the UK and was one of the five shortlisted bidders for the new TGN rail franchise. The TGN franchise comprises Thameslink, which runs principally between Bedford and Brighton, passing through King's Cross, stations in the City of London, and Gatwick; and Great Northern, which runs from Hertfordshire, Cambridgeshire and Norfolk principally to King's Cross. Thameslink was operated by Govia and Great Northern by a subsidiary of NEG. NEG also runs coach services nationally, and its subsidiary, National Express Limited, operates about three-quarters of the vehicle miles of scheduled coach services in the UK.

Under the Enterprise Act 2002, the award of a rail franchise is regarded as an acquisition of control leading to two or more enterprises ceasing to be distinct. The turnover derived from the Thameslink and Great Northern franchises exceeded £70 million. We concluded that arrangements were in progress or contemplation which, if carried into effect, would result in the creation of a relevant merger situation.

Conclusions

Our analysis focused on the overlaps between the TGN franchise and other rail franchises and coach services operated by NEG. One such overlap concerned the London to Gatwick route where the Thameslink service runs and on which NEG operated the Gatwick Express franchise. We also identified a total of 47 other overlaps.

So far as the London–Gatwick route is concerned, we did not expect there to be any substantial lessening of competition (SLC) as a result of the award of the TGN franchise to NEG. This was because NEG would be constrained by the wider impact of a fare increase on the profitability of the Thameslink route as a whole, and in particular, the effects of regulated fares and of fares on other flows on the route; and by the contractual constraints on changes to levels of service.

We examined each of the remaining overlaps and found that there would be no SLC arising from the merger in respect of any of these flows.

Outcome

The proposed acquisition was cleared. Immediately before we were due to publish our report, the Department for Transport announced that the TGN franchise had been awarded to FirstGroup plc, and not to NEG, from 1 April 2006. As the CC

was close to completing its inquiry when this announcement was made, it decided to publish its final report in order to make use of the work carried out and help participants in any similar future inquiry to understand its approach in this case.

Referred date
23 September 2005

Published date
24 February 2006

Inquiry Group
Dame Barbara Mills DBE QC,
Chairman
Professor John Cubbin
Jill Hill
Professor David Parker
Professor Sudi Sudarsanam

Parties
Vue Entertainment Holdings
(UK) Ltd
A3 Cinema Limited

Market
Cinema exhibition

Outcome
Undertakings given to remedy
adverse effects



In one market, the acquisition removed the only competitor and without this constraint, the CC concluded that there would be higher prices and reduced quality and choice for customers. Vue agreed to sell one of the cinemas to a competitor to preserve choice and competition for local cinema-goers.

The inquiry concerned the completed acquisition of A3 Cinema Limited and its sole operating entity, Ster Century (UK) Limited (together 'Ster'), by Vue Entertainment Holdings (UK) Limited (Vue). Vue and Ster were, formerly, the respective third- and fifth-largest multiplex cinema operators in the UK.

Findings

We considered whether the merger would have any adverse effects at national level. As a result of the acquisition, Vue's national market share had increased by 2.2 per cent to 16 per cent. However, we did not consider that this increase would have a substantial impact on Vue's negotiating position with screen advertisers, contractors and distributors, or the suppliers of food and drink at concession points.

We concluded that the product market was no wider than cinema exhibition and that the geographic market was local.

With regard to the assessment of local impact, we considered the four markets where Vue and Ster were both present pre-merger: Basingstoke, Edinburgh, Leeds and Romford. Without the merger, Ster was likely to have continued as a viable competitor to Vue, either alone, or after a sale to a purchaser other than Vue.

In each of these local markets, we considered cinemas which fell within a 20-minute drive-time isochrone of the acquired cinema (an area within which it is possible to drive to the cinema in 20 minutes or fewer). Vue argued that it also competed with other cinemas, outside the isochrone, so these were also considered as part of our analysis.

We found that only the Basingstoke market would experience a substantial lessening of competition (SLC)—the acquisition resulted in two cinemas separated by just 1.5 miles coming under common ownership. These cinemas shared the same customer catchment area and, before the acquisition, were in direct competition with each other. As such, the acquisition removed the strongest, and only substantial, competitor in the Basingstoke area and created a monopoly in that local area.

We were not satisfied that there were any competitive constraints on Vue which might offset the adverse effects of the acquisition or any actual or potential countervailing buyer power.

Conclusions

We concluded that the SLC that would result from the merger would lead to higher prices and reduced quality for customers in the local Basingstoke market. We also

determined that ultimately, Vue would, in all likelihood, close the cinema at one site, or change its use, and that this would reduce choice for local cinema-goers.

We considered both behavioural remedies and divestment. However, we decided that only divestment would remedy the SLC and the three adverse effects identified.

Accordingly, we required Vue to sell either of the two cinemas in the Basingstoke area. As part of this requirement, it was stipulated that the cinema to be divested must be sold to a cinema operator with the resources, expertise, incentive and business plan to operate it as a multiplex cinema showing mainstream films.

Outcome

Following publication of the report, Vue undertook to sell one cinema in Basingstoke to a purchaser approved by the CC.



Referred

30 September 2005

Published

8 March 2006

Inquiry Group

Diana Guy, Chairman
Barbara Donoghue
Professor Mahendra Raj
Anthony Stern
Richard Taylor

Parties

FirstGroup plc

Market

Rail and bus passenger
services

Outcome

Clearance

The CC's analysis found only a few routes where there was scope for competition between buses and trains. It concluded that the profit incentive was very small for a bus and train operator to shift passengers from bus to rail by raising fares or altering services.

We were asked on 30 September 2005 to investigate the proposed acquisition by FirstGroup plc (FirstGroup) of the new Greater Western Passenger Rail franchise (GWF). The GWF would consist of the former Great Western and Great Western Link franchises (both already operated by FirstGroup) and the Wessex Trains franchise, operated at the time of the reference by National Express Group plc. On 13 December 2005, the Department for Transport announced that the franchise had been awarded to FirstGroup.

Findings

In order to establish whether the merger would result in a substantial lessening of competition (SLC), we had to consider what might be expected to happen in the absence of the merger (the counterfactual). We concluded that the appropriate counterfactual in this case was that the services would be operated by another train operating company with no competition problems.

We concluded that it was appropriate to consider point-to-point journeys (flows) within the GWF area as relevant markets, while also having regard to wider network markets. We heard arguments that competition to bus and rail services on such flows was primarily from the private car. We recognized that in general the evidence on elasticities—that is, the extent

to which, for example, demand for a bus or rail service would respond to an increase in price—suggest that there may be separate markets for different modes of transport. We noted, however, that elasticities can vary by geographic area and type of passenger, which means that bus, rail and other types of transport may compete in the same market on specific flows. This led us to take account of alternative modes of transport, including private transport, in our assessment of the competitive effects of the merger on individual flows.

Most of the parties who submitted evidence to us believed that the merger would not give rise to concern, but some were worried that it would result in some reduction in competition between bus and rail.

We considered the extent of overlaps between the GWF and FirstGroup's bus services. We undertook financial modelling of the effect of the merger on the incentive to increase bus fares or reduce bus frequencies on the overlapping flows, and we also assessed the extent of competition and the effects of the merger on each of the main overlap flows.

We found that on most of the flows we considered, bus and rail services to a large extent had different characteristics and met different passenger needs. We

identified only nine routes at most where there was likely to be competition between bus and rail. These were certain routes in South Wales, Cornwall and Devon, and between Bristol and Bath and Bristol and Weston-super-Mare. However, our analysis indicated that the profit incentive to raise fares or reduce frequencies on those routes, or on flows within them, was not great enough to lead FirstGroup to adopt such a strategy, especially as there were uncertainties as to both the short- and longer-term effects of doing so.

We noted that the franchise agreement required FirstGroup to promote transport integration in a number of ways. We did not therefore expect the merger to have adverse effects on multi-modal, multi-operator ticketing schemes or the provision of information about bus services at rail stations.

Conclusions

We concluded that the merger might not be expected to result in an SLC on point-to-point journeys or wider network markets in the GWF area.

Outcome

FirstGroup ran passenger train services under the GWF from 1 April 2006.

Store Cards

Weak competitive pressure on store card APRs and store card insurance premiums allowed credit providers and retailers to keep these at higher levels than were justified by costs. Consumers therefore paid at least £55 million a year more than they should. The CC’s remedies aimed to generate competitive pressures on the setting of APR levels and the choice of insurance cover.

The inquiry into store cards—plastic cards used for payment or credit, useable only in the issuing retailers’ stores and providing associated retail benefits—involved some 70 retailers operating store card services, and six main store card credit providers: Arg Card Services Ltd, Creation Financial Services Limited, General Electric Consumer Finance UK, HSBC Group, Ikano Financial Services Limited and Style Financial Services Limited.

We found that about 11.5 million consumers used store cards. Just over half of these paid interest, the rest settling their account in full on the due date. The average balance across all store cards was about £150. We noted that most of those paying interest also had access to other sources of credit and most of them held at least one credit card.

We recognized that the store card market had declined and that, during the course of the inquiry—and partly under the stimulus of the inquiry—it had seen extensive changes, notably with the introduction of programmes with low APRs (annual percentage rate of the total charge for credit) or with different levels of APRs, based on risk assessments of the cardholders. But, despite these developments, we considered the traditional store card sector remained important for retailers and credit providers.

Findings

We identified two markets: an ‘upstream market’ for the supply of store card credit services by financial companies to retailers and of related services including insurance; and a ‘downstream market’ for the supply of consumer credit through store cards and of associated insurance.

Though we found that the upstream market was competitive, we found that this had not translated into lower APRs and wider choice and better terms for insurance cover:

- providers and retailers had little incentive to reduce APRs, late fees or insurance premiums. Retailers’ negotiating power had strengthened over recent years, but they had concentrated on securing larger payments from the providers rather than passing on lower costs to cardholders. It was found, however, that retailers did not want their store card APRs to be markedly out of line with those of competitors and this had helped prevent APRs from rising;
- cardholders tended to be insensitive to the level of APRs, late fees and insurance premiums; many were led to take out store cards to obtain the retail benefits rather than the credit;
- different types of store card insurance (covering payments, price and purchase protection) were often sold in single packages and this gave cardholders less choice in taking out cover;
- credit providers did not include sufficient information on store card statements; cardholders often took credit or insurance on terms that were not clear to them; and
- credit cards did not compete with store cards nor did store cards compete with each other.

In consequence, APRs had been significantly higher than they would have been in a competitive market. Average store card APRs had been some 26.5 per cent, compared with our



Referred
18 March 2004

Published
7 March 2006

Inquiry Group
Christopher Clarke, Chairman¹
Professor Cosmo Graham
Peter Hazell
Robert Turgoose

Parties
Six store card credit providers
and some 70 retailers

Market
Store card credit services to
retailers and consumer credit
through store cards

Outcome
Adverse effects on competition
found and remedied

calculation of cost-reflective APRs of some 22 to 24 per cent. Despite significant developments in the market, we thought most APRs were likely to remain higher than 25 per cent for some time. We calculated that the cost of high APRs and insurance premiums to consumers had been high; over the period since 1999, the excess charges had totalled £55 million or more a year.

Conclusion

Consumer credit services provided through store cards were insulated from the competitive pressures from credit cards that would otherwise be exerted. Associated insurance was similarly insulated from competition. Insulating these credit and insurance services in this way had an adverse effect on competition within the meaning of the Enterprise Act 2002.

Remedies

We considered that recent measures introduced by government, regulatory bodies and the finance industry would not deal with the adverse effect on competition we had identified. The following remedies would therefore be introduced (through an Order):

- (a) certain key information must be prominently displayed on the front page of statements. This includes the current APR on purchases, an estimate of the interest payable next month if only the minimum amount is paid; a minimum payments warning; the basis for insurance charges. Other information—for example, information on late payment or default charges, and other interest rates, if applicable—must be shown, but may be displayed on the reverse of the statement;
- (b) an ‘APR warning’ must be prominently displayed on monthly statements for accounts with APRs of 25 per cent or more; it states that the rate of interest may be higher than that on other sources of credit the cardholder could arrange;
- (c) providers must provide an option for direct debit payments and this should be displayed in monthly statements; and
- (d) providers offering insurance packages containing payment,

price and purchase protection must also offer as separate items (i) payment protection cover alone and (ii) a package of price and purchase protection. Where different types of insurance packages are offered, they should also offer payment protection insurance separately.

Outcome

Remedies will be put into place by an Order. We are currently consulting on the Order, which is due to come into force in early 2007, nine months after it is made.

Referred
26 October 2005

Published
31 March 2006

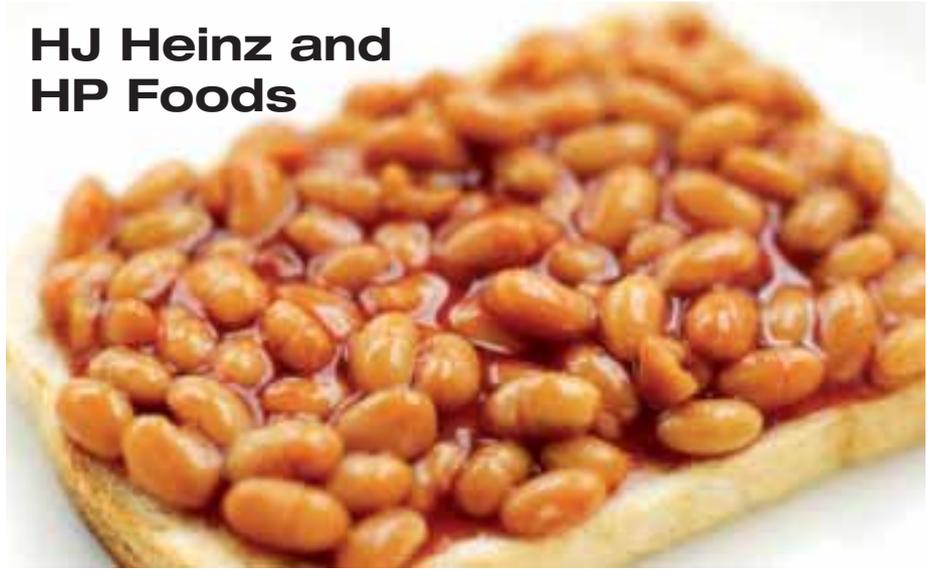
Inquiry Group
Robert Turgoose, Chairman
Christopher Goodall
Professor Cosmo Graham
Rob Murray

Parties
HJ Heinz Company
HP Foods Group

Market
Various food products

Outcome
Clearance

HJ Heinz and HP Foods



There was very limited competition between Heinz and HP products. Where there was some evidence of a competitive constraint between Heinz and HP prior to the merger, barriers to branded entry were low and there was countervailing buyer power.

The inquiry concerned the completed acquisition in August 2005 of HP by Heinz from Danone. Heinz and HP overlapped in the supply of tomato ketchup (ketchup), brown sauce and barbecue sauce. Heinz also produce tinned baked beans and tinned pasta products: HP-branded beans and pasta products were produced by Premier Foods under a licence from HP due to expire in March 2006.

Findings

We identified separate markets for the supply of ketchup, brown sauce, barbecue sauce, tinned baked beans and tinned pasta products to the retail sector (ie supermarkets, convenience stores etc). We also found that the supply of these products to the food service sector (ie cafes, restaurants, institutions, etc) was in a separate market or markets. The geographical market in all cases appeared to be the UK.

We concluded that, had Heinz not acquired HP:

- HP and Heinz would have remained independent participants in the markets we identified; and
- Heinz, which produced brown sauce for the food service market only, would not have introduced a brown sauce product into the retail brown sauce market.

The retail markets for all the products covered by the reference were highly concentrated and, with the exception of the retail brown sauce market, became

more so as a result of the merger.

However, in the retail markets for ketchup, baked beans and tinned pasta products, we did not find competitive constraints operating pre-merger between Heinz and HP brands (Daddies in ketchup, HP in beans and pasta). Nor had the merger increased Heinz's portfolio power or raised the existing high barriers to branded entry into these markets.

In the retail brown sauce market, we considered that HP had perceived Heinz to be a potential competitor. But there were other potential entrants and we did not consider Heinz on its own had exercised a constraint on HP in this market prior to the merger.

In the retail barbecue sauce market, we found some evidence that HP was a competitive constraint on Heinz prior to the merger. However, barriers to branded entry to this market appeared to be low; Heinz and HP market shares had been falling; and there appeared to be buyer power, as barbecue sauce brands were not 'must stock' items for retailers. We saw no evidence that the merger would raise barriers to entry, weaken buyer power or increase the scope for portfolio effects.

In the separate food service market(s), we found that the only significant overlap between Heinz and HP would be in the supply of brown sauce. Most sales of the relevant products were made through

distributors and there was some buyer power due to suppliers bidding for supply agreements, ease of customer switching and the relative unimportance of branding. These factors also led to lower entry barriers than in the equivalent retail markets. We found that pre-merger competition between Heinz and HP did not appear to have been strong. In addition, we did not consider that the merger had increased Heinz's portfolio power or ability to bundle its products in the relevant food service market(s).

We did not expect that the merger would lead to price rises or to a loss of service, product choice, innovation or quality in either the retail or food service markets as a result of actions taken by Heinz on its own.

We found no evidence of coordinated effects in any of the relevant markets and no parties raised any concerns with us as to their possible existence.

Conclusions

We concluded that the acquisition of HP has not resulted, and may not be expected to result, in a substantial lessening of competition in any of the relevant markets through either unilateral or coordinated effects.

Outcome

We cleared the acquisition.

References in the review period

April 2005 to March 2006



Status on 31 March 2006		
Market investigations		
Store Cards	Published	
Supply of bulk liquefied petroleum gas for domestic use	In hand	
Home Credit	In hand	
Classified Directories Advertising Services	In hand	
Personal current account banking services in Northern Ireland	In hand	
Merger inquiries		
FirstGroup plc and the InterCity East Coast franchise	Cancelled	
Francisco Partners LP and G International, Inc	Published	
Somerfield plc and Wm Morrison Supermarkets plc	Published	
Deutsche Börse AG, Euronext NV and London Stock Exchange plc	Published	
Bucher Industries AG and Johnston Sweepers Limited	Published	
Future plc and Highbury House Communications plc	Cancelled	
British Salt Limited and New Cheshire Salt Works Limited	Published	
Ardagh International Holdings Limited and Redfearn Glass Limited	Published	
National Express Group plc and Thameslink and Great Northern franchise	Published	
Vue Entertainment Holdings (UK) Ltd and A3 Cinema Limited	Published	
FirstGroup plc and the Greater Western Passenger Rail franchise	Published	
National Express Group plc and the Greater Western Passenger Rail franchise	Cancelled	
Stagecoach Holdings plc and the Greater Western Passenger Rail franchise	Cancelled	
Macquarie Airports Ltd, Ferrovial Aeropuertos SA and Exeter and Devon Airport Ltd	Cancelled	
Robert Wiseman Dairies plc and Scottish Milk Dairies Limited	Cancelled	
HJ Heinz and HP Foods	Published	
Cott Beverages Ltd and Macaw (Holdings) Limited	In hand	
HMV Group plc and Ottakar's plc	In hand	
EWS Railway Holdings and Marcroft Engineering Limited	In hand	
Stagecoach and Scottish Citylink	In hand	
Safenet inc and nCipher plc	In hand	

Financial Statements of the Competition Commission

For the year ended 31 March 2006



Council report	31
Management commentary	34
Remuneration report	36
Financial statements	39
Notes to the financial statements	47



Council report

1. Format of accounts

These financial statements have been prepared in a form directed by the Secretary of State for Trade and Industry with the consent of the Treasury in accordance with paragraph 12 of Schedule 7 to the Competition Act 1998.

2. Brief history of the Competition Commission and principal activities

The Competition Commission (CC) is an independent public body established by the Competition Act 1998. It replaced the Monopolies and Mergers Commission on 1 April 1999.

The CC conducts in-depth inquiries into mergers and markets in accordance with the Enterprise Act 2002, and the regulation of the major regulated industries in accordance with the legislation governing those industries. Every inquiry is undertaken in response to a reference made to it by another authority: usually by the Office of Fair Trading (OFT) but in certain circumstances the Secretary of State, or by the regulators under sector-specific legislative provisions relating to regulated industries. Since July 2005 the CC has also had jurisdiction to consider appeals against GEMA decisions on modifications of certain energy industry codes. The CC has no power to conduct

inquiries on its own initiative.

3. Council and membership

The CC consists of members, who are supported by staff. The Chairman of the CC is also a member of the CC and chairs the Council (the strategic management board). The Council also includes the Deputy Chairmen, the Chief Executive, and two non-Executive CC members appointed to the Council.

At 31 March 2006 the membership comprised the Chairman, and two Deputy Chairmen, two non-Executives, 51 members of the reporting panel, of whom 20 were also members of the specialist panels (utilities). All members are appointed by the Secretary of State.

The Chairman, Mr Peter Freeman, was appointed from 1 January 2006, replacing Professor Paul Geroski, who died on 28 August 2005. Mr Peter Freeman occupied the role of Deputy Chairman until his appointment as Chairman.

Two members were Deputy Chairmen throughout the year: Mrs Diana Guy and Mr Christopher Clarke. A third Deputy Chairman, Dr Peter Davis, has recently been appointed and will join the CC on 18 September 2006.

There were two non-Executives throughout the year: Mr Tony Foster and Dame Patricia Hodgson.

Mr Martin Stanley was Chief Executive throughout 2005/06.

Each inquiry is conducted by a Group, consisting of three to six members, appointed by the Chairman. Normally there are five members on each group.

The names, responsibilities, biographical details and changes to CC members are given in the Annual Report.

Remuneration details of the CC Council members are disclosed in the Remuneration Report on page 36.

4. Register of members' interests

A register of the outside interests of the CC's Council, and other CC members, is maintained on the CC's public website: www.competition-commission.org.uk.

5. Financial results

The CC's income consists principally of grant-in-aid received from the Department of Trade and Industry (DTI). The CC draws down grant to meet its cash requirements. All other income and expenditure is accounted for on an accruals basis. This

3.1 Members at 31 March 2006

Chairman	1
Deputy Chairmen	2
non-Executives	2
Reporting panel members (includes 20 members also on specialist panels)	51
Total members	56

Council report continued

treatment results in annual surpluses or deficits on an accounting basis.

In 2005/06 the CC had an excess of expenditure over income resulting in a deficit (after interest and taxation) of £1,227,000 (2004/05: deficit £1,957,000). Revenue grant-in-aid received was £21,044,000 (2004/05: £16,534,000). Operating expenditure was £26,388,000 (2004/05: £22,800,000). Capital grant received was £456,000 (2004/05:

£809,000).

6. Financial performance measure

The DTI reviews CC expenditure on the basis of Department Expenditure Limits (DEL). Revenue DEL is operating expenditure plus taxation and cost of capital, less interest receivable and other income receivable.

The table below shows a three-year summary in DEL format including the

forecast for 2006/07.

The following table reconciles the revenue DEL format for 2005/06 with the total expenditure of £26,388,000 shown in the Income and Expenditure account.

The budget set by the DTI for 2005/06 was £23,464,000, made up of revenue expenditure of £22,659,000 and capital expenditure of £805,000. The CC over-spent by £912,000 (3.9 per cent) overall,

6.1 Three-year expenditure summary			
	2004/05 Actual £'000	2005/06 Actual £'000	2006/07 Forecast £'000
Payroll costs	8,903	11,684	10,114
Accommodation costs (net)	4,647	4,408	4,241
Other costs less sundry income	6,170	5,821	6,086
Relocation provision	798	2,007	-
Revenue DEL	20,518	23,920	20,441
Capital expenditure	809	456	820

6.2 Reconciliation of revenue DEL to Income and Expenditure account	
	2005/06 Actual £'000
Revenue DEL	23,920
add:	
income receivable	2,289
interest receivable	250
corporation tax credit	45
deduct:	
cost of capital	(116)
Expenditure per Income and Expenditure account	26,388

mainly as a result of an increased relocation provision and a death-in-service payment due to the estate of the former Chairman. These unbudgeted costs were partly offset by various savings and efficiencies and lower capital expenditure.

The DTI has set efficiency targets for the CC and reduced its 2005/06 budget base by 10 per cent for 2006/07 with no allowance for inflation. The indicative DTI budget for 2006/07 is £21,261,000 made up of revenue expenditure of £20,441,000 and capital expenditure of £820,000. The indicative budget for 2007/08 is also £21,261,000.

7. Income arising from CC activities not reported in the financial statements

There is no further income accruing to the CC from its activities that is not reported in the financial statements.

Under certain of the Acts under which references can be made by sector regulators, a statement of costs incurred by the CC in its inquiries is provided to the appropriate regulator, which is responsible for collecting these costs from the regulated body. The regulators collect these costs and surrender the proceeds to the Consolidated Fund, not to the CC. The CC also provides a statement of the costs of merger inquiries to the OFT, which is responsible for setting the level of merger clearance fees. The OFT includes the CC's costs of merger inquiries in its memorandum trading account used in accounting for merger fees.

8. Payment of creditors

The CC is committed to pay all supplier invoices by the due date or within 30 days of receipt if no due date has been agreed. Throughout the year 92 per cent of relevant invoices were settled within 30 days (2004/05: 90 per cent); 100 per cent is not

achieved mainly due to invoices arriving that do not quote a valid CC purchase order reference. These are not processed for payment until the validation of the respective purchase order is completed.

9. Financial instruments

Please refer to note 27 in the notes to the financial statements.

10. Pension liabilities

Please refer to accounting policy 1(g) and note 21 in the notes to the financial statements.

11. Employee involvement

The CC maintains an open management style and involves staff in the management of change. It has a Staff Council with staff representation from all parts of the organization. This is an important consultative forum for discussing new developments affecting staff. The Chief Executive runs regular seminars to which all staff are invited to hear presentations on issues of interest and to be updated on management changes and raise questions.

12. Employment of disabled people

The CC adheres to the DTI's policy statement set out in its code of practice on the employment of disabled people.

13. Auditor

The CC's annual financial statements are audited by the Comptroller and Auditor General (C&AG). For the year ended 31 March 2006 the cost of work performed was £30,500. The audit services provided by the C&AG's staff in the National Audit Office related only to statutory audit work.

So far as the Accounting Officer is aware, there is no relevant audit information of which the CC's auditors are unaware.

The Accounting Officer has taken all

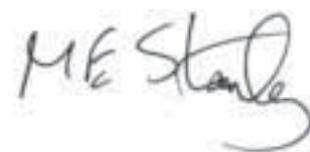
necessary steps to make himself aware of any relevant audit information and to establish that the CC's auditors are aware of that information.

14. Post balance sheet events

There are none to report.

15. Future developments

These are described in the Chairman's Foreword and the Chief Executive's Report in the Annual Report.



Martin Stanley

Chief Executive and Secretary
Accounting Officer
20 June 2006

Management commentary

1. The CC and its external environment

The CC is the Phase II body in the UK's competition framework. It is a purely reactive body, conducting inquiries only after it has received a reference from the OFT, or another regulator with powers to refer to the CC. The OFT conducts initial probes into mergers and markets, and refers cases to the CC where it has a reasonable belief that there might be problems with competition. The OFT considers about 200 mergers a year, of which it refers around 15 cases to the CC; the OFT also refers around three or four market inquiries a year to the CC. Since July 2005 the CC has also had jurisdiction to consider appeals against GEMA decisions on modifications of certain energy industry codes. Other regulators refer intermittently, eg price regulation inquiries.

2. The CC's employees

The CC had 174 employees at the end of March 2006 (173 at the end of March 2005). Staff turnover for the year was 22 per cent (9 per cent of those who left took voluntary redundancy under the Efficiency Programme). The CC looks to recruit high-calibre people from the private and public sector. Currently around 70 per cent of the workforce is from the private sector. The CC continues to promote a diverse workforce. During the year 39 per cent of the new staff appointed were

women and 5.4 per cent were from ethnic minorities; 48 per cent of the CC's most senior staff are women.

3. Environmental matters

The CC is committed to minimizing the environmental impact of our outputs. Up to 96 per cent of all materials are recycled via our nominated supplier Grosvenor Waste, which is an expert in handling recyclables, general and clinical waste.

4. Social and community issues

The CC supports its staff in contributing to society and may grant special leave with pay to employees who act as magistrates, elected members of a local authority or members of health authorities, tribunals, training in youth leadership, Duke of Edinburgh's schemes or other voluntary activity.

5. Key Performance Indicators

In April 2005 the CC set the following KPIs and agreed in conjunction with the DTI to:

- monitor the level of satisfaction of the CC's stakeholders as surveyed annually by an independent third party;
- commission a peer review, which assesses the CC's performance against the objectives of being a world-class competition authority, carried out by independent consultants (every three years; the next one being due in 2006/07); and

- monitor the CC's financial performance as measured by budget compliance, and progress in achieving annual efficiency improvements.

Operations are divided into six workstreams: investigations, resources, analysis, remedies, process, and contribution to the competition regime. Analysis of the workstreams is covered in more detail in the Annual Report.

6. Objectives and strategy for achieving them

The Corporate Plan 2006/07 was published on the CC website in April 2006, www.competition-commission.org.uk, and sets the KPIs, objectives and strategy for the new financial year.

7. Significant features of the development and performance of the organization in the financial year

During 2005/06 there were eight inquiries brought forward from the previous financial year and 19 new inquiries. Of these, 12 were completed, six were cancelled, and nine carried forward to the next financial year.

8. The main trends and factors that the Council considers likely to impact future prospects

The CC is a purely reactive body, conducting inquiries only after it has

7.1 Inquiries summary			
	Mergers	Market	Total
New inquiries 2005/06	17	2	19
Inquiries brought forward from 2004/05	5	3	8
Deduct inquiries cancelled	(6)		(6)
Deduct inquiries carried forward at 31 March 2006	(5)	(4)	(9)
Inquiries completed in 2005/06	11	1	12

received a reference from the OFT, or another regulator with powers to refer to the CC. The CC's workload is therefore unpredictable and future prospects are affected by conditions in the economy as a whole and any changes expected to the legal framework in which the CC works.

9. The CC's resources and how they are managed

The CC's primary resource is its staff; 34 per cent of CC staff are skilled professionals with competition expertise in economics, law, accountancy, and business advice. Inquiries are managed by nine Inquiry Directors. Inquiry work is supported by inquiry administration teams and Corporate Services functions. Staff are managed by the Chief Executive, four Heads of Profession, and a Director of Corporate Services.

10. The principal risks and uncertainties facing the CC and the approach to them

The principal uncertainty facing the CC is the variability of its workload. To mitigate this the CC employs a relatively high proportion of staff on a short-term basis. During 2005/06 the proportion of short-term staff was on average around 28 per cent (2004/05: 31 per cent).

The other major challenge facing the CC is the recruitment and retention of high-calibre staff that are needed to produce robust inquiry reports to tight statutory timescales. The CC attempts to minimize this risk within the constraints of public sector pay awards.

11. Significant relationships with stakeholders

The CC is committed by its KPIs to monitor the level of satisfaction of the CC's stakeholders. In June 2005 the DTI published a stakeholder review of the CC based on interviews with businesses that

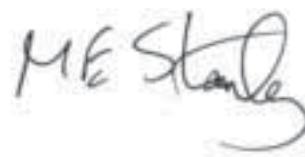
had given evidence to recently completed inquiries, their advisors, referring bodies, trade associations and consumer groups. The review was commissioned to understand the views of the CC's stakeholders and the results were positive about its performance, how it works (for example, its willingness to engage with stakeholders) and what it produces, and noted that the CC was encouraged to improve the dissemination of information about its activities. The survey is due to be repeated in 2006.

12. Resources and liquidity

The accounts show a cumulative deficit on the Income and Expenditure account of £6,163,000 at 31 March 2006. This mainly reflects the long-term pension liability and the inclusion of an office relocation provision. The deficit will be met by future grants-in-aid from the CC's sponsoring department, the DTI. The DTI has confirmed that there is no reason to believe that its future sponsorship will not be forthcoming within the capital and resource budgets set by Spending Review Settlements.

13. Effect of post Balance Sheet events

There are no post balance sheet events to report.



Martin Stanley

Chief Executive and Secretary
Accounting Officer
20 June 2006

Remuneration report

1. Remuneration policy

Remuneration of the Chairman, Deputy Chairmen and non-Executives is set by the Secretary of State for Trade and Industry. The remuneration of the Chief Executive and all CC staff is considered by the CC's Remuneration Committee, which is chaired by a non-Executive Council member and normally meets twice each year. Reference is made to the Senior Salaries Review Body and the CC's Chairman writes to the Secretary of State for final approval of the Chief Executive's pay and bonus proposals.

2. Appointments

Members of the Council are appointed by the Secretary of State for fixed terms in accordance with the Competition Act 1998 as amended by the Enterprise Act 2002:

2.1		
	<i>Date appointed</i>	<i>Date appointment ends</i>
Mr Peter Freeman (Chairman)*	1 January 2006	31 December 2010
Mr Christopher Clarke (Deputy Chairman)	1 September 2004	9 September 2010
Mrs Diana Guy (Deputy Chairman)*	1 September 2004	30 November 2010
Mr Tony Foster (non-Executive)*	1 September 2003	31 August 2007
Dame Patricia Hodgson (non-Executive)*	1 January 2004	31 December 2008
Mr Martin Stanley (Chief Executive)	1 October 2004	30 September 2009
*Member of the Remuneration Committee		

3. Council members' remuneration

The remuneration of members of the Council of the CC is given in the table below.

3.1					
	<i>Salary</i>	<i>Pension contributions</i>	<i>Taxable expenses</i>	<i>2005/06 total</i>	<i>2004/05 total</i>
Mr Peter Freeman (Chairman)*	138,852		1,310	140,162	113,520
Mr Christopher Clarke (Deputy Chairman)**	92,996			92,996	52,976
Mrs Diana Guy (Deputy Chairman)**	92,996			92,996	52,976
Mr Tony Foster (non-Executive)	11,375		1,847	13,222	13,241
Dame Patricia Hodgson (non-Executive)	5,950		75	6,025	7,174
Mr Martin Stanley (Chief Executive)	123,000	30,258		153,258	71,100
Professor Paul Geroski (former Chairman)*	64,000			64,000	138,149

Benefits in kind were zero. Taxable expenses relate to home to office travel, which are paid by the CC, including the Income Tax and National Insurance thereon.

*The Chairman, Mr Peter Freeman, was appointed from 1 January 2006, replacing Professor Paul Geroski, who died on 28 August 2005. Mr Peter Freeman occupied the role of Deputy Chairman until his appointment as Chairman.

**The Deputy Chairmen are employed on a four-days-a-week basis.

Salary payments shown above for Mr Tony Foster and Dame Patricia Hodgson relate to fees paid.

4. Pension details of Council members

Mr Peter Freeman, Mr Christopher Clarke and Mrs Diana Guy, are pensioned by analogy to the Principal Civil Service Pension Scheme (PCSPS), gaining benefits commensurate with their salary and service. No contributions are made to this scheme by the CC but the pensions are paid to retired members when they become due. Mr Martin Stanley is a member of the PCSPS scheme and the pension benefits quoted below are accrued from his total Civil Service employment not just his time with the CC.

The members quoted do not have pension arrangements that differ from the standard. The members quoted do not hold membership of the PCSPS (Earnings Cap) Scheme or accelerated Accrual arrangements. A death-in-service payment of £316,800 calculated in accordance with PCSPS rules is due to the estate of Professor Paul Geroski.

The members quoted are not contributing at a rate other than the standard PCSPS rate:

4.1				
	<i>Column 1 Real increase in pension £'000</i>	<i>Column 2 Real increase in lump sum £'000</i>	<i>Column 3 Pension at 31/03/06 £'000</i>	<i>Column 4 Lump sum at 31/03/06 £'000</i>
Mr Peter Freeman	0-2.5	N/A	0-5	N/A
Mr Christopher Clarke	0-2.5	N/A	0-5	N/A
Mrs Diana Guy	0-2.5	N/A	0-5	N/A
Mr Martin Stanley	5-7.5	N/A	65-70	N/A

	<i>Column 5 CETV at 31/03/05 (nearest £'000)</i>	<i>Column 6 CETV at 31/03/06 (nearest £'000)</i>	<i>Column 7 Employee contributions and transfers- in £'000</i>	<i>Column 8 Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £'000)</i>
Mr Peter Freeman	43	87	2.5-5	31
Mr Christopher Clarke	17	48	2.5-5	26
Mrs Diana Guy	18	49	2.5-5	26
Mr Martin Stanley	976	1,285	2.5-5	99

Cash Equivalent Transfer Values:

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalized value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former

Remuneration report continued

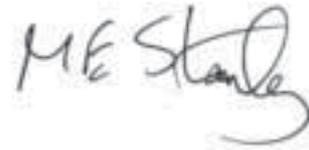
scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003/04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs

are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

Real increase in CETV:
This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another

pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.



Martin Stanley

Chief Executive and Secretary
Accounting Officer
20 June 2006

Statement of the CC's and the Accounting Officer's responsibilities

Under paragraph 12 of Schedule 7 of the Competition Act 1998, the Secretary of State, with the approval of the Treasury, has directed the CC to prepare a financial statement for each financial year in the form and on the basis set out in the Accounts Direction. The financial statements are prepared on an accruals basis and must give a true and fair view of the CC's state of affairs at the year end and of its income and expenditure, recognized gains and losses and cash flows for the financial year.

In preparing financial statements the CC is required to:

(i) observe the Accounts Direction issued by the Secretary of State, including

the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

(ii) make judgements and estimates on a reasonable basis;

(iii) state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements; and

(iv) prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the CC will continue in operation.

The Accounting Officer for the DTI has designated the Chief Executive to the CC

as the Accounting Officer for the CC. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in Government Accounting.

Statement on internal control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the CC's statutory obligations, policies, aims and objectives, whilst safeguarding the public funds and the CC's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve statutory obligations, policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is an ongoing process designed to:

identify and prioritize the risks to the achievement of the CC's statutory obligations, policies, aims and objectives;

evaluate the likelihood of those risks being realized and the impact should they be realized; and

manage them efficiently, effectively and economically.

The system of internal control has been in place in the CC for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The following risk management processes are in place:

(i) *The Operations Board*¹ reports to the Audit Committee on risk and ensures risks have been properly identified,

evaluated and monitored, that appropriate procedures are established to address the risks identified, that staff are aware of risk management practices and risk training is undertaken as necessary;

(ii) the Operations Board is responsible for the maintenance of a risk register for the CC in which risks have been ranked in terms of impact and likelihood. This register is updated regularly and at least once a year;

(iii) the Operations Board is responsible for overall security policies and procedures and overseeing effective security management;² and

(iv) a Business Continuity Group, comprising relevant Heads of Function, which I chair, is responsible for business continuity planning and operations. Also a team of Incident Controllers is in place to deal with any immediate emergencies that may occur.

(v) The CC also reviews each inquiry it undertakes. Any lessons learned or follow-up actions needed are fed through to the relevant senior managers or Committee.

The risk and control framework

The CC's Risk Policy sets out responsibilities for the identification, evaluation and control of risks in the CC's risk register. The following processes are in place as part of the CC's overall risk and control framework:

(i) key management issues essential to running the CC and its compliance with relevant legislation are handled in a number of Committees and Groups. The Senior Team,³ meets around three times a year to discuss strategic issues to advise the Chief Executive and Committees;

(ii) The Operations Board⁴ comprises a group of senior staff from across the organization and is responsible for taking decisions on key operational matters;

(iii) an annually updated corporate and business plan is agreed with the DTI. It contains the CC's priority objectives from which the objectives of all functions, teams and managers are derived;

(iv) project plans are drawn up for all inquiries and Inquiry Directors report progress to me weekly. A formal report on the status of each inquiry is issued monthly. Upon inquiry completion, formal reports are issued commenting on all aspects of the inquiry plan and process;

(v) financial control and value-for-money considerations are overseen by the Head of Finance and the Procurement Manager through procurement policy and procedures, a strict delegated financial authorities structure, control of purchases through a purchase order system and by a monthly financial reporting system to all senior managers and monthly reporting to the DTI;

(vi) an Information Systems Programme Board (ISPB) which meets monthly and reviews the progress on all IS projects, sets long-term IS strategy goals and reviews benefits of completed projects;

(vii) Project Boards are established for all major projects (in particular the Efficiency and Electronic Data Records Management projects) to ensure projects are managed under generally accepted project management techniques including identification and assessment of project risks;

(viii) a Staff Council with representatives from staff at all levels, which meets at

least three times a year to advise staff of changes affecting the organization and to take account of their views and concerns;

(ix) responsibility for health and safety (including the maintenance of annual external audits) is delegated to an officer and is reviewed by the Staff Council at each meeting.

Review of effectiveness

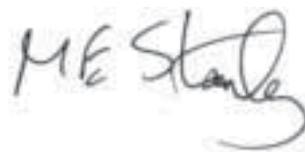
As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system is informed by the internal auditors, the executive managers within the CC who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Council, and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The following processes were in place to maintain and review the effectiveness of the system of internal control:

- (i) a Council⁵ that meets at least six times a year to consider the plans and strategic direction of the CC and to review recent inquiries and discuss best practice across inquiry groups;
- (ii) an Audit Committee⁶ chaired by a non-

Executive member of Council which meets three times a year to advise me on the adequacy of audit arrangements (internal and external) and on the implications of assurances provided in respect of risk and control in the CC. The Audit Committee provides an annual update of its activities to the Council; and

(iii) an internal audit service. This was provided by Baker Tilly during 2005/06. The internal auditors report regularly to standards defined in the Government Internal Audit Standard, and the Head of Internal Audit reports on the adequacy and effectiveness of the CC's system of internal control and provides recommendations for improvement. The CC's management are currently taking action to implement the recommendations made following a review of budgetary control procedures.



Martin Stanley

Chief Executive and Secretary
Accounting Officer
20 June 2006

1. Prior to May 2006, these functions were carried out by the Risk Management Committee, which has been disbanded.

2. Prior to May 2006, these responsibilities were handled by the Security Working Group.

3. The Senior Team comprises all the senior managers across all functions.

4. Prior to May 2006 the Operations Board was known as the Corporate Services Advisory Group.

5. The Council comprises the Chairman, the deputy Chairmen, the Chief Executive and two non-Executive members.

6. The Audit Committee comprises a non-Executive member of Council, two members of the CC, the Head of Planning (until May 2006 the Chairman of the Risk Management Committee) and one or two senior members of staff.

Certificate and report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Competition Commission for the year ended 31 March 2006 under the Competition Act 1998. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Recognized Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Competition Commission, Chief Executive and auditor

The Competition Commission and Chief Executive are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Competition Act 1998 and directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Competition Commission's and Accounting Officer's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Competition Act 1998 and directions made thereunder. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Competition Commission has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statements on pages 40 and 41 reflect the Competition Commission's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Competition Commission's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Foreword, the Chief Executive's Report, Competition Commission Work in 2005/06, Published Inquiry Reports, the Council Report, the unaudited part of the Remuneration Report and the Management Commentary. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My

responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Competition Commission and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Competition Commission's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence

to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

the financial statements give a true and fair view, in accordance with the Competition Act 1998 and directions made thereunder, of the state of the Competition Commission's affairs as at 31 March 2006 and of its deficit for the year then ended;

the financial statements and the part

of the Remuneration Report to be audited have been properly prepared in accordance with the Competition Act 1998 and directions made thereunder; and

in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General
22 June 2006

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Income and expenditure account

for the year ended 31 March 2006

	Note	2005/06 £'000	2004/05 £'000
Income			
Government grant-in-aid	2	21,044	16,534
Other income	3	2,289	2,222
Transfer from deferred Government grant reserve	18	1,533	1,824
		24,866	20,580
Expenditure			
Members' remuneration	4	1,376	1,069
Staff remuneration costs	5	10,308	7,834
Depreciation	9,10,11	1,548	1,770
Permanent diminution in value of fixed assets	10	39	85
(Profit)/loss on disposal of fixed assets	9,10	(7)	26
Increase in provisions for liabilities and charges	17	2,007	798
Pension provision	17	587	191
Accommodation costs	6	6,693	6,701
Other operating charges	6	3,837	4,326
		26,388	22,800
Deficit on ordinary activities before interest and tax		(1,522)	(2,220)
Interest receivable	7	250	326
Notional cost of capital	7	(116)	(203)
		134	123
Deficit on ordinary activities before tax		(1,388)	(2,097)
Corporation tax	8	45	(63)
Deficit for the financial year after tax		(1,343)	(2,160)
Add back – notional cost of capital	7	116	203
Deficit for the financial year		(1,227)	(1,957)

Statement of recognized gains and losses

	2005/06 £'000	2004/05 £'000
Revaluation surplus (see note 19)	80	190

All operations are continuing. Refer to note 1(i) in the notes to the financial statements.

There were no material acquisitions or disposals of operations during the year.

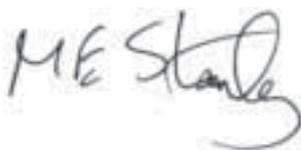
The notes on pages 47 to 65 are part of the financial statements.

Balance sheet

as at 31 March 2006

	Note	2006 £'000	2005 £'000
Fixed assets			
Intangible fixed assets	9	238	164
Tangible fixed assets	10	8,144	9,215
		8,382	9,379
Dilapidations asset provision	11	1,168	907
Debtors: amounts falling due after more than one year	13	425	447
Current assets			
Debtors	12	2,038	1,374
Cash at bank and in hand	14	2,129	3,223
		4,167	4,597
Current liabilities			
Creditors: amounts falling due within one year	15	(1,975)	(2,627)
Net current assets			
		2,192	1,970
Total assets less current liabilities			
		12,167	12,703
Creditors: amounts falling due after more than one year	16	(2,278)	(2,415)
Provisions for liabilities and charges	17	(6,197)	(4,596)
Pension liabilities	17	(1,473)	(1,265)
		2,219	4,427
Financed by:			
Deferred Government grant reserve	18	8,112	9,189
Revaluation reserve	19	270	190
Income and expenditure account	20	(6,163)	(4,952)
		2,219	4,427

The notes on pages 47 to 65 are part of the financial statements.



Martin Stanley

Chief Executive and Secretary
Accounting Officer
20 June 2006

Cash flow statement

for the year ended 31 March 2006

	<i>Note</i>	<i>2005/06</i> <i>£'000</i>	<i>2004/05</i> <i>£'000</i>
Net cash (out)/inflow from operating activities	29 (i)	(811)	(4,541)
Capital expenditure	29 (ii)	(925)	(1,148)
Return on investments and servicing of finance	29 (ii)	251	334
Financing	29 (ii)	456	809
Taxation		(65)	(45)
(Decrease)/increase in cash	29 (iii)	(1,094)	(4,591)

The notes on pages 47 to 65 are part of the financial statements.

Notes to the financial statements

1. Accounting policies

(a) Accounting convention

The financial statements have been prepared under the modified historical cost convention. Under this convention fixed assets are recorded in the Balance Sheet at their value to the business, usually current replacement cost. The Income and Expenditure account is charged with the proportion of the current cost of fixed assets consumed in the year. Without limiting the information given, the financial statements meet the accounting and disclosure requirements of the Companies Acts and best commercial practice including accounting and financial reporting standards issued or adopted by the Accounting Standards Board. They are in accordance with the Accounts Direction issued by the Secretary of State on 25 May 2000 and HM Treasury's guidance on the implementation of FRS 17: pension liabilities (refer to note 1(g)).

(b) Income

The cash needs of the CC are financed by grant-in-aid from the DTI. The revenue portion of the grant-in-aid is credited to income in the year to which it related. The portion receivable for capital expenditure is credited to a deferred Government grant account and released to the Income and Expenditure account over the expected useful lives of the relevant assets. Other income receivable relates to charges to tenants for occupancy charges and charges to other government bodies for secondees.

(c) Fixed assets

Expenditure on fixed assets is capitalized. Tangible fixed assets comprise information technology equipment such as servers, PCs, and printers as well as office fixtures and fittings and office leasehold improvements. Intangible fixed assets comprise software licences. The capitalization threshold limits and depreciation policy are explained below and at note (d).

Where the impact is material, asset values are reviewed annually using relevant producer price indices and suppliers' replacement prices where appropriate.

Expenditure on major information technology projects is capitalized. This includes expenditure directly incurred on hardware, software and appropriate consultants' costs.

Fixed assets are capitalized where the value is £1,000 or over in a single purchase. However, for grouped purchases of IT equipment, IT software or fixtures and furniture, individual items with a value of £200 or greater are capitalized where the total grouped purchase is £1,000 or more.

Consultants' expenditure is generally written off when incurred. However, where the level of expenditure is over £100,000 and creates a distinct asset for the CC which has a life of more than one year, then consultants' costs that are directly attributable to the asset are capitalized.

Assets in the course of construction are

capitalized at purchase cost and then depreciated from the date that they become operational.

(d) Depreciation

Depreciation is provided on all capitalized fixed assets at rates calculated to write off the cost or valuation of each asset, less any estimated residual value, evenly over their expected useful life as follows:

Tangible fixed assets:

Leasehold improvements*	20 years, over lease term
Information Technology	
Servers	3 to 5 years
PCs, laptops and printers	3 years
Fixtures & furniture	5 to 10 years
Leasehold dilapidations	20 years

Intangible fixed assets:

Information Technology	
Software licences	2 to 4 years

*For the financial years 2003/04 and 2004/05 leasehold improvements were being depreciated over a period of ten years. Following a review of the useful economic lives of those assets it was decided that depreciating them over the lease term would give a fairer presentation of the results and of the CC's financial position, based on current information. Therefore the balance of leasehold improvements at 1 April 2005 are being depreciated over the remainder of the

Notes to the financial statements continued

20-year lease term. The financial effect of this in 2005/06 was to reduce the depreciation charge by £376,000.

(e) Notional cost of capital

In accordance with Treasury requirements, a notional charge on capital of 3.5 per cent a year (2004/05: 3.5 per cent a year) is levied on the CC on the average net capital employed.

(f) Taxation

(i) The CC is liable for Corporation Tax on interest earned on bank deposits.

(ii) Costs shown for capitalized fixed assets include Value Added Tax (VAT). Expenditure in the Income and Expenditure account is also shown inclusive of VAT, with the exception of costs relating to property subletting and some miscellaneous trading activities. The CC became registered for VAT on 16 July 2004, with an effective date of 1 July 2003. It took the election, under Schedule 10, paragraph 2, VAT Act 1994, to waive exemption on its subletting income at its Victoria House office. This was dated 3 August 2004. Under this election, the CC charges VAT to its tenants on property transactions and reclaims VAT on its related expenditure. Expenditure on property that is sublet and expenditure on miscellaneous trading activities is shown exclusive of VAT in the Income and Expenditure account from these respective effective dates.

(g) Pensions

Full staff and members pension details are given in note 21.

Provision is made for the actuarially assessed liability of the CC's 'PCSPS by analogy' pension scheme for members who are or were Chairmen or Deputy Chairmen. In accordance with HM Treasury guidelines on the implementation of FRS 17, the full calculated pension liability is accrued and recognized in the Income and Expenditure account.

No recognition of the staff PCSPS scheme is made in the CC's accounts as this is an unfunded multi-employer defined benefits scheme and the CC is unable to identify its share of the underlying assets and liabilities. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, the CC recognizes the contributions payable for the year.

(h) Operating leases

Rentals are charged to the Income and Expenditure account in equal amounts over the lease term.

(i) Going concern

The accounts show a cumulative deficit on the Income and Expenditure account of £6,163,000 at 31 March 2006. This mainly reflects the long-term pension liability and the inclusion of an office relocation provision. The deficit will be met by future grants-in-aid from the CC's sponsoring department, the DTI. The DTI has confirmed that there is no reason to believe that its future sponsorship will not be forthcoming within the capital and resource budgets set by Spending Review

Settlements. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

(j) Provisions

The CC provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury discount rate of 2.2 per cent a year in real terms (2004/05: 3.5 per cent a year).

Where provisions for leasehold dilapidations are required, the CC creates a dilapidations asset, using discounted values, and depreciates the asset over the term of the leasehold.

2. Government grant-in-aid

The total grant-in-aid from the DTI in the year was as follows:

	2005/06 £'000	2004/05 £'000
Drawn down	21,500	13,800
Revenue—to income	21,044	16,534
On account 2004/05 (see note below)	-	(3,543)
Capital—to deferred Government grant reserve (note 18)	456	809
Net grant drawn down	21,500	13,800
The reconciliation to the cash drawn from the DTI:	£'000	£'000
Net cash drawn from the DTI	21,500	13,800
On account 2004/05 (see note below)	-	3,543
Net grant-in-aid for the year	21,500	17,343

Over the two-year period, 2002/03 and 2003/04, the CC had drawn grant to cover its potential liabilities for office relocation, £3,543,000 (see note 17). At the request of the DTI, that amount was treated as on-account grant for 2004/05. Grant to cover the office relocation liabilities is drawn down as and when required.

Notes to the financial statements continued

3. Other income

	2005/06 £'000	2004/05 £'000
Rent and other occupancy charges:		
External	594	551
Intra-Government		
Competition Service	1,356	1,503
NHS Institute for Innovation and Improvement	126	-
Museums Libraries Archives Council	209	-
Charges for seconded out staff:		
Intra-Government		
DTI	-	48
HM Treasury	-	9
Cabinet Office	-	4
Compensated legal costs of judicial review	-	105
Sundry income	4	2
Total other income	2,289	2,222

4. Members' remuneration costs

The cost of members' remuneration was:

	2005/06 £'000	2005/06 £'000	2005/06 £'000	2004/05 £'000
	<i>Chairman & Deputy Chairmen</i>	<i>Other Members</i>	<i>Total</i>	<i>Total</i>
Salaries	389	859	1,248	967
Social security costs	45	83	128	102
	434	942	1,376	1,069

- (a) Members of the CC during the year are listed in the Annual Report. Terms and conditions of appointment for members are determined by the Secretary of State with the approval of the Treasury. Under the Enterprise Act 2002, new appointments will normally be for eight years. Members appointed prior to the Enterprise Act 2002 are normally on four-year terms with an option to extend for a further four years.
- (b) Other members, including non-Executive Council members, are paid per diem and reimbursed for their travel expenses from home to office. Taxation and National Insurance on these payments are also paid by the CC.
- (c) The increase in members' remuneration reflects the higher inquiry workload in the year.

5. Staff remuneration costs

(a) The cost of staff remuneration was:

	2005/06 £'000	2005/06 £'000	2005/06 £'000	2004/05 £'000
	<i>Permanent Staff</i>	<i>Other Staff</i>	<i>Total</i>	<i>Total</i>
Salaries	6,344	1,939	8,283	6,440
Social security costs	589	84	673	547
Pension costs	1,228	124	1,352	847
Sub total	8,161	2,147	10,308	7,834
Less recovered in respect of outward secondments	-	-	-	(61)
Total net costs*	8,161	2,147	10,308	7,773
*Excludes capitalized staff costs of £24,000 (2004/05: £99,000)				

(i) The remuneration of the Chief Executive is included in staff remuneration.

(ii) Salaries include voluntary redundancy payments of £322,000.

(iii) The mix of staff has changed during the year with more senior professional staff recruited resulting in higher average salary costs than the previous year.

(iv) Higher pension costs reflect the increase in permanent staff salaries and increases in the pension scheme contribution rates.

Notes to the financial statements continued

(b) Number of staff

The average monthly number of full-time-equivalent staff (FTE), including secondees from government departments, other organizations, staff employed on short-term contracts and temporary and contract staff was:

	2005/06 FTE	(restated) 2004/05 FTE
Employed on references		
Permanent staff	84	75
Other staff	30	26
Total employed on references	114	101
Inquiry support and planning		
Permanent staff	14	16
Other staff	2	2
Total inquiry support and planning	16	18
Support staff		
Permanent staff	23	19
Other staff	11	15
Total support staff	34	34
Project Staff		
Permanent staff	1	-
Other staff	5	6
Total project staff	6	6
Total staff FTEs*	170	159
*Includes 0.5 FTEs whose costs were capitalized (2004/05: 3 FTEs)		

The analysis of FTEs for 2004/05 has been restated due to a reclassification of staff categories and to correspond with the current year's presentation. Other staff are staff employed on short-term contracts, temporary and contract staff.

6. Accommodation costs and other operating charges

(a) Accommodation costs

	2005/06 £'000	2004/05 £'000
Victoria House	6,693	6,701

The CC occupies 54 per cent of its office space at Victoria House with the remainder sublet. The accommodation costs shown above are the full costs before sublet income of £2,285,000 (2004/05: £2,054,000) which is included as other income (see note 3).

Operating lease rental costs were £4,699,000 (2004/05: £4,678,000).

(b) Other operating charges

	2005/06 £'000	2004/05 £'000
Consultants' fees— inquiry related*	866	630
Consultants' fees— not inquiry related*	103	477
Consultants' fees— relocation	-	44
Consultants' fees— IT*	223	473
Travel, subsistence and hospitality:		
Members	228	195
Staff and contractors	107	99
Staff training*	271	356
Staff recruitment*	290	449
Publishing	46	69
Audit fees*	31	30
Other administration*	1,672	1,504
Total other operating charges	3,837	4,326

*Comments are made below on significant changes year on year:

Consultants' fees— inquiry related: have increased mainly due to the higher inquiry workload compared to the previous year.

Consultants' fees— not inquiry related: have decreased significantly due to fewer revenue projects in 2005/06.

Consultants' fees— IT: have reduced due to less IT infrastructure upgrade work in the current year.

Staff training: costs have decreased reflecting higher costs in the previous year due to additional training required for new Enterprise Act responsibilities and for future responsibilities under the Energy Act.

Staff recruitment: costs have decreased reflecting higher costs in the previous year due to an increase in inquiry staff headcount and a high level of senior staff recruitment.

Audit fees: an amount of £30,500 is due to the National Audit Office for 2005/06 audit services, which relate only to statutory audit work.

Other administration: costs have increased by 11 per cent largely due to the increased inquiry workload.

Notes to the financial statements continued

7. Interest

	2005/06 £'000	2004/05 £'000
Interest receivable	250	326
Notional cost of capital	(116)	(203)
	134	123

Interest was received on funds deposited with the office of HM Paymaster General. In accordance with Treasury guidelines, notional interest payable on capital employed was calculated at 3.5 per cent on the average capital employed by the CC for the year (2004/05: 3.5 per cent).

8. Taxation

	2005/06 £'000	2004/05 £'000
Corporation Tax payable on interest		
current	48	63
prior year	2	-
Release of provision		
prior years	(95)	-
	(45)	63

Corporation Tax payable on interest is based on 19 per cent (2004/05: 19 per cent) of gross interest receivable. The release of provision relates to an anticipated tax liability on a reverse lease premium accrued in 2003/04. This liability did not materialize.

9. Intangible fixed assets

	<i>Software licences £'000</i>
Current cost	
At 1 April 2005	374
Additions at cost	129
Transfers	101
Disposals	-
At 31 March 2006	604
Amortization	
At 1 April 2005	210
Provision for the year	156
Released on disposal	-
At 31 March 2006	366
Net book value	
At 31 March 2005	164
At 31 March 2006	238

An amount of £101,000 was transferred from Tangible fixed assets in respect of software licences previously included in assets in the course of construction. These related to an Electronic Records Management project and a Government Secure Intranet project both completed during the year.

Notes to the financial statements continued

10. Tangible fixed assets

	<i>Information Technology</i> £'000	<i>Fixtures and furniture</i> £'000	<i>Leasehold costs</i> £'000	<i>Assets in course of construction</i> £'000	<i>Total</i> £'000
Current cost					
At 1 April 2005	1,936	610	7,330	1,490	11,366
Additions at cost	198	22	-	107	327
Transfers	1,448	10	-	(1,559)	(101)
Disposals	(109)	-	-	-	(109)
Revaluation	(223)	-	109	-	(114)
At 31 March 2006	3,250	642	7,439	38	11,369
Depreciation					
At 1 April 2005	1,127	167	857	-	2,151
Provision for the year	826	119	356	-	1,301
Transfers	-	-	-	-	-
Released on disposal	(56)	-	-	-	(56)
Revaluation	(184)	-	13	-	(171)
At 31 March 2006	1,713	286	1,226	-	3,225
Net book value					
At 31 March 2005	809	443	6,473	1,490	9,215
At 31 March 2006	1,537	356	6,213	38	8,144

Transfers from assets in the course of construction completed during the year of £1,559,000 related to an Electronic Records Management project and a Government Secure Intranet project. An amount of £101,000 of this related to software licences and was transferred to Intangible fixed assets.

The revaluation relates to a permanent diminution in the value of IT equipment and an increase in the value of leasehold assets based on the relevant Office for National Statistics price indices.

Assets in the course of construction: the balance of £38,000 comprises a Knowledge Management project that is due for completion during 2006/07.

11. Dilapidations asset provision

	<i>Dilapidations asset provision £'000</i>
Current cost	
At 1 April 2005	978
Discount rate reduction	259
Unwinding of discount	29
Revaluation	63
At 31 March 2006	1,329
Depreciation	
At 1 April 2005	71
Provision for the year	85
Revaluation	5
At 31 March 2006	161
Net book value	
At 31 March 2005	907
At 31 March 2006	1,168

The capitalized office dilapidations asset provision current cost is the discounted value of the CC's estimated leasehold office reinstatement liability at the end of the Victoria House lease in 2023. The discount rate as set by HM Treasury has changed to 2.2 per cent (2004/05: 3.5 per cent).

Notes to the financial statements continued

12. Debtors: amounts falling due within one year

	2006 £'000	2005 £'000
Staff travel advances	29	29
Trade debtors:		
External	70	11
Intra-Government – DTI	-	15
Intra-Government – HM Treasury	-	5
Intra-Government – Competition Service	2	-
Intra-Government – Museums Libraries Archives Council	10	-
Intra-Government – NHS Institute for Innovation and Improvement	12	-
Prepayments – rent	1,120	1,066
Prepayments – other	272	88
VAT debtor	-	74
Tenants' rent-free period	102	62
Sundry debtors	405	7
Interest accrued	16	17
	2,038	1,374

13. Debtors: amounts falling due after more than one year

	2006 £'000	2005 £'000
Tenants' rent-free period	425	447

Debtors falling due after one year represent a rent-free period granted to tenants that is being amortized over the periods of the respective leases. The total rent-free period debtor at 31 March 2006, including those amounts shown at note 12 falling due within one year, was £527,000.

14. Cash at bank and in hand

	2006 £'000	2005 £'000
Paymaster General	2,129	3,222
Cash in hand	-	1
	2,129	3,223

The CC keeps as its main account an interest-bearing current account with the Paymaster General's Office.

15. Creditors: amounts falling due within one year

	2006 £'000	2005 £'000
Trade creditors and accruals:		
External	397	1,763
Intra-Government – DTI	19	-
Intra-Government – OFT	-	9
Intra-Government – Competition Service	-	24
Deferred income	168	138
Other creditors	817	131
PAYE, National Insurance and Pension	526	404
Corporation Tax	48	158
	1,975	2,627

16. Creditors: amounts falling due after more than one year

	2006 £'000	2005 £'000
Victoria House rent – deferred income	2,278	2,415

The Victoria House deferred income relates to the amortization of a rent-free period. Under the rules of UITF Abstract 28: Operating Leases, the value of the rent-free period is being amortized on a straight-line basis over the 20-year term of the lease. Total deferred income including amounts falling due within one year was £2,446,000 (2004/05: £2,553,000).

Notes to the financial statements continued

17. Provisions

Provisions for the year ended 31 March 2006 are:

	<i>Office relocation £'000</i>	<i>Capitalized office dilapidations £'000</i>	<i>Total provisions £'000</i>
As at 1 April 2005	3,618	978	4,596
Provided in the year	2,007	322	2,329
Provisions not required written back	-	-	-
Provisions utilized in the year	(757)	-	(757)
Unwinding of discount	-	29	29
As at 31 March 2006	4,868	1,329	6,197

	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Less than one year	804	-	804
One to five years	3,305	-	3,305
More than five years	759	1,329	2,088

The office relocation provision relates to the CC's former offices at New Court WC2 which were vacated in February 2004. Provision is made to cover contracted office rental liabilities at New Court. The provision is the CC's best estimate of its eventual liabilities and represents the cost of the remaining six years of the agreement taking into account likely subletting income. See note 22 on operating leases for an explanation of the CC's contractual obligations for New Court.

The capitalized office dilapidations provision is the discounted value of CC's estimated reinstatement liability at the end of the Victoria House lease in 2023.

Pension provisions for the year ended 31 March 2006 are:

	<i>Pension liabilities</i> £'000
As at 1 April 2005	1,265
Provided in the year	587
Provisions not required written back	-
Provisions utilized in the year	(379)
Unwinding of discount	-
As at 31 March 2006	1,473

In accordance with the requirements of FRS 17 the CC has provided for the actuarially assessed liability of the CC's 'PCSPS by analogy' pension scheme (see note 21). A death-in-service payment of £316,800 due to the estate of the late Chairman is included as a provision in the year and thereby charged to the Income and Expenditure Account. It is also included in provisions utilized in the year. The amount was still unpaid at 31 March 2006 and is included as a creditor due within one year in the Balance Sheet.

18. Deferred Government grant reserve

The movements on the deferred Government grant reserve were:

	2005/06 £'000	2004/05 £'000
Balance at 1 April	9,189	10,204
Add: capital grant received (note 2)	456	809
Less: transferred to income and expenditure account	(1,533)	(1,824)
Balance at 31 March	8,112	9,189

Notes to the financial statements continued

19. Revaluation reserve

	2005/06 £'000	2004/05 £'000
Balance at 1 April	190	-
Revaluation of leasehold assets in the year	109	217
Realized element transferred to income and expenditure reserve	(16)	(23)
Backlog depreciation to leasehold assets	(13)	(4)
Balance at 31 March	270	190

20. Income and expenditure account

	2005/06 £'000	2004/05 £'000
Balance at 1 April	(4,952)	(3,018)
Realized element of revaluation reserve	16	23
Deficit for the year	(1,227)	(1,957)
Balance at 31 March	(6,163)	(4,952)
Made up of:		
Pension provision	(1,473)	(1,265)
Office relocation provision	(4,868)	(3,618)
Other income and expenditure	178	(69)
Total at 31 March	(6,163)	(4,952)

The cumulative deficit at 31 March 2006 of £6,163,000 is primarily made up of the pension provision (£1,473,000) and the office relocation provision (£4,868,000), both of which were unfunded in terms of grant-in-aid received at 31 March 2006.

21. Staff and members' pension costs

Ordinary and panel members of the CC are not pensioned.

Members who are or were Chairmen or Deputy Chairmen are members of the CC's 'PCSPS by analogy' scheme, gaining benefits commensurate with their salary and service. This is a defined benefit scheme and is unfunded and non-contributory except in respect of dependants' benefits and additional employee contributions to the classic and premium schemes. At 31 March 2006 there were three active members, nine current pensioners and one deferred pensioner. The CC makes no contributions to the scheme. Instead it pays pensions to retired members as they become due. The actuarial liability at 31 March 2006 was £1,473,000 (31 March 2005: £1,265,000). Pensions in payment of retirees (and deferred pensions) increase at the rate of 2.7 per cent from 10 April 2006. The CC is satisfied that any obligation it is unable to meet in the normal course of its activities in respect of members' pensions would be met by the Secretary of State.

The valuation was carried out by the Government Actuary's Department from membership information supplied to them. The financial and demographic assumptions used in the assessment are consistent with those used elsewhere in central government for resource accounting. The key financial assumption, that rates of return net of price increases are 2.8 per cent a year, is specified for resource accounting purposes by HM Treasury. The following allowances are assumed: increase in salaries 4.0 per cent a year, price inflation 2.5 per cent a year, increase for pensions in payment and deferred pensions 2.5 per cent a year.

During the year ended 31 March 2006 pension payments of £106,000 (2004/05: £76,000) were made to retired Chairmen and Deputy Chairmen members.

Staff pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium and classic plus. Benefits in classic accrue at the rate of 1/80 of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60 of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death-in-service and ill health retirement).

Further details about the Civil Service pension arrangements can be found at the website: www.civilservice-pensions.go.uk.

For 2005/06, employer's contributions of £1,352,000 were payable to the PCSPS (2004/05: £847,000).

22. Operating leases

At 31 March 2006 the CC was committed to making the following payments during the next year in respect of operating leases before VAT:

	2006 £'000	2005 £'000
Land and buildings		
Leases that expire after five years	4,135	4,135

The CC has a 20-year lease for office space in Victoria House, Southampton Row, London, WC1. The lease start date was September 2003. The total space is 8,261 sq metres of which 3,838 sq metres (46 per cent) has been sublet and 4,423 sq metres (54 per cent) is the CC's net space. The CC's net operating lease commitment is £2,394,000 a year (2005: £2,777,000)

Notes to the financial statements continued

The CC also has an existing tenancy agreement under a memorandum of terms of occupation (MOTO) between the DTI and The Valuation Office for approximately 3,000 sq metres of office space in New Court, Carey Street, London WC2. This agreement expires on 24 March 2012. The CC has no formal or contractual responsibility for the liabilities under this agreement. However, it has agreed with DTI to manage the reassignment of the agreement and to make financial provision for the potential future liabilities. The provision made under 'office relocation' is the CC's best estimate of its likely continuing cost up to the point the MOTO expires taking account of potential sublet income. Provision has been made for the six remaining years.

23. Contingent liabilities

There are no contingent liabilities to report.

24. Capital commitments

The CC has no capital commitments on the Victoria House lease, except for dilapidations which mature upon the 20-year expiry in 2023 which are provided for in these accounts.

There are no capital commitments under the terms of its New Court occupancy agreement.

25. Post balance sheet events

There are no post balance sheet events to report.

26. Related party transactions

The CC is a Non-Departmental Public Body (NDPB) sponsored by the DTI and funded by a grant-in-aid from that department. The DTI is regarded as a related party. During the year, the CC had various material transactions with the DTI all of which were conducted at arm's length prices. In addition, the CC had a small number of material transactions with other government departments and other central government bodies, all conducted at arm's length prices.

None of the CC members or key managerial staff undertook any material transactions with the CC during the year, except for remuneration paid for their services and, in the case of members, reimbursement of home to office travel expenses.

The CC has sublet part of its office premises at Victoria House to the Competition Service (sponsored by the DTI) under the same terms as its own lease. It has also sublet office space on shorter terms to the NHS Institute for Innovation and Improvement and to the Museums Libraries Archives Council.

27. Financial instruments

FRS 13 Derivatives and other financial instruments: disclosures, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. The CC has limited exposure to risk in relation to its activities. As permitted by FRS 13, debtors and creditors that mature or become payable within 12 months from the balance sheet date have been omitted from this disclosure note.

The CC is financed by grant-in-aid paid from the DTI and is not therefore exposed to significant liquidity risks. It has no borrowings and no material deposits and all material assets and liabilities are denominated in sterling; it is, therefore, not exposed to significant interest rate risks or currency risks.

28. Financial targets

See Council Report, paragraph 6: Financial performance measure, which comments on financial targets.

29. Notes to the Cash flow statement

Note (i) Reconciliation of deficit on ordinary activities before interest and tax to operating cash flows		
	<i>2005/06 £'000</i>	<i>2004/05 £'000</i>
Deficit on ordinary activities before interest and tax	(1,522)	(2,220)
Movements not involving cash		
Depreciation	1,548	1,770
(Profit)/loss on disposal of fixed assets	(7)	26
Increase/(decrease) in provisions for liabilities and charges	1,458	(14)
Permanent diminution in value of fixed assets	39	85
	1,516	(353)
(Increase)/decrease in debtors	(642)	1,417
(Decrease) in creditors	(152)	(3,781)
Transfer from capital grant-in-aid	(1,533)	(1,824)
Net cash (out)/inflow from operating activities	(811)	(4,541)

Note (ii) Analysis of cash flows for headings netted in the cash flow statement		
Capital expenditure		
Payments to acquire fixed assets	(983)	(1,161)
Proceeds from the sale of fixed assets	58	13
	(925)	(1,148)
Return on investments and servicing of finance		
Interest received	251	334
Financing		
Deferred income—capital grant-in-aid	456	809

Note (iii) Analysis of changes in net funds			
	<i>At 1 April 2005 £'000</i>	<i>Cash flow £'000</i>	<i>At 31 March 2006 £'000</i>
Cash at bank and in hand	3,223	(1,094)	2,129

Council members



P Freeman

Peter Freeman Chairman was appointed to the role in January 2006, having been Reporting Panel member since May 2003 and a Deputy Chairman since September 2003. Prior to his appointment to the CC, he was head of the EC and Competition Law Group of Simmons & Simmons and a leading UK competition law practitioner. He is co-founder and Chairman of the Regulatory Policy Institute, and is a Consulting Editor of *Butterworth Competition Law Handbook*.



C Clarke

Christopher Clarke Deputy Chairman was appointed to the role in 2004, having been a Reporting Panel member since 2001. He is an independent non-Executive Director of The Weir Group PLC and of Omega Underwriting Holdings PLC. A former investment banker, he has advised governments, public sector organizations and private sector corporations in the UK and overseas on restructuring, privatization, acquisitions, mergers and divestments, and financing. Inquiries he has chaired during the year include Somerfield/Wm Morrison Supermarkets merger inquiry, and the Store Cards and the Northern Ireland Personal Banking market investigations.



Dr P Davis

Dr Peter Davis is to begin his appointment as **Deputy Chairman** in September 2006, having been on the CC's academic panel since 2004. He is currently Leverhulme Lecturer at the LSE. He received a PhD in Economics from Yale and served on the faculty of MIT before joining LSE in 2002. His academic work includes contributions to the *Journal of Law and Economics*, the *European Economic Review*, the *Journal of Econometrics*, the *Journal of Industrial Economics (JIE)* and the *RAND Journal of Economics*. He currently serves as an Associate Editor of the *JIE* and also of *Economica*.



D Guy

Diana Guy Deputy Chairman since 2004, is a solicitor and, until 2001 when she became a member of the CC, was a partner (and later a consultant) in the firm of Theodore Goddard (now part of Addleshaw Goddard), based in the City of London, where she specialized in EU and competition law. Merger inquiries she has chaired this year include Francisco Partners/G International, Ardagh International Holdings/Redfeam Glass, GWR/First Group, Stagecoach and National Express Group, and HMV Group/Ottakar's. She is also chairing the Classified Directories Advertising Services market investigation.

Tony Foster Non-Executive Council member since 2003, is a member of the Criminal Cases Review Commission. From 1991 to 1996, he was a director of ICI Chemicals & Polymers Ltd and he has been a non-Executive Director of both public and private organizations.



T Foster

Dame Patricia Hodgson DBE Non-Executive Council member since 2004, is Principal-Elect of Newnham College, Cambridge, and Chair of the Higher Education Regulation Review Group. She is also Governor of the Wellcome Trust, non-Executive Director of GCap Media plc, Member of the Committee for Standards in Public Life, and of Higher Education Funding Council for England. She was previously a producer and journalist, BBC Policy & Planning Director and Chief Executive of the Independent Television Commission.



Dame P Hodgson DBE

Martin Stanley Chief Executive since October 2004, has spent most of his career in the DTI where he held a number of senior positions, including Principal Private Secretary. He then became Director of the Cabinet Office's Regulatory Impact Unit, before becoming Chief Executive of the Postal Services Commission (Postcomm), the Government department that regulates the UK postal services industry.



M Stanley

Reporting Panel members



J Almond

Jayne Almond (appointed in 2005) is currently the CEO of Stonehaven UK Ltd, a specialist mortgage business, and the non-Executive Chairman of Squarestone, a private commercial property business. She was previously Managing Director of Barclays/Woolwich's mortgage business, Group Marketing Director at Lloyds TSB, a senior partner at LEK Consulting and Deputy Chair of CDC.



Prof J Baillie

Professor John Baillie (appointed in 2002) a chartered accountant, specializes in share valuation and dispute resolution. Formerly a partner of KPMG and Professor of Accounting at University of Glasgow (now Visiting Professor), he is a member of the Accounts Commission, board member of Audit Scotland, and currently reviewing, with others, local government finance in Scotland. He chaired the following merger inquiries this year: British Salt/ New Cheshire Salt Works, and Stagecoach/Scottish Citylink.



C Bright

Christopher Bright (appointed in 2006) practised as a solicitor in the City of London specializing in competition and utility regulation for over 20 years, latterly as a partner of Shearman & Sterling LLP. He is a non-Executive Director of the Jersey Competition Regulatory Authority, a member of the Disciplinary Tribunal of the Accountancy Investigation and Discipline Board, and a Visiting Senior Research Fellow at the Institute of European & Comparative Law, University of Oxford. He is also an accredited CEDR mediator.



S Brown OBE

Sarah Brown OBE (appointed in 1998) is a non-Executive Director of Financial Services Compensation Scheme Ltd, the Revenue and Customs Prosecutions Office, South West Kent Primary Care Trust and Look Ahead Housing and Care Ltd. She is a member of the Accountancy Investigation and Discipline Board and of the Bar Standards Board.



L Carstensen

Laura Carstensen (appointed in 2005) was formerly a partner in Slaughter and May, specializing in UK and EU competition law. She is co-founder and joint Managing Director of the Internet mind/body/spirit retailer Blue Banyan and the Blue Banyan Healing Centre in North Wales.

Dr John Collings (appointed in 2001) was, until December 2000, Director of Regulation at Powergen. From 1987 to 1994, he was a partner at Coopers & Lybrand. He has lectured at Aston and Hull Universities and been an Economic Adviser in the Government Economic Service. He is a Trustee of the Community Council of Devon.

Dr Diane Coyle (appointed in 2001) is an economic consultant and author specializing in globalization and new technologies. She is also a visiting Professor at the Institute for Political and Economic Governance at the University of Manchester. She has published several books on economics. She chaired the National Express/Thameslink and Great Northern merger inquiry this year.



Dr J Collings

Professor John Cubbin (appointed in 2006) is Professor of Economics at City University. Before this he was Associate Director with National Economic Research Associates; Professor in Economics with the University of Manchester Institute of Science and Technology; Reader in Economics at Queen Mary College, University of London; and a Lecturer in Economics at the University of Warwick.



Dr D Coyle



Prof J Cubbin

Reporting Panel members (continued)



R Davis

Roger Davis (appointed in 2005) is a Chartered Accountant and retired partner of Pricewaterhouse-Coopers, having spent most of his career with the firm and its predecessors, including several years as the senior audit partner. He is board member of the Professional Oversight Board, the UK's independent regulator for accountancy and actuarial professions.



C Dobson

Carolan Dobson (appointed in 2005) is a non-Executive Director of Shires Smaller companies plc and member of its Audit Committee. She is the Independent Investment Adviser to the Environment Agency and the London Borough of Enfield's pension fund. She is Vice Chairman of London School and Trustee of a charity helping the terminally ill.



B Donoghue

Barbara Donoghue (appointed in 2005) is a banker experienced in corporate advice and in raising capital. She is a Director of Noventus Partners; a non-Executive Director of Eniro AB; a member of the Broadcasting Policy Group and Advisory Board member of the Centre for Creative Business, London Business School.



L Elks

Laurence Elks (appointed in 2001) is a solicitor and member of the Criminal Cases Review Commission. He was a partner at Nabarro Nathanson (1984 to 1995). He has worked in the area of competition law and written and lectured on the subject. He has been involved in a wide range of voluntary activities. This year he chaired the Cott Beverages/Macaw (Holdings) merger inquiry.



R Farrant

Richard Farrant (appointed in 2005) is Chairman of Sustrans, a charitable company. He is also Chairman of the Investigation Committee of the Institute of Chartered Accountants. He was Vice Chairman of UFJ International, a member of the Gas and Electricity Markets Authority, Chairman of the Banking Code Standards Board and Managing Director of the Financial Services Authority.



N Garthwaite

Nicholas Garthwaite (appointed in 1998) is non-Executive Chairman of Cicero Languages International and has been an independent telecommunications consultant at Cicero Strategy since 1996. He was Director of Telecommunications at Price Waterhouse Corporate Finance (1994 to 1996) and a managing consultant in the telecommunications group at Touche Ross (1986 to 1994).



C Goodall

Christopher Goodall (appointed in 2001) is a director of media and technology companies and an investor in business start-ups. Formerly a partner in Enders Analysis, he specialized in market and technology forecasting.



Prof C Graham

Professor Cosmo Graham (appointed in 1999) is Professor of Law at the University of Leicester and Director of the University's Centre for Utility Consumer Law. He is a member of the Advisory Committee of the Centre for the Study of Regulated Industries.

Reporting Panel members (continued)



Prof A Gregory FCMA



I Grey



G Hadley



Prof A Hamlin



Prof J Haskel



P Hazell



C Henderson CB



J Hill

Professor Alan Gregory FCMA (appointed in 2001) is Professor of Corporate Finance at the University of Exeter. He was previously Professor of Business Studies at the University of Wales and Professor of Accounting and Finance at the University of Glasgow. He has been a consultant to the Treasury on the Government Profit Formula.

Ivar Grey (appointed in 2005) is a self-employed Financial Adviser and Forensic Accountant. Prior to being self-employed, he was a partner with KPMG.

Graham Hadley (appointed in 1998) has been an economic consultant and part-time Senior Advisor to NERA since 1996. He was a Board Director of National Power (1990 to 1995) and Board Secretary of the Central Electricity Generating Board (1983 to 1990).

Professor Alan Hamlin (appointed in 2001) is Professor of Political Theory at the University of Manchester having recently been Professor of Economics at the University of Southampton. He has held visiting appointments at a number of overseas universities and is currently Editor of the journal *Constitutional Political Economy*.

Professor Jonathan Haskel (appointed in 2001) is Professor of Economics at Queen Mary, University of London. He is a research fellow of the Centre for Economic Policy Research and a research associate of the Institute of Fiscal Studies. He was on the Editorial Boards of *Economica*, *Economic Policy* and *New Economy*.

Peter Hazell (appointed in 2002) is currently Chairman of the Argent Group, and a non-Executive Director of two listed companies: UK Coal plc and Brit plc. He was until 2000 a partner in various capacities in the accountancy firms Deloitte Haskins & Sells, Coopers & Lybrand and PricewaterhouseCoopers, where he was UK managing partner.

Charles Henderson CB (appointed in 1998) was Director General of Energy at the DTI until 1996. He was non-Executive Chairman of Total Holdings UK (1998 to 2005).

Jill Hill (appointed in 2005) is the Chief Operating Officer of Remploy Ltd, a non-departmental public body which finds jobs for disabled people. She has been with Remploy for five years, after a long career with Rolls-Royce plc, and is a non-Executive Director of NDI Ltd.

Reporting Panel members (continued)



R Holroyd

Richard Holroyd (appointed in 2001) was a senior executive in Shell International heading the Oil Products Marketing Futures Department. Prior to joining Shell in 1996 he worked for Reckitt & Colman, becoming Regional Director, Europe, and then Managing Director of Colman's of Norwich. He is currently a non-Executive Director of a number of companies.



A Johnston

Alexander Johnston (appointed in 2005) is an external member of the Finance Committee of Cambridge University, on the advisory board of Arthur D Little, a non-Executive Director of BMS Associates Ltd and on the Development Committee of The British Library. Until 2003, he was a Managing Director at Lazard, London specializing in utilities.



I Jones

Ian Jones (appointed in 2005) is a Special Adviser with NERA Economic Consulting. Prior to this he was a director and Head of NERA's European Transport Practice. He has also worked with the National Institute of Economic and Social Research, the Monopolies and Mergers Commission, London Business School and the Government Economic Service.



P Jones

Peter Jones (appointed in 2005) is a director of Rhydfach Consulting Limited. Prior to this, he was a Managing Director (corporate finance and advisory) in HSBC Bank plc, a Director (corporate finance) in HSBC Investment Banking and a director of Samuel Montagu & Co Limited. He is a consultant to BNFL plc.



Prof B Lyons

Professor Bruce Lyons (appointed in 2002) is Professor of Economics and was Dean of the School of Economics and Social Studies at the University of East Anglia. Previously he was an economics lecturer at St John's College, Cambridge. Since 1994 he has been a member of the Academic Advisory Group to the Competition Directorate of the European Commission.

Dame Barbara Mills DBE QC (appointed in 2001) is the Adjudicator for Her Majesty's Revenue and Customs. Previously she was the Director of Public Prosecutions (1992 to 1998). She has been a member of the Criminal Injuries Compensation Board, a Legal Assessor to the General Medical Council and a member of the Parole Board.



Dame B Mills DBE QC

Professor Peter Moizer PhD FCA (appointed in 2001) is Professor of Accounting at Leeds University Business School. He was a senior lecturer in accounting at the University of Manchester and before that, assistant audit manager at Price Waterhouse.

Rob Murray (appointed in 2005) is a solicitor who has practised competition, commercial and international trade law in the UK and Brussels with a number of international and national law firms. A member of the Law Society, he has a degree in Jurisprudence from the University of Oxford and an LLM Magna Cum Laude in International and Comparative Law from the Vrije Universiteit Brussel. He owns and runs the Internet wedding services business www.foreverafter.co.uk with his wife Sarah.



Prof P Moizer PhD FCA



R Murray

Reporting Panel members (continued)



Prof D Parker

Professor David Parker (appointed in 1998) holds the Chair in Regulation and Privatisation at the Cranfield School of Management and a research post at the Centre for Regulation and Competition at the University of Manchester. He is a fellow of the British Academy of Management and of the Royal Society of Arts.



J Peat

Christopher Smallwood (appointed in 2001) was Chief Economic Adviser to Barclays plc until March 2005. Previously he was a Competition Partner at Brunswick Group Ltd and a partner at Makinson Cowell Ltd. He has been an Economic Adviser to the Treasury and a Special Adviser at the Cabinet Office. He has also served as a member of the Monopolies and Mergers Commission.



Prof M Raj

Jeremy Peat (appointed in 2005) was, from 1993 to March 2000, Group Chief Economist at the Royal Bank of Scotland. He is a member of the BBC Board of Governors, as National Governor for Scotland. He is also Director of the David Hume Institute and a fellow of the Royal Society of Edinburgh.

John Smith (appointed in 2005), is an independent consultant and an Associate with Indepen Consulting Limited. He is a non-executive member of the Steering Board of the Marine Fisheries Agency and worked for 12 years in the privatized rail and water sectors as Director of Regulation and Government with Railtrack plc, and Director of Regulation with Anglian Water Services Limited. Previously a member of the Government Economic Service in the Department of the Environment, he held posts in transport, local government finance and environmental protection and worked on water privatization.



J Seddon

Professor Mahendra Raj (appointed in 2005) is Professor of Finance at the Robert Gordon University and has previously worked in New Zealand and the USA. He is the Editor of the *Studies in Economics and Finance* and is a Commissioner with the Accounts Commission for Scotland.



C Smallwood

Jeremy Seddon (appointed in 1998) was until 2001 Chief Executive of British Invisibles. He was head of BZW's Privatisation and Government Advisory Unit and Vice-Chairman of BZW Corporate Finance (1987 to 1995). He chaired the following merger inquiries this year: LSE/ Deutsche Börse/Euronext; and EWS Railway Holdings/Marcroft Engineering.

Anthony Stern (appointed in 2005) is a director of InterContinental's UK pension trust. A former President of the Association of Corporate Treasurers, he was Director of Treasury for Bass and Inter-Continental Hotels from 1988 to 2003, with involvement in mergers and acquisitions.



J Smith

Peter Stoddart FCA (appointed in 2001) was a Director of Nissan Motor Manufacturing (UK) Limited, retiring in 2000. Previously he was Finance Director of Cammell Laird Shipbuilders, and more recently was Interim Director of Operations of the NE Regional Development Agency. He is currently undertaking research into the management of intellectual property.



A Stern



P Stoddart FCA

Reporting Panel members (continued)



Prof S Sudarsanam

Professor Sudi Sudarsanam (appointed in 2005) is Professor of Finance & Corporate Control in the School of Management at Cranfield University. He is the author of *Creating value from mergers and acquisitions: the challenges* (2003). He is a member of the European Financial Management Association, the Financial Management Association (USA) and the American Finance Association and is on the editorial board of the *Journal of Business Finance & Accounting*. He is an Associate of the Chartered Institute of Bankers, London.



R Taylor

Stephen Walzer (appointed in 2001) is Chairman of the International Chamber of Commerce UK Competition Committee and rapporteur to the parent committee in Paris. He is a member of various CBI panels, Law Society Regulation Board, Law Society/Bar competition working party and UNICE competition working group and a member of the OFT's ICN Mergers Analytical Framework group. He is also a public interest member on the Audit Registration Committee of the Institute of Chartered Accountants.



R Turgoose

Richard Taylor (appointed in 2005) was a partner at CMS Cameron McKenna, specializing in competition law. He also founded and chaired CMS, an alliance of European law firms. He is a member of the Law Society's Regulation Board, a trustee of the charity Beating Bowel Cancer and a governor of Ickburgh School, a special school in Hackney.

Professor Michael Waterson (appointed in 2005) is Professor of Economics at Warwick University. He is a past President of the European Association for Research in Industrial Economics and currently chairs the (UK) Network of Industrial Economists. He was recently a Specialist Adviser to Subcommittee B of the House of Lords European Union Committee.



Prof C Waddams

Robert Turgoose (appointed in 2002) was a corporate finance partner in PricewaterhouseCoopers, and has been an adviser in the UK and to various governments and companies overseas on energy industries. He is currently an independent consultant specializing in the energy industries. He chaired the HJ Heinz/HP Foods merger inquiry this year.

Martyn Webster (appointed in 1998) was Group Managing Director of Southern Water plc (1993 to 1996) and Group Finance Director (1989 to 1992). Previously, he was Group Financial Controller at Laporte plc and Financial Controller at NCR Ltd. He is a member of the Institute of Chartered Accountants in England and Wales.



S Walzer



Prof M Waterson

Professor Catherine Waddams (appointed in 2001) is Professor in the School of Management and Director of the ERSC Centre for Competition Policy at the University of East Anglia. She was formerly at the University of Warwick, and has published widely on the economics of regulation, competition, and gains from utility reform, particularly the distributional implications of reform.

Jonathan Whiticar (appointed in 2005) is a business consultant. Formerly a Managing Director of The Royal Bank of Scotland, Corporate Banking & Financial Markets, he is qualified as a Chartered Accountant in England and Wales and Ontario, Canada. He also spent two years on secondment as Director of the Industrial Development Unit, DTI. A past Chair of the Juvenile Diabetes Research Foundation's London Walk, he is currently Trustee and Treasurer of the Hampshire and the Isle of Wight Community Foundation.



M Webster



J Whiticar

Reporting Panel members (continued) and academic panellists



Prof S Wilks FCA



F Woolf CBE



A Young

Academic panellists



R Green



R Griffith



Prof P Klemperer FBA

Reporting Panel members (continued)

Professor Stephen Wilks fca (appointed in 2001) is Professor of Politics at the University of Exeter. He served two periods as Deputy Vice Chancellor between 1999 and 2005. From 2001 to 2002, he was a member of the Economic and Social Research Council and chaired its Strategic Research Board.

Fiona Woolf cbe (appointed in 2005) is a consultant with CMS Cameron McKenna with responsibility for marketing, profile raising and quality assurance. She is also a senior adviser with London Economics International LLP and a partner with Woolf Associates. Prior to this, she was a partner with CMS Cameron McKenna.

Alan Young (appointed in 2000) is a director of the consultancy firm Webster Young Limited, a director of Lunar Energy Limited and a non-Executive Director of the UK Atomic Energy Authority.

The following ceased to be members since the last review:

Sarwar Ahmed, Linda Christmas, Professor Paul Geroski, William Gibson, Anthony Hadfield, Gerald Holbrook MBE, Joyce Hopkirk, Professor Paul Klemperer, Nigel Macdonald, Sir Derek Morris, David Newkirk, Eve Pollard, Richard Rawlinson, Professor Donald Treford and Charles Wilson.

Academic panellists

Richard Green is Professor of Energy Economics and Director of the Institute for Energy Research and Policy at the University of Birmingham. He has previously been a professor at the University of Hull, a researcher at the University of Cambridge, and an economist at the Office of Electricity Regulation. His research concentrates on the economics of the electricity industry.

Rachel Griffith is a Reader in Industrial Organisation at University College London and a Deputy Research Director of the Institute for Fiscal Studies. She is a Director of the Review of Economic Studies, a Council member of the European Economic Association and the Royal Economic Society. Recent publications include a book with Philippe Aghion on *Competition and Growth* and papers in the *American Economic Review* and *Quarterly Journal of Economics* on competition, innovation and growth.

Professor Paul Klemperer fba is Edgeworth Professor of Economics at Oxford University. He was a member of the CC from 2001 to 2005. He has advised several government departments and agencies, the OFT, the EU, and the US Government, on economic issues including merger and competition cases, and policy and auction design, and has served on the board of advisers of, or as consultant to, several private companies.

The Utilities Panel

The following members serve on the Utilities Panel. The Chairman must appoint at least one of these members to a group conducting an inquiry concerned with the regulation of the water, electricity and gas sectors, or an energy code modification appeal.

Jayne Almond, Christopher Bright, John Cubbin, Roger Davis, Laurence Elks, Richard Farrant, Nicholas Garthwaite, Christopher Goodall, Alexander Johnston, Peter Jones, Professor Peter Moizer fca, John Smith, Professor S Puliyer Sudarsanam, Robert Turgoose, Professor Catherine Waddams, Professor Michael Waterson, Jonathan Whiticar and Fiona Woolf cbe.

Senior staff



A Armstrong

Inquiry Directors

Aileen Armstrong is a secondee from the DTI. Before joining the CC, she was part of the Bill Team responsible for the introduction of the Enterprise Act. She has also held posts in the OFT, the Cabinet Office and the European Commission.



J Banfield

John Banfield was formerly an economist at the DTI and at the Department of Transport. Initially he was an Economic Adviser within the CC, before becoming Inquiry Director. He has worked on about 70 inquiries, including over 30 mergers and 10 regulatory inquiries.



Prof M Horsman

Professor Mike Horsman joined the CC as a panel Inquiry Director in 2005. He was from 1992 to 2003 Director of the Office of Manpower Economics which supports and advises, among others, the six independent public sector Pay Review Bodies. He is currently the Independent Member of the House of Commons Senior Pay Group and a Special Professor at Nottingham University Business School.



J Kirkpatrick

John Kirkpatrick joined the CC in June 2003. He previously worked as a management consultant at McKinsey & Co where he served commercial and non-profit clients in a variety of sectors. Before that he was a civil servant in the Departments of Employment and Education. He has an MBA from Cranfield University.



R Merelie

Rachel Merelie joined the CC in 2003 from Cap Gemini Ernst & Young. She previously managed business planning for Ernst & Young, worked as a management consultant, and held a variety of posts in the electricity industry. She has an MBA from HEC in France.

John Pigott joined the CC in March 2003 from consultants Stern Stewart where he was Senior Vice President. He had previously held various positions at Tate & Lyle including senior Treasury, Planning and IT roles. He has an MBA from London Business School and is a member of the Association of Corporate Treasurers.

Anthony Pygram joined the CC in April 2005 from the DTI, where his recent posts involved leading teams responsible for mergers casework and nuclear nonproliferation. He has also worked as a postdoctoral researcher in ceramics and, in industry, as a product development team leader working on microporous materials and a nuclear fuel performance engineer.



J Pigott

Margaret Smith, before joining the Monopolies and Mergers Commission, worked in the CBI and, for a short time, for the House of Lords Select Committee on the European Communities.



A Pygram



M Smith

Senior staff and heads of profession



A Taylor

Inquiry Directors (cont)

Andrew Taylor joined the CC in 2005. Previously, he worked as a utilities sector consultant advising on economic, financial and regulatory issues. Prior to this, he worked in the Australian Government both at the Federal Treasury and as an adviser to an Australian Government Minister.



C Wallace

Caroline Wallace joined the CC in 2005. She spent the previous five years at Of tel and then O fcom, where she was a Director of Competition Policy. She is a chartered engineer and, prior to joining Of tel, had worked in the telecoms, water and manufacturing industries.



Dr N Williams

Dr Neil Williams is an independent consultant and a member of the CC panel of external Inquiry Directors, who specializes in public sector inquiries and policy studies. Prior to 1997, he was a civil servant who worked in the Department of Energy, HM Treasury and the Department of the Environment.



E Dymond

Chief Accounting Adviser

Elizabeth Dymond joined the CC in July 2001. She is a chartered accountant who qualified with Coopers & Lybrand. She subsequently worked at Mercury Asset Management and at 3i plc where she was group management accountant before joining the OFT as a financial analyst in 1999.



D Roberts

Chief Business Adviser

David Roberts joined the CC in 2002 from Sainsbury's where his roles included Director of Corporate Finance and Group Treasurer. He previously worked for BP and Deloitte Haskins and Sells Management Consultants. He is a chartered accountant and is a trustee of the Shaftesbury Society.



J Davies



C Potter



R Lawrence

Chief Economist

John Davies has been Chief Economist since November 2005. He joined the CC in 2003 as a director in the economics team and since then has worked on a wide variety of merger and market inquiries. Before joining the CC, he spent ten years working as a consulting economist. He first studied economics at Kings College Cambridge and then at Nuffield College, Oxford.

Chief Legal Adviser

Clare Potter joined the CC in 2004. She was previously a partner in the competition group at City law firm Simmons & Simmons where she specialized in competition, utility regulation and telecoms, advising both regulated companies and regulators. She had periods of secondment to the DTI and the European Commission.

Director of Corporate Services

Rebecca Lawrence joined the CC in May 2005. She was formerly the Operations Director at the Rent Service (a DWP agency). She has a background in policy development and implementation, change management and frontline service delivery.

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID5385590 07/06 AM4298

Printed on paper containing 75 per cent post-consumer waste and 25 per cent ECF pulp

Designed by Rowan Whybrew and Susanna Booth at the Competition Commission

**COMPETITION COMMISSION
VICTORIA HOUSE
SOUTHAMPTON ROW
LONDON
WC1B 4AD
TEL +44 (0)20 7271 0100
FAX +44 (0)20 7271 0367
EMAIL INFO@CC.GSI.GOV.UK
WWW.COMPETITION-COMMISSION.ORG.UK**

Published by TSO (The Stationery Office) and available from:

Online

www.tso.co.uk/bookshop

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries 0870 600 5522

Fax orders 0870 600 5533

Order through the Parliamentary Hotline Lo-call 0845 7 023474

E-mail book.orders@tso.co.uk

Textphone 0870 240 3701

TSO Shops

123 Kingsway, London WC2B 6PQ

020 7242 6393 Fax 020 7242 6394

68-69 Bull Street, Birmingham B4 6AD

0121 236 9696 Fax 0121 236 9699

9-21 Princess Street, Manchester M60 8AS

0161 834 7201 Fax 0161 833 0634

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

18-19 High Street, Cardiff CF10 1PT

029 2039 5548 Fax 029 2038 4347

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax orders 020 7219 3866

TSO Accredited Agents

(see Yellow Pages)

and through good booksellers

ISBN 0-10-293964-0



9 780102 939644