



COMPETITION COMMISSION



Competition Commission

Annual Report and Accounts for the year ended
31 March 2008

Presented to Parliament pursuant to
section 186 of the Enterprise Act 2002

Ordered by the House of Commons to be printed
10 July 2008

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ISBN 978-0-10-295518-7

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Peter Freeman
Chairman



Chairman's statement

A strong and effective competition policy remains essential to a well functioning economy in which efficient businesses respond effectively to the needs of consumers. Obviously, competition authorities cannot themselves ensure that the economy functions well but, by exposing and punishing illegal cartel behaviour, by investigating markets that are thought not to be working well, and by preventing anti-competitive mergers, they can make an essential contribution. The Competition Commission's (CC's) main competition enforcement role is in merger control and market investigations and we have had a busy and active year, deciding on many issues of importance to the economy and to the public, and covering sectors as diverse as bank accounts, water, eggs, bricks, and grocery shopping.

More specifically, we completed one market investigation, into Personal Current Accounts Banking in Northern Ireland. Our remedies will be useful, we hope, not only for customers there but also for many others as our measures are setting the agenda for change in the rest of the UK. We have three other market investigations in hand—Airports, Payment Protection Insurance, and Rolling Stock Leasing. And the Groceries investigation, completed shortly after the recent year end, will continue to attract attention for some time to come as we move, with the Office of Fair Trading (OFT) and others, to implement our proposed remedies.

Our merger decisions also covered a wide variety of goods and services. The BSkyB/ITV case was the first merger referred to us under the public interest provisions on broadcasting and the media. South East Water/Mid Kent Water was the first case under the new merger provisions of the Water Industry Act. We also dealt with 12 merger cases in total over the year, coming to adverse findings in more than half of the decided cases.

The other important part of the CC's work is in the regulation of utilities, where we act as an appeal body from the decisions of sectoral regulators. Regulators can also refer markets to us for investigation. Last year I warned of the dangers for the regulatory system of our role in it being neglected, and that concern has not gone away. Although we have been quite active in the regulatory area, this has been mainly as a result of mandatory requirements rather than of Regulators choosing to access our expertise and powers.

We have, however, dealt with our first full appeal under the Energy Code Modification regime, which demonstrated our ability to adapt our procedures and techniques to the requirements of a speedy tribunal style process. And our successful completion of the price control review of charges at Heathrow and Gatwick airports re-affirms our long experience in cases of this kind. Taken with the mergers (in TV, broadcasting infrastructure, and water) that raised sector specific issues and our continuing work on railways and airports, the CC's overall contribution to competition and regulation in relation to utilities has been much more apparent than in the previous year. The House of Lords Select Committee on Regulators Report on UK Economic Regulators, published last November, recommended that "... where possible, utility regulators should look to bring more cases to the competition authorities..." to which the Government's response was that "...regulators should be encouraged to think

about whether they can be more pro-active in using competition law, including market investigation references to the Competition Commission". It remains to be seen whether this message will be heeded.

Whilst the present picture may look favourable, there are warning signs of possible turbulence ahead. First, and most obviously, a less favourable economic climate puts pressure on competition policy, with an expectation that the rigours of market forces will be tempered to alleviate corporate or financial hardship. Whilst we are well aware of these pressures, we continue to believe that the benefits of competition apply in bad times as well as in the good.

Second, and in a way related, there is the continuing challenge to competition authorities of making sure the benefits of competition policy are understood and accepted in the consumer, business and political communities. Competition policy has to take its place among other important public objectives, for example in the social, financial and environmental spheres. But a solution based on competition policy imperatives should not lightly be over-riden. Of course, competition puts strong pressure on businesses, and the process of competition can be painful for some participants. We have to favour what is in the consumer's interest even if this is not always in tune with the interest of every competitor. The Groceries Investigation has shown that this lesson can be very hard for some players to accept.

The third warning sign is in relation to the actual working of the UK system of competition enforcement itself. I drew attention last year to the challenges raised by our operating in the UK a voluntary system of merger control when most other countries require problematic mergers to be notified before completion. Of course we recognise there are costs involved in operating a merger control system with mandatory pre-notification but there are serious disadvantages also in our voluntary system, not least in the diversion of effort into interim measures and difficulties in unwinding completed transactions. These problems (which affect merging parties also) have if anything increased this year and nine out of the 12 merger decisions we made involved completed mergers.

But it is clear that this is only part of a wider problem. As the various survey ratings suggest, the international reputation of UK control of mergers and markets is very high, but it is not clear that everyone at home is content; there are increasing murmurs that our processes place too heavy a burden on businesses, that we are too intrusive and that our inquiries take too long. The siren voices calling for wholesale change in the system and its structure are never long silent and are beginning to be heard again. These voices tend to confuse genuine concerns about the operation of the system with a more general desire to change the institutional structure in the hope that this will somehow solve all problems.

We have a very straightforward attitude to those concerns. We recognise the strengths of the UK's two-stage process involving an initial scrutiny at stage one and a more detailed second stage "fresh pair of eyes" provided by an expert body, whose

independence is never in doubt and comprised of senior figures drawn from a range of professional and other backgrounds, and to which the parties have direct access. This system is very properly designed to ensure that cases are given the appropriate level of scrutiny according to their complexity, difficulty or significance. To minimise the burden on business, this certainly means dealing with cases at stage one if possible, but it also means accepting that cases that require more weighty consideration should be referred to the CC.

The present system has many advantages; and whilst we will always keep an open mind as to what is the best institutional structure for applying competition policy in the UK, we are in no doubt that it would be much more constructive to focus attention on making sure the present system works as effectively and swiftly as possible, rather than simply trying to change it without proper analysis or identification of obvious benefit.

As for making the present system work effectively, we welcome a healthy exchange of views on how to improve and speed up the process of investigation and how to focus our inquiries on to the issues that matter, and will take forward any constructive proposals. But it must be recognised that to be effective, investigations have to be thorough; and to be fair they must also be transparent and provide time for response and debate. There are no easy or cheap short-cuts to be had, but we will do our utmost to minimise the burden of our investigations, whilst maximising their effectiveness.

There are some significant other developments also. Among them is the merger guidelines revision process, conducted for the first time jointly with the OFT, which reflects a deepening sense of cooperation at all levels between the two bodies. There is also the strong re-affirmation of the essence of the CC's approach to investigations arising from our Council's Review, combined with a determination to increase the efficiency of our work and the precision and focus of our inquiries including, where appropriate, seeking more direct access to company records and data. We have continued to play our part on the European and international stage, leading by example both in procedure and analysis, and sharing lessons and experience with many other competition authorities. And finally, for the second year running, we have received the welcome endorsement of being placed joint first in the Global Competition Review's survey of competition authorities, alongside the European Commission and the US Federal Trade Commission. This shows that the quality of our work is well understood by our peers and stakeholders.

Sadly, we said goodbye this year to several experienced and long-standing CC Members—Sarah Brown, Charles Henderson, Cosmo Graham, Martyn Webster and Alan Young who retired at the end of their terms. Mahendra Raj and Chris Goodall also left us during this year to pursue other activities. I thank all of them for their dedication and hard work.

Martin Stanley
Chief Executive



As the Chairman's statement makes clear, the CC overcame a number of challenges last year, mainly in the form of a very high and varied workload. Looking forward, whilst we have some significant inquiries still in hand, we anticipate a downturn in workload in the year ahead, which illustrates the particular challenges we face as a Phase II body with no control over the timing or volume of its work.

Efficiency: Outputs

It is not possible to measure our output with any precision; no two inquiries are the same, nor do any two inquiries need to consume exactly the same resources. But Chart 1 on page 7 gives a feel for the way in which our workload peaked during 2007/08, and hence for the demands facing the organisation as we conducted several major market investigations on top of two airports price controls and a good number of merger inquiries.

As a result of these efforts, our cumulative four-year tally of savings to consumers continues to compare very well with our costs: see Chart 2 on page 7.

Looking forward, however, we are likely to feel the impact of the absence of new references from the OFT and the sectoral regulators. There have been only four merger references between late August 2007 and late June 2008, and two of these were very small scale anticipated mergers that were abandoned soon after the reference. There has been no market investigation reference since April 2007 and there are no current OFT consultations on projected references although the Office of Gas and Electricity Markets (Ofgem) are currently probing retail energy supply under their Enterprise Act powers, and the Office of Communications (Ofcom) are examining the Pay TV market.

A number of factors may have contributed to the current reduction in references. In relation to mergers, the OFT has reviewed the application of its *de minimis* criteria to ensure that it only refers cases which have a significant impact on the economy. It is carrying out more extensive Phase I merger inquiries with the aim of settling a case with undertakings in lieu of a reference to the CC. There has also probably been a cyclical reduction in merger activity.

As regards market investigation references, we are discussing with the OFT the impact of its new prioritisation criteria and how the availability of CC resource should be taken into account when prioritising its caseload. We are also discussing with other regulatory bodies how the current system can be used effectively to deliver the best outcomes for consumers.

Whatever the reasons for the current downturn in new references, it seems possible that the CC may not be using its full capacity towards the end of 2008/09.

Efficiency: Inputs

CC staff have continued to put a great deal of effort into working more effectively and efficiently, and in helping CC members to hold more effective hearings and other

discussions. We reported last year that our Council had embarked on a deep and wide-ranging review of the way CC members and staff interact, how we carry out inquiries, and how we analyse the mergers and markets which we investigate. A number of changes have already been made (see further below) and others are in the pipeline. But one immediate and welcome consequence is that we managed to handle last year's very high workload without calling upon too much expensive consultancy and other support. We accordingly kept our running costs in line with our workload, and slightly reduced our cost/inquiry year: see Charts 3 and 4 on page 8.

Process Improvements

We are now considering, and where appropriate implementing, the recommendations from the first stage of the Council's Review. We will in due course publish a summary of the changes that we have made. In the meantime, it is worth noting that we are continuing to improve the way in which we support CC members through improved inquiry planning (often around more clearly identified "theories of harm"), arranging more focused meetings and hearings, and better briefing. We also continue to make increased use of primary data: strategy documents prepared pre-merger, and raw price, cost, sales figures etc. And we are taking a firmer line with those parties to our inquiries that are slow or reluctant to provide such data, if necessary by using our statutory powers more quickly than in the past.

We have separately embarked, with OFT colleagues, on a wide-ranging public consultation and review of their and our substantive Merger Guidance. We are beginning an internal review of the lessons to be learned from the first few market investigations. And we are commissioning the first external review of some of our and the OFT's Enterprise Act merger decisions, jointly with the OFT and the Department for Business, Enterprise and Regulatory Reform (BERR).

In order to take forward these and other initiatives, we continue to work within a corporate plan which includes a number of work streams, each supervised by a Council subgroup. Summaries of the activities and achievements of each subgroup can be found later in this document.

Reducing Burdens on Business

We are conscious that our increasing use of primary data may in some circumstances result

Chart 1 Annual workload (inquiry-years)

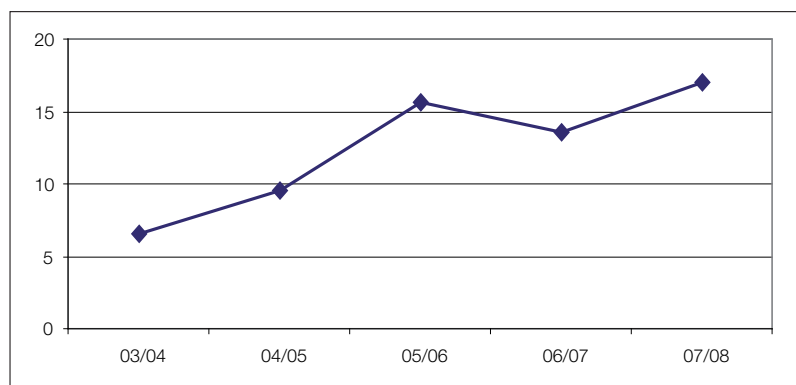
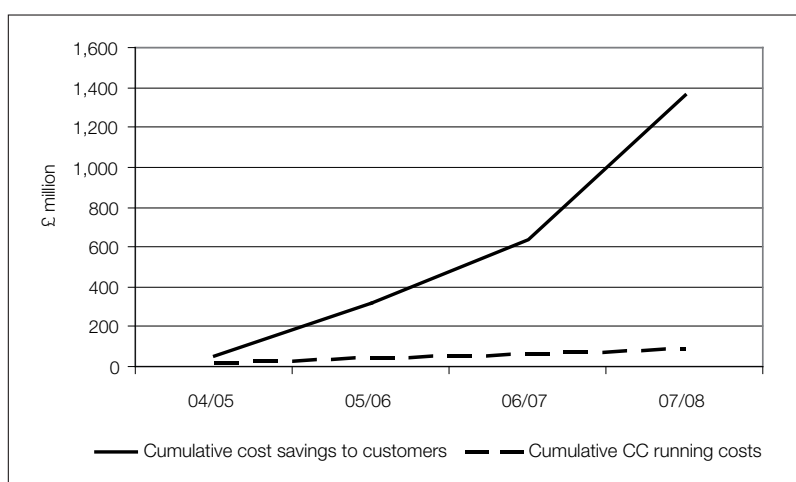


Chart 2 Cumulative CC costs and benefits to consumers



Note: For the Enterprise Act work (mergers + markets), total combined OFT/CC benefits of the mergers and markets regime was £1,009 million in 2007/08 (assuming that on average the benefits last around three years), of which we estimate the CC's 'share' at £736 million, bringing the total from April 2004 to £1,362 million. The CC also completed two regulatory cases: price controls for Heathrow and Gatwick Airports and an appeal against an OFGEM decision in the gas industry. As such appeals can go 'either way' it is not appropriate to estimate consumer benefits, although the scale of the sectors involved implies that the benefit from the CC's role in improving their regulation is likely to be substantial.

in additional cost upon those companies that are the subject of our investigations. But our other process improvements are all helping to focus our inquiries, and so reduce their impact on business. Indeed, as we noted last year, a significant burden on business seems to be generated by the companies' own senior executives and their advisers who (it seems to us) continue to incur very high costs by preparing frequently unconvincing, wide-ranging and often repetitive submissions.

It is also worth noting that the UK merger control system is unusual by international standards in that firms are not required to pre-notify qualifying mergers. As a result, 75 per cent of the merger inquiries completed this year have been of completed mergers. The investigation of these mergers is much more burdensome for both the companies involved and the CC, as it is usually necessary for us to take interim measures, including the appointment of hold-separate managers and (in the case of mergers that need to be unwound) divestiture trustees. We necessarily rely on professional advisers to draw these possible consequences to the attention of their clients before such transactions are completed.

Other Developments

We have separately, like the rest of the public sector, carried out an extensive review of our data security. We have, to date, found our IT etc systems to be in good shape. But the sheer volume of data and other information which needs to be checked with the parties to our inquiries, and against tight deadlines, means that there are each year one or two occasions when we inadvertently disclose information which companies would prefer kept confidential. We are not aware that any serious damage has been done; similar information travels around industries in other ways. But we are concerned, nonetheless, and are constantly making process improvements with a view to eliminating as many such errors as possible.

It goes without saying that our varying (and recently very high) workload has put a lot of pressure on CC staff at all levels. I am constantly impressed by the way in which they respond to such pressures. In order to strengthen our management capability, we have appointed Rachel Merelie and Andrew Taylor as Senior Inquiry Directors, to take responsibility for the end-to-end effectiveness and efficiency of our inquiry processes. They will in turn benefit from our finance team's introduction of a new finance and time management system.

Chart 3 CC costs £'000 (excluding property at New Court)

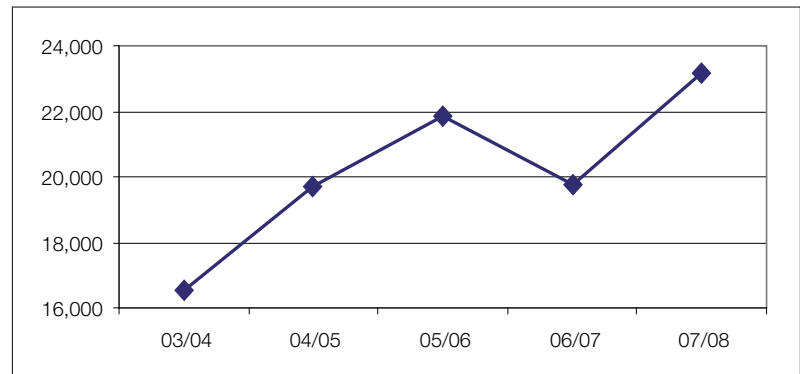
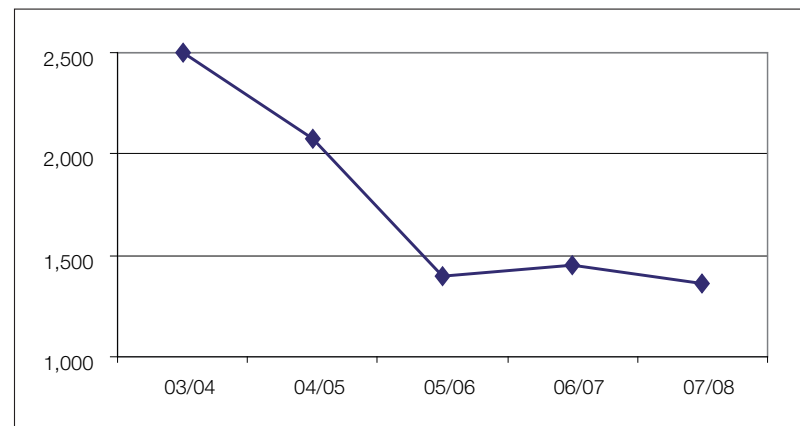


Chart 4 Cost/inquiry-year £'000 (excluding New Court)





Objectives and
work streams
in 2007 and 2008

Objectives and work streams

The role of the Competition Commission

The CC is an independent non-departmental public body. It 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 OFT but in certain circumstances the Government, 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. And it undertakes inquiries only where serious competition problems are thought to exist. 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 BERR for an eight-year term following open competition. They are appointed for their individual experience, ability and diversity of background, not as representatives of particular organisations, 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.

Key performance indicators: the CC's objectives and work stream summaries

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

- to monitor the level of satisfaction of the CC's stakeholders as surveyed every two years 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; and
- to monitor the CC's financial performance as measured by budget compliance and progress in achieving annual efficiency improvements.

The CC's stakeholders survey, September 2007

In September 2007, RS Consulting Ltd produced the *Competition Commission Stakeholder Performance Review*,¹ in consultation with the CC. In the course of the review, 304 stakeholders were interviewed, 225 of which were involved in a merger inquiry or a market investigation completed after January 2005 and 79 of which were interested parties. Stakeholders indicated high levels of overall satisfaction with the CC, with an average rating of 6.7 on a 10-point scale.

BERR peer review of competition policy, June 2007

BERR has a target set by Her Majesty's Treasury (HMT) to have a competition regime that is among the best in the world by 2008. A BERR commissioned peer review *Peer Review of Competition Policy*² published in June 2007 ranked the UK competition regime (the OFT, the CC and the Competition Appeal Tribunal (CAT)) as one of the top three global competition regimes: the CC was ranked among the best authorities in the world for its technical analysis and for coming to the right decisions, relative to leading international economies.

The results of the Global Competition Review 2007 have also supported the BERR target for the UK competition regime to

be among the best in the world. The CC came joint first with 'five stars' when ranked against over 30 global competition authorities.

Financial performance and annual efficiency improvements

BERR monitors the CC's financial performance against its budget at regular meetings throughout the year. Most noticeably for 2007/08 the CC has managed to report on 12 merger inquiries, three regulatory inquiries and one market investigation; as well as carry out and implement a thorough review of its working practices under the Council's Review. The CC successfully reported on all its cases within the statutory timeframe. The original budget agreed with BERR at the beginning of the year was £21 million, at the end of the year CC was £660,000 above budget, this was quite an achievement considering the number and range of cases it reported on during the year.

More detailed information about the achievements of the year, including improvements to the CC's financial processes, can be found in the next section. The CC's corporate structure is divided into six work streams, and each is led by a CC committee. The six work streams are responsible for:

1. investigations;
2. resources;
3. analysis;
4. remedies;
5. process; and
6. contribution to the competition regime.

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.

1. The report is published on the CC website: http://www.competition-commission.org.uk/our_role/analysis/cc_stakeholder_survey_2007.pdf

2. The report is published on the BERR website: <http://www.berr.gov.uk/files/file39863.pdf>

Work stream 1

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



<i>Key issues for 2007/08</i>	<i>Outcome</i>
Provisional findings are published, on average, by week 15 in merger inquiries	Merger inquiries this year published provisional findings within an average of 16.6 weeks
Publication of the final report on merger inquiries by week 24, with no more than two inquiries having an extension of a further eight weeks	Seven merger inquiries published their final report within an average of 22.9 weeks, with no individual inquiry of these seven, exceeding 23.7 weeks Five further inquiries were extended
Provisional findings reports on market investigations are published within 12 to 15 months, depending on the complexity of the issues, number of parties involved, and amount of data received	Two market investigations published their provisional findings during this year, in 17.7 and 16.8 months
The results of the BERR Peer Review on competition policy, and the CC's stakeholder survey show that the CC is ranked among the best authorities in the world for its technical analysis and for coming to the right decisions	A BERR commissioned peer review in 2007 ranked the UK competition regime as one of the top three global competition regimes The CC stakeholder survey produced an 'overall satisfaction' rating of 6.7 on a 10-point scale

Numbers and types of references

It is often mentioned that a significant feature of the CC's workload is its unpredictable nature and as shown in the Annual Workload figures on page 7, this was certainly true of 2007/08. Despite maintaining an average of around ten inquiries per month, this year has seen dramatic fluctuations in CC workload, which peaked at 13 inquiries in May to August 2007 and fell to five inquiries in March 2008. Table 1 shows the total number of inquiries that the CC has considered in 2007/08 and Figure 1 shows how the merger referral rate has fluctuated since 2000.

Market investigations

This year saw the publication of the Northern Ireland Banking report on the 15 May 2007, a full summary of this investigation and the remedies imposed by the CC can be found on pages 22 and 23. Work on four further market investigations continued beyond the end of the financial year (March 2008). The Groceries market investigation published its final report on the 30 April 2008, BAA Airports published their emerging thinking on the 22 April 2008, Payment Protection Insurance published provisional findings on 5 June 2008 and the Rolling Stock Leasing market investigation aims to publish provisional findings in July 2008.

Merger investigations

Table 1 shows the number of merger inquiries for 2007/08. They covered a wide range of areas from books to fertiliser. The average time taken by merger inquiries to publish provisional findings was 16.6 weeks; this does not include those inquiries which were extended, of which there were five. Significantly, nine of the 12 inquiries referred to the CC this year were completed mergers, which often results in a longer investigation. It is therefore unsurprising that each of the five extended inquiries—Stonegate Farmers Ltd/Deans Food Group Ltd, Greif Inc/Blagden Packaging Group, Tesco/Co-Op, BSKyB/

ITV and Macquaire/National Grid Wireless—were completed mergers.

BskyB lodged an application to appeal against the final report and subsequent decision by the Secretary of State for BERR with the CAT on the 22 February. Main hearings took place from 3 to 5 June 2008, and the CC is awaiting the CAT's decision.

Of the 12 inquiries reported, five were cleared, while the CC found a Substantial Lessening of Competition (SLC) in six cases and Prejudice in one case. No mergers were blocked completely. Figure 2 shows the clearance rate¹ of mergers.

Regulatory inquiries and appeals

The CC published its report on the Heathrow and Gatwick quinquennial review in September 2007, within the six-month time limit. The Energy Code Modification Appeal UNC116 was referred to the CC in April 2007 and a decision on this was published in July of the same year.

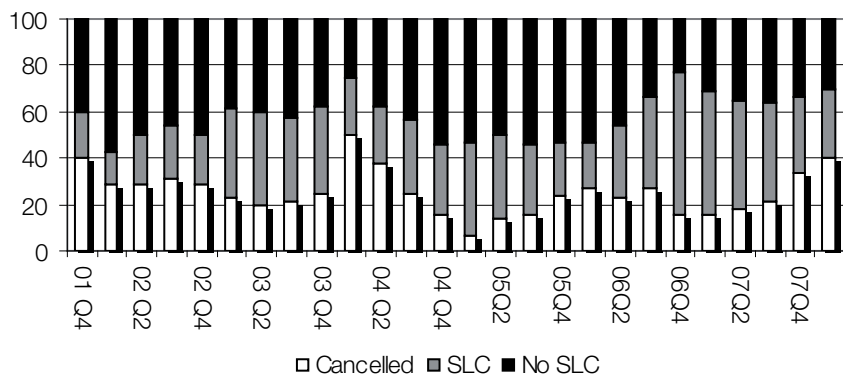
Table 1

<i>Inquiries summary</i>	<i>Mergers</i>	<i>Markets</i>	<i>Regulatory</i>	<i>Energy Code Mod Appeal</i>	<i>Appeal under Communications Act</i>	<i>Total</i>
New inquiries 2007/08	10	1	0	1	1	13
Inquiries brought forward from 2006/07	6	4	2	0	0	12
Deduct inquiries cancelled	(3)	(0)	(0)	(0)	(0)	(3)
Deduct inquiries carried forward at 31 March 2008	(1)	(4)	(0)	(0)	(1)	(6)
Inquiries completed in 2007/08	12	1	2	1	0	16

Figure 1 Mergers: OFT referral rates (rolling 12-month totals)



Figure 2 SLCs etc (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.

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



<i>Key issues for 2007/08</i>	<i>Outcome</i>
Improve the inquiry budget setting and monitoring process	New and improved budget processes identified and established on all new inquiries with improved management information and reporting
Implement a new finance system	'Focalpoint' successfully implemented, and better financial information available for all users
Provide better support to our membership	At members' request have introduced: comprehensive training programme; improved appraisal system; improvements to remote working; and developed a members' section on the CC's Intranet
CC staff find the CC to be a good workplace, are committed and have the opportunity to develop and keep their skills and knowledge up to date	Staff turnover is better than the average for the public and private sector Job specific training and longer term development opportunities are provided and all staff are encouraged to attend when appropriate

The Corporate Services team, led by the Director of Corporate Services, has responsibility for the delivery of the objectives in this work stream. The Corporate Services team provides support to the rest of the organisation, and therefore has a wide remit. The sections below highlight the key areas of improvement during the financial year 2008/09.

Efficiency savings and budgets

A new inquiry budgeting process has been introduced to improve the setting and monitoring of budgets on inquiries. Standard budgets are now set up to provisional findings on merger inquiries and for the first four months on market investigations. The finance team are working with the inquiry teams to ensure that new budgets are set for the second stage of the inquiry. The advantage of this new process is that a more accurate budget is set at the beginning of the inquiry, making each stage of the budgeting process more meaningful for the inquiry team to monitor against.

A new finance system has also been introduced this financial year, which has improved the process of recording the CC's expenditure and income. The new finance system records timesheets against a budget set by inquiry teams, which has improved the accuracy of recording staff time spent on an inquiry, and provides a more accurate figure of actual costs. The new finance system produces reports on a monthly and annual basis showing accounts to date compared to budget. Budget holders can also run their own reports to monitor their expenditure at any stage. The new system allows invoices to be scanned in, which then allows budget holders to review them online and approve them electronically and invoices are paid more quickly. An unexpected benefit is that the CC has improved its monitoring of sick leave and is better able to manage absence issues. A final advantage to the new system is that the CC's accounts can be audited at any stage during the year if required.

In 2007 the CC received confirmation from the Valuation Office Agency (VOA) that the last remaining office space at New Court was to be taken on by the VOA, thus releasing the CC from its liability for New Court from April 2008. The remainder of the CC's office space continues to be managed in a pro-active way and we are meeting our full obligations as required under the Terms of the Lease for Victoria House. During the last financial year, there were very few changes with regards to the sub-tenants but marketing has commenced in preparation for the end of leases of some sub-tenants in 2008.

Support to members

Following recommendations made in the Council's Review, ongoing improvements are being made to the support and service available to our members. These include:

- A training programme for 2008, providing relevant training opportunities open to members and staff on a variety of competition-related topics.
- The opportunity to attend a feedback meeting with the Chairman or the Chief Executive to discuss members' contributions on recent inquiries and provide an opportunity to discuss ways to improve the effectiveness of both members and staff.
- An Intranet page for members has been launched providing a central point for members to find items of interest, such as newsletters, information about up and coming seminars and training sessions, CC guidance for inquiries and other relevant documents.
- Policy changes have also provided improved communication with members, by allowing more flexibility in the way members receive papers and greater use of remote working.
- An electronic expenses claim system to speed up the payment of expenses and improve the auditing process.

Our people and working environment

The CC continues to invest time and energy to improving the support it provides to its staff, and prides itself on being a good organisation to work for. Staff turnover at the CC is 12.3 per cent for permanent staff. This compares with 13.7 per cent for the public sector and 22.6 per cent for the private sector (Chartered Institute of Personnel and Development (CIPD) 2007 turnover report¹). Sickness absence at the CC is 2.8 per cent of working time for all staff. This compares with 3.2 per cent in the private service and 4.5 per cent in the public sector (CIPD 2007 Annual Absence Survey²).

The CC spent just under £1,500 per person on training in 2007/08, and efforts are made to monitor how this is allocated to ensure there is fair access to development opportunities. The CC encourages all staff to attend a variety of development events including lectures, conferences, seminars, away days and more formal classroom-based training.

Human Resources (HR) has created good contacts with other government departments through a network to share information. It is hoped this will establish a more formal approach to secondments and job swaps in the new financial year.

HR has also been working hard to establish a pay system that rewards high achievers and manages those with low performance. The CC ensured that the Remuneration Committee requirements for rewarding only 15 per cent of staff as top performers were implemented and that staff at all levels have an equal opportunity for this highest reward. There has been active management for staff needing extra support to reach accepted standards and additional support was provided to managers to help with this. Going forward, the CC has appointed the consulting group, QCG to review its pay and reward systems for non-SCS staff and to ensure the CC gets the most it can from its pay remit for the new financial year by directing pay at the areas of greatest pressure.

1. Can be found on the CIPD website: http://www.cipd.co.uk/subjects/recruitmen/general/_recruitretn.htm?IsSrchRes=1

2. Can be found on the CIPD website: <http://www.cipd.co.uk/subjects/hrpract/absence/absmagmt.htm?IsSrchRes=1>

Work stream 3

Objective: to ensure the CC makes the right decisions



<i>Key issues for 2006/07</i>	<i>Outcome</i>
Review the CC's overall effectiveness, through external and internal reviews	The CC met this objective through four processes: (a) internal review at the end of each inquiry, (b) estimation of benefits of the CC's work, (c) commissioning academics to review analytical procedures and (d) publishing in-depth reviews of past inquiries. Details are set out below
Help stakeholders and others understand how the CC reaches its decisions	Papers and speeches by Chairman, Deputy Chairmen and senior staff
Review and modify CC guidance	Major review of CC merger guidance document launched, in consultation with external stakeholders
Publicise the CC's analytical approach and new thinking in the area of competition analysis	Four papers published in our Topics in Competition Policy series, covering topics as diverse as statistical analysis of survey results, the CC's approach to analysing mergers in the transport sector and assessing local competition
Assist CC staff and members to maintain and develop the effectiveness of competition analysis	We hold internal seminars and discussion forums around topics of general relevance, we also invite external speakers for seminars. In 2007/08 these speakers included academic economists, officials from BERR, practitioners from competition agencies overseas and business representatives

Work stream 3 is concerned with the CC's analysis: both the quality of the analysis within inquiries, and evaluation and quantification of the CC's activities.

Review and evaluation

The CC is committed to reviewing its work and learning the lessons from such reviews. As noted above, four processes have been established, ranging from immediate post-inquiry review to major external retrospectives on past inquiries.

1. All completed inquiries are reviewed internally, soon after completion. Members and staff are asked to comment on the inquiry and the inquiry director prepares a discussion paper for a meeting chaired by the Chief Executive. The aim is to identify lessons for other inquiries, or requiring follow-up by the CC more generally.
2. Beginning in 2005/06, the CC began to publish annual estimates of the consumer detriment it estimates that it is tackling through its decisions. This year we made minor changes to the methodology for doing so, to ensure that the estimates produced by the CC and OFT provide a consistent picture of the value of the competition regime enforced by the two bodies together. This year's joint estimated benefits from the two bodies' work in mergers and market inquiries is £1,009 million, compared to costs of around £30 million.
3. The CC aims to keep its analytical approach and procedures under constant review. As part of this commitment, it commissions occasional evaluations from academics or consultants on specified topics. The normal approach is to provide reviewers with access to the papers and materials available to the CC in past inquiries and assess whether the analysis could have been better. This

year, Dr Lars Nesheim of University College London and the IFS completed his review of the use of quantitative techniques in merger inquiries. His findings, presented at a seminar to CC economists, pointed to a number of areas in which analysis could improve. In addition, Professor Paul Grout of Bristol University was commissioned to review the use of data on stock market prices in merger analysis, and will report in 2008/09.

4. As well as commissioning immediate reviews, and reviews of analysis, the CC has a programme of in-depth retrospective evaluations of past cases. Using publicly available information, particularly interviews with industry participants, CC or external reviewers look back at past CC inquiries to find out what happened next, and assess the CC's decision-making in the light of market developments. In January 2008, the CC published the latest in this series, a review of four CC cases: three mergers and one regulatory investigation. This review was carried out by CC staff economists. The next review is being commissioned externally, and will be a joint project between the CC, OFT and BERR, with the CC in the lead. It will focus on mergers and will be the first such review of CC and OFT decision-making under the Enterprise Act 2002. Findings will be published in 2008/09.

Work stream 4

Objective: to ensure the CC takes the right remedial action



<i>Key issues for 2007/08</i>	<i>Outcomes</i>
Improve the guidance on remedies	Drafted and internally consulted on new guidance to cover all merger remedies
Undertake training and knowledge transfer of remedies	Training was provided throughout the year to members and staff. Also participated in ICN merger workshop
Implement remedies on reported merger inquiries and market investigations	Remedies were required in six merger inquiries and two market investigations

The purpose of this work stream is to develop the CC's approach to remedies in accordance with leading international standards and to ensure that remedies expertise and learning is shared effectively with members and staff. The CC's Remedies Standing Group (RSG) is responsible for the governance of this work stream and considers issues of policy, reviews learning arising from current and past inquiries and issues new or updated guidance.

Developing the CC's approach to remedies

The RSG reviews remedies learning points on conclusion of all relevant cases. In addition, the CC has an ongoing programme of reviewing the outcomes of remedies on past cases. During the past year, the CC has prepared new guidance to cover all merger remedies. This incorporates the results of experience in using existing guidance and the outcomes of remedies research. It aims to provide a more effective remedies process and greater clarity for merger parties. The guidance has completed its internal review stage and was launched for public consultation at the beginning of the new financial year.

Communication and sharing expertise

Training is regularly provided to members and staff on the CC's remedies approach and issues of topical interest on remedies. During the year, CC staff also presented the CC's remedies approach and policy to several external audiences of advisers. In April 2007 the CC chaired and facilitated relevant sessions of the International Competition Network's (ICN's) merger workshop and provided the remedies case study.

Practical application

Remedies were required in six merger inquiries reporting during 2007/08 namely:

- South East Water/Mid Kent Water.
- Stonegate Farmers/Deans Food Group.
- Kemira GrowHow/Terra Industries.
- Thermo Electron Manufacturing/GV Instruments.
- Macquarie UK Broadcast Ventures/National Grid Wireless Group.
- BSKyB/ ITV.

All of the above except the Kemira case were completed mergers. Behavioural undertakings were required in the South East Water and Macquarie inquiries. Divestiture was required in all other cases. The BSKyB case is subject to appeal before the CAT.

In the year the CC also implemented remedies for the Home Credit and Northern Irish Personal Banking market investigations. In both cases the measures were implemented by means of an order.

Work stream 5

Objective: to ensure the CC has first-class procedures



<i>Key issues for 2007/08</i>	<i>Outcome</i>
Implement process and procedural changes arising from Council's Review	Incremental changes to guidance and procedures adopted; more significant changes of approach being taken forward
Implement lessons learned from first market investigations in order to improve efficiency and reduce duration	Improvements to project management and information gathering being applied to current inquiries
Analyse causes of delay in merger inquiries and identify solutions to recurring problems	In progress: emerging issues include need for targeted use of formal powers
Review transparency arrangements and procedures for safeguarding rights of defence	Revised guidance for Groups in course of preparation

Council's review

The Council's review identified a number of ways in which the conduct of CC investigations could be improved, with a view to improving efficiency, reducing the burden on parties and reaching decisions more rapidly. In particular:

- steps taken to streamline merger inquiries should be applied to all inquiries as far as possible;
- project management on inquiries should be improved; and
- guidance on structure and content of reports should be developed to assist production on shorter reports where feasible.

The recommendations from the review have been adopted where possible through revisions to guidance and training and are being developed where further implementation is required.

The review also concluded that the CC should increase its use of primary evidence (documents and data): the implementation of this has implications for the way inquiries are conducted and inquiry teams are organised, and these have been the subject of a separate implementation project.

Market investigation procedures

The CC has continued to focus attention on improving the efficiency of procedures for market investigations with a view to completing some investigations more quickly and reducing the burden on parties where possible. The lessons from investigations completed during the year have been considered and are being applied on current investigations.

These include:

- reducing the number and improving the focus of hearings;
- improving project management to ensure adequate time for later stages including discussion of remedies and targeted information gathering strategies; and
- using compulsory powers wherever required.

Analysis of delay

The CC is committed to completing its merger inquiries within the statutory deadline and minimising the number of extensions sought. Research on the causes of delay has been conducted to identify whether there are common causes which can be addressed through changes to internal processes or the way we interact with parties. This work is continuing. Emerging issues include improving effectiveness of information gathering, including use of formal powers.

Transparency

The CC is committed to conducting its inquiries in a transparent and fair way which gives both main parties and third parties an appropriate understanding of the issues and evidence. The CC is reviewing its approach to disclosure and transparency to ensure that these objectives are being achieved in the most effective way. This involves comparison of the CC's approach with those of other equivalent authorities and consideration of the most effective way to communicate evidence from hearings. Revised guidance to groups on disclosure will be produced in the course of next year.

Regulatory investigations

In the course of this year the CC has completed an inquiry under the Airports Act into the level of charges at Heathrow and Gatwick and its first Energy Code Modification appeal and received a Communications Act reference from the CAT on mobile termination charges. Specific procedures for these different types of regulatory investigation have been developed by the Groups conducting the investigations with coordination and oversight from the procedures and practices committee.

Work stream 6

Objective: contribute effectively to development of competition policy and practice



<i>Key issues for 2007/2008</i>	<i>Outcome</i>
Contribute effectively to competition policy and procedural issues in order to improve the operation of the UK competition regime	CC staff have been kept fully informed of and involved in policy matters. The CC has continued to work with and effectively communicate with other governmental departments, including the OFT, BERR and HMT
Promote an understanding of the CC's work and the benefits of competition to UK stakeholders including the business community and consumers	CC staff has attended key seminars and conferences throughout the past year. The Chairman and Deputy Chairs have delivered speeches to a broad range of audiences in the UK
Contribute effectively to international competition networks where the CC has expertise	The CC has taken part in key competition events including OECD, ICN and UNCTAD. In addition, the CC has made quality contributions to papers and presentations, particularly in conjunction with the OFT

Relations with government departments

Over the past year the CC has continued to work closely with the OFT and BERR. In particular, the CC has liaised with BERR and the OFT in the context of the preparation by BERR of a consultation document on improving the competition regime. This is the result of an earlier stocktake exercise reviewing the operation of the Enterprise Act 2002.

Work with the OFT on identifying suitable markets for investigation has continued throughout the year to ensure optimal operation of the markets regime. The CC has also established good contacts in the various market groupings of the OFT, this has contributed to greater understanding and communication such as to benefit the work of both agencies. As regards mergers, the CC has continued to work with the OFT to ensure a smooth handover of merger cases and to liaise with the OFT in the final stages of a merger inquiry where remedies are necessary.

International relations

The CC continues to develop bilateral relations with overseas competition authorities, including the European Commission, to share experience and lessons learnt and to increase cooperation in areas of common interest. Members and senior staff have participated in events hosted by overseas authorities and hosted events for numerous visitors, from international government ministries, academic institutions and competition authorities. These included the Competition Commission of Singapore, the Australian Competition and Consumer Commission and the Konkurrensverket (Swedish Competition Authority).

The CC has continued to be involved in and benefit from involvement in international competition organisations such as the Organisation for Economic Cooperation and Development (OECD), ICN and the United Nations Conference on Trade and Development (UNCTAD). In particular, the CC has continued its participation in the Mergers and Unilateral Effects Working Groups of the ICN.

In the coming year, the CC will continue its liaison with other competition authorities and foreign government departments. Particularly in relation to its review of CC merger guidance, the CC will be taking into account the experience and policies of such organisations and recommended best practices published by the ICN and OECD.

Inquiries and investigations in the review period April 2007 to March 2008

Status on 31 March 2008

Market Investigations		
Northern Irish Personal Banking	Published	
Groceries Market	In hand	
Payment Protection Insurance	In hand	
BAA Airports	In hand	
Rolling Stock Leasing	In hand	
Merger Investigations		
Clifford Kent Holdings Ltd/Deans Food Group Ltd	Published	
South East Water/Mid Kent Water	Published	
Wienerberger Finance Service BV/Baggeridge Brick plc	Published	
Thermo Electron Manufacturing Limited/GV Instruments Limited	Published	
Kemira GrowHow Oyj/Terra Industries Inc	Published	
Greif Inc/Blagden Packaging Group	Published	
Woolworths Group plc/Bertram Group Ltd.	Published	
Tesco/Co-Op store acquisition, Slough	Published	
Sportech plc/Vernons	Published	
G4S Cash Services/Abbotshurst Group (security Plus)	Cancelled	
BSkyB/ITV	Published	
Polypipe building products Limited/Verplas Limited	Cancelled	
Macquarie UK Broadcast Ventures/National Grid Wireless Grp	Published	
Game Group plc/Game Station Limited	Published	
Killarney Manufacturing Group/Balmoral Group	Cancelled	
CineWorld Group plc/Hollywood Green Leisure Park, Wood Green	Cancelled	
Regulatory Inquiries and Appeals		
Energy Code Modification UNC116	Published	
Price controls appeal: Mobile call termination	In hand	
Heathrow and Gatwick Quinquennial Review	Published	

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Personal Current Account Banking Services in Northern Ireland

FINDINGS CONCLUSIONS REMEDIES OUTCOME

The CC found that banks had unduly complex charging structures and practices and did not fully or sufficiently explain their charging structures and practices. Customers generally did not actively search for alternative PCAs or switch banks. The CC's remedies were designed to help customers make informed choices about PCAs as well as improve the switching process. Remedies included providing better and clearer information to customers to help them understand banks' PCA services; giving customers at least 14 days' notice before deducting overdraft charges and interest from their account; and introducing improvements to the switching process to ensure customers who switch banks do not incur costs in doing so.

Referred:
26 May 2005

Published:
15 May 2007

Inquiry Group:
Christopher Clarke, *Chairman*
Professor John Baillie
Laura Carstensen
Ian Jones
Jeremy Seddon (died in
November 2006)

Parties:
Four Northern Ireland clearing
banks, seven Great Britain
banks operating in Northern
Ireland and two super
complainants—the Consumer
Council for Northern Ireland
and Which?

Market:
Personal current account
banking services in Northern
Ireland

Outcome:
Adverse effects on competition
found and remedied

The investigation into personal current accounts (PCAs), involved the four Northern Ireland clearing banks, Bank of Ireland, First Trust, Northern Bank and Ulster Bank (the clearers) and seven banks operating in Northern Ireland that are not clearers (the non-clearers). The investigation followed a super complaint from Which? and the Consumer Council for Northern Ireland.

Findings

We concluded that the product market should include all PCAs, including packaged accounts, but should not be drawn more widely to include other types of personal account such as basic bank accounts, instant access savings accounts, credit union accounts, offset/current account mortgages or other personal financial products. We also concluded that the geographic market was Northern Ireland. Depending on the measure of market share used we found that the clearers' market share in 2005 was between 69 and 77 per cent and that this had fallen since 2002.

We found that there was a general lack of customer interest in PCAs and that customers tended to view PCAs as 'all the same'. Their perception was that switching PCAs was much more difficult and risky than it was in practice. Some problems did nevertheless

arise, despite the success of the Banking Code in relation to switching. Annual rates of switching in the PCA market in Northern Ireland as a whole were between 1.5 and 4 per cent. There was a lack of responsiveness to changes in charges or interest rates and given the state of competition in the market the financial incentives to switch were unlikely to outweigh the perceived risk for most customers.

We found that a customer's decision to switch was more often prompted by dissatisfaction with their existing bank than the recognition of a better offer elsewhere. Dissatisfaction often arose from the bank levying unauthorized overdraft charges; customer understanding of such charges appeared to be low, some were not aware of when they were charged and few knew the levels of their banks' charges or how they compared with competitors. Other causes of dissatisfaction which may prompt switching included poor service, unhelpful staff and bank errors. The single most important factor in the choice of a new bank was access to a branch. Other important factors were personal recommendation and to some extent, levels of interest and charges. However, customers had been unlikely to compare and assess such charges when choosing a new bank. This applied to new-to-banking as well as existing customers.

We found there to be an inherent complexity in PCA charging structures in part because PCAs service a wide variety of needs. Even so, PCA charging structures were unduly complex particularly for authorized overdraft charges associated with the traditional PCAs of the clearers and for unauthorized overdraft charges levied on all PCAs. The banks, particularly the clearers, described their charges using terminology that was unclear and, in many cases, inconsistent between banks. This was particularly true of unauthorized overdraft charges and, to some extent, ancillary charges. In general customers were not provided with the necessary information to enable them to have sufficient understanding of the charges and interest rates that might apply to the PCA.

Charges and credit interest rates on traditional PCAs showed similarities in pricing that were unlikely to be explained by costs since, in most cases, banks did not know their costs of providing a particular PCA service. Nor were they likely to be explained by high levels of competition in the market. Unauthorized overdraft charges and debit interest rates were unlikely to be explained by costs. Charges and debit interest rates were likely to be above the levels that would apply in a well-functioning market. Clearers' customers paid more, on average than non-clearers customers to operate their PCA as evidenced by the total revenues earned directly per account.

In many cases these findings are indicators or outcomes of a lack of competition in the market. The banks as a whole continue to be able to impose higher charges or levels of debit interest, pay lower levels of credit interest and/or offer lower levels of service and innovation, in particular to existing customers, than might be the case if switching were more prevalent. Although the findings are caused by market-wide features, the findings may differ among individual banks depending, for example, on the bank's business model, ownership or strategy.

Conclusions

The features which we found prevent, restrict or distort competition are that banks have unduly complex charging structures and practices; they do not fully or sufficiently explain their charging structures and practices; and customers generally do not actively search for alternative PCAs or switch banks. These features make it likely that customers incur higher charges and receive lower levels of credit interest than they might expect in a more competitive market.

Remedies

We considered that, despite significant recent changes, the market as whole would remain uncompetitive due to complexity and lack of information combined with a reluctance of customers to switch.

The final package of remedies includes requirements for banks serving PCA customers in Northern Ireland to:

- provide easy-to-understand terminology and descriptions of PCA services;
- provide clear explanations on the levels of charges and interest rates and how and when they are applied;
- provide more information on bank statements including details of charges and interest rates;
- provide every customer with an annual summary and breakdown of charges and interest;
- give customers at least 14 days' notice from the date of their statement before deducting overdraft charges and interest from their account;
- remind customers each year of their right to close their account or switch to another bank; and
- introduce improvements to the switching process to ensure customers who switch banks do not incur costs in doing so.

In considering what remedies to put into place and how they would be implemented, we worked closely with those undertaking complementary initiatives including the review of the Banking Code and the OFT's market study into personal bank current account pricing which cover the whole of the UK.

We also recommended that BACS review the switching process with a view to identifying and addressing any outstanding impediments to switching direct credits, direct debits and standing orders.

Outcome

Remedies were implemented by means of an Order published in February 2008. Measures relating to better and clearer information were in place by 1 July 2008, with the remainder—which will involve greater changes to software systems—implemented by 1 April 2009. BACS has completed its review of the account switching process and work is already underway in implementing the recommendations.



MERGER INQUIRY **Clifford Kent Holdings Limited**
and Deans Food Group Limited
FINDINGS CONCLUSIONS REMEDIES OUTCOME

The CC found that the completed merger, of the two largest suppliers in the UK of shell eggs to retailers, would give rise to substantial lessening of competition (SLCs) in the market for the supply of the three categories of shell eggs to retailers and in the market for the procurement of shell eggs from producers. The CC ordered the divestiture of the Stonegate business.

Referred:
13 September 2006

Published:
20 April 2007

Inquiry Group:
Dame Barbara Mills, *Chairman*
Dr John Collings
Dr Peter Davis
Professor Stephen Wilks

Parties:
Clifford Kent Holdings Limited
Deans Food Group Limited

Markets:
The supply of shell eggs

Outcome:
Divestiture

The inquiry concerned the completed merger of Clifford Kent Holdings, the parent company of Stonegate Farmers Limited (Stonegate), and Deans Food Group Limited (Deans) into a single company known as Noble Foods Limited (Noble), with both Stonegate and Deans being suppliers of shell and processed eggs.

Findings

We found four relevant product markets for the supply of shell eggs. The supply to retailers of each of the three categories of: cage and barn eggs, non-organic free-range eggs, and organic eggs; and the supply of all shell eggs to catering and wholesale customers. On balance, we found that the geographic market for the relevant shell egg markets was likely to be national. Most retailers had “buy British” policies and appeared reluctant to switch from Lion-marked eggs (a scheme for UK-produced eggs) to imported eggs even in the event of 5 per cent increase in the price of UK eggs.

In the case of the supply of shell eggs to catering and wholesale customers we found that the merged company’s share of supply, about 25 per cent, was significantly below that to retailers and the use of other suppliers was more significant than for multiple retailers.

For processed eggs, we found that there were separate markets for liquid, powdered and hard-boiled eggs.

The parties argued that liquid and powdered eggs were functionally identical, but we received a number of responses that indicated that a significant number of customers considered powdered egg to produce an inferior product and that they would be likely to absorb a 5 per cent increase in the price of liquid egg. Determining the geographic market for liquid egg was not straightforward as some customers were prepared to source egg produced and processed either in the UK or Continental Europe, some were prepared to

use only eggs processed in the UK but were less concerned as to whether the egg was of UK origin, and some were prepared only to use egg produced and processed in the UK. The merger might lead to some loss of competition for those customers only prepared to use UK produced and processed egg, but we considered that the overall threat of customers switching some of their requirements to imported liquid egg or to other UK suppliers in response to a price increase would likely offset this possible loss of competition.

In the case of hard-boiled eggs, these were not supplied by Stonegate and a number of other suppliers were present in the market.

Many farmers raised concerns about the potential bargaining power of the merged company fearing that Noble's increased buying power against that of its contracted producers would result in lower prices paid to producers and/or a reduction in the quantity of eggs produced. We considered that the strong buying power of the merged company would give it the ability and the incentive to buy from producers on less-favourable terms in a number of ways.

Conclusions

We concluded that the merger would give rise to SLCs in the markets for the supply of cage and barn, non-organic free range and organic shell eggs to retailers; and in the market for the procurement of shell eggs from producers in the UK.

We concluded that the merger would not give rise to SLCs in the market for the supply of shell eggs to catering and wholesale customers or the markets for the supply of processed egg.

Remedies

A divestiture process was developed to address the SLCs in the markets for the supply of shell eggs to retailers and in the market for the procurement of shell eggs from producers in the UK. This required Noble to sell Stonegate to a suitable purchaser within an initial period. If Noble failed to sell

Stonegate within this period, we would have the right to appoint a divestiture trustee to dispose of Stonegate.

Outcome

Following the failure of Noble to sell Stonegate to a suitable purchaser, we appointed a divestiture trustee on 22 April 2008. A suitable buyer has since been found and completion of the divestiture is expected in July 2008.



MERGER INQUIRY

South East Water Limited and Mid Kent Water Limited

FINDINGS CONCLUSIONS REMEDIES OUTCOME

Although the merger of these two water companies would prejudice Ofwat's ability to make comparisons between water enterprises the CC found the merger would generate customer benefits. Cost savings would be passed through to customers who would also benefit from improved water resource management likely to result from the merger.

Referred:
16 November 2006

Published:
1 May 2007

Inquiry Group:
Dr Peter Davis, *Chairman*
Professor Cosmo Graham
Richard Holroyd
Alexander Johnston
Martyn Webster

Parties:
South East Water Limited
Mid Kent Water Limited

Market:
The water industry in England
and Wales

Outcome:
Undertakings given to remedy
adverse effects

Findings

This completed acquisition was the first water inquiry under the new provisions of the Water Industry Act 1991 as amended by the Enterprise Act 2002. Before the merger, South East Water Ltd (SEW) and Mid Kent Water Ltd (MKW) were the second- and sixth-largest water-only companies respectively, by turnover. SEW served a population of around 1.4 million in the South-East of England. MKW served a population of around 590,000 primarily in Kent.

We found that a water merger had taken place, and identified the period covering the next two price reviews (2009 and 2014) as the foreseeable future over which to consider the effects of the merger. We identified four different ways in which the merger might adversely impact upon the Water Services Regulation Authority's (Ofwat's) ability to make comparisons between water enterprises compared to the pre-merger situation in which MKW and SEW were owned and operated

separately. We looked at whether the merger may be expected to result in the loss of a company expected to form the benchmark in Ofwat's econometric models; reduce the precision of the econometric models from which Ofwat estimates technical efficiency targets; adversely effect Ofwat's ability to make cost-base comparisons and challenge cost-base estimates; and/or adversely effect Ofwat's ability to make other qualitative comparisons between companies.

We also considered whether there were alternative approaches available to Ofwat which might mitigate the impact of the loss of a comparator following the merger. We found there to be scope in particular for exploring the use of both sub-company data and panel data, but we were not persuaded that the use of alternative methodologies by Ofwat would affect our views on the impact of a loss of a comparator.



Conclusions

We concluded that the merger was likely to have adverse impacts on Ofwat's ability to make comparisons between water companies resulting in less effective comparative competition and higher customers' bills. These adverse impacts comprised a small adverse impact on the precision of Ofwat's econometric models; a small adverse impact arising from the reduction in the dispersion of standard cost-base estimates; and a small adverse impact on Ofwat's ability to make qualitative comparisons. However, we concluded that the merger was not likely to result in an adverse impact arising from the loss of a company which was expected to form the benchmark in Ofwat's econometric models, or from the loss of a company which was expected to be selected as a cost-base benchmark for standard cost estimates. We concluded that these adverse impacts amounted to prejudice but that this prejudice was likely to be limited.

Remedies

We concluded that the merger would result in relevant customer benefits that were substantially more important than the prejudice that we had identified. We therefore concluded that the most reasonable and proportionate remedy was a price reduction which would mitigate the

adverse effects we expected, and would at the same time allow relevant customer benefits to be realized. The price reduction should take place through MKW and SEW customers' bills in 2008/09 and total £4 million. It should be accompanied by a requirement for MKW and SEW to accept a price determination in 2009 that reflects annual savings of £3.1 million in operating expenditure.

Outcome

On 29 November 2007 we accepted final undertakings from SEW and MKW and their parent companies giving effect to the agreed price reduction remedy.

MERGER INQUIRY **Wienerberger Finance Service BV** **and Baggeridge Brick Plc**

FINDINGS CONCLUSIONS OUTCOME

This proposed acquisition involved two of the four largest UK producers of clay bricks. The CC found that after the merger customers would be able to switch quickly and easily between comparable products offered by the three remaining producers. Because of the characteristics of the brick market, the merger would not increase the scope for tacit coordination between the remaining producers.

Referred: 11 December 2006
Published: 10 May 2007
Inquiry Group: Christopher Clarke, *Chairman*
Laurence Elks
Ian Jones
Peter Jones

Wienerberger Finance Service BV, an Austrian-based company whose subsidiary Wienerberger Ltd accounted for between 15 and 20 per cent of UK clay brick production, agreed to acquire Baggeridge Brick Plc. After the merger, Wienerberger would have a total UK market share of 25-35 per cent, the majority of the remainder being held by the two other large producers, Ibstock Brick Ltd and Hanson Building Products Ltd.

Parties: Wienerberger Finance Service BV
Baggeridge Brick Plc
Market: Clay brick manufacture
Outcome: Clearance

Findings
Bricks are used primarily as a cladding material for the external faces of buildings. Most are “facing” bricks; those with specific strength and water-resistance qualities are known as “engineering” bricks, though widely used in cladding applications also. Larger customers tend to multi-source, buying from some or all of the four large producers in varying proportions during the course of a year. The demand for bricks had been declining for many years and all four

producers had higher than normal stocks of bricks and significant excess capacity.

We concluded that the relevant product market included all clay facing and engineering bricks, but not fletton bricks (a distinctive type of facing brick now mainly used for repair, maintenance and improvement), concrete bricks or alternative cladding materials such as timber and render. We concluded that the relevant geographic market was Great Britain.

We found no evidence that Wienerberger would have the ability to exploit its market position following the merger. The existence of alternative suppliers with national distribution capabilities offering comparable products, the relative ease with which customers could switch between suppliers, and the existence both of substantial excess stocks and spare capacity made it unlikely that unilateral price increases by Wienerberger would be profitable, particularly



as many customers were sophisticated large-scale buyers and already multi-sourcing.

Evidence relating to prices, costs, market shares, capacity and profits indicated that there had not been tacit coordination between the four brick producers on prices or capacity over the previous five years.

We also found that the merger would not increase the likelihood of the three remaining producers coordinating in the future. The nature of the market for bricks, with a large number of individual products, each sold at a wide range of prices determined by individual negotiation, and with changes in plant capacity difficult to observe, meant that it would be hard both to establish focal points for price or capacity coordination and observe deviation from the prevailing behaviour. The absence of symmetry between the firms after the merger, in terms of operating costs and gross margins, indicated that there would not be incentives for the firms to coordinate.

Conclusions

We concluded that the proposed acquisition may not be expected to give rise to an SLC, either by Wienerberger

exercising enhanced market power unilaterally or by increasing the likelihood of coordinated action between the remaining producers.

Outcome

We cleared the proposed acquisition.

MERGER INQUIRY

Thermo Electron Manufacturing Limited and GV Instruments Limited

FINDINGS CONCLUSIONS REMEDIES OUTCOME

The CC found that the completed merger of the two largest suppliers of IRMS instruments would lead to higher prices for customers. In order to maintain competition in this market the CC ordered the divestiture of parts of the GVI business.

Referred:
15 December 2006

This inquiry concerned the completed acquisition of GV Instruments Limited (GVI) by Thermo Electron Manufacturing Limited, part of Thermo Electron Corporation (Thermo).

Published:
30 May 2007

Inquiry Group:
Dr Diane Coyle, *Chairman*
Christopher Bright
Carolann Dobson

GVI and Thermo are both suppliers of Isotope Ratio Mass Spectrometry (IRMS) instruments.

Parties:
Thermo Electron
Manufacturing Limited
GV Instruments Limited

Findings

We found that there are four separate product markets: Gas MS, Thermal Ionization MS (TIMS), Multi-Collector Inductively-Coupled Plasma MS (MC-ICP-MS), and Noble Gas MS. We considered that each of these markets is global.

Market:
Isotope Ratio Mass
Spectrometry instruments

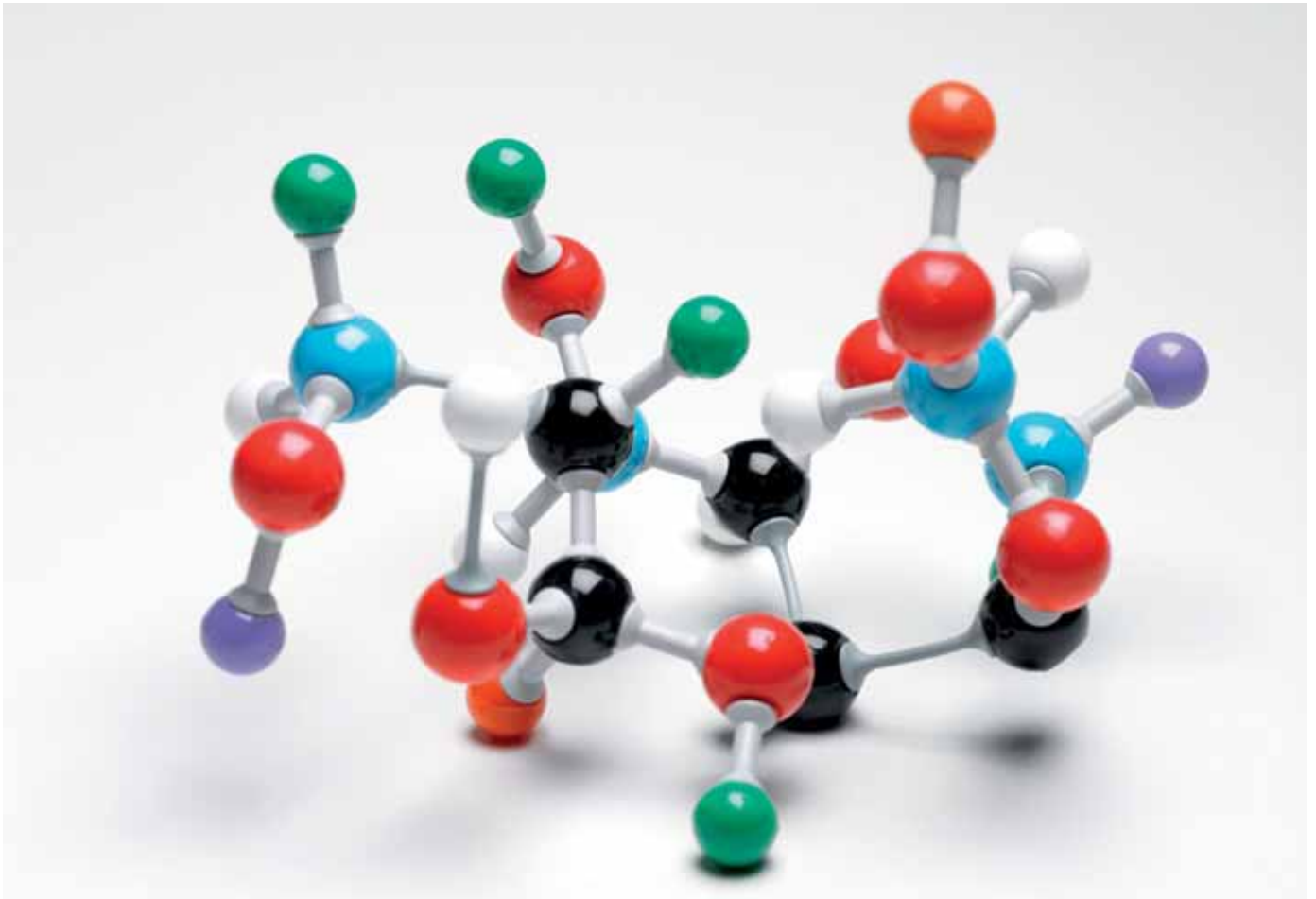
We examined competition in the relevant markets and found that most sales took place by a tender process, such that Thermo and GVI had competed in the Gas MS, TIMS and MC-ICP-MS markets.

Outcome:
Divestiture

We found significant barriers to entry and expansion, including the time and cost of

product development and the need for a good market reputation. During the inquiry, a competitor in the MC-ICP-MS and Noble Gas MS markets announced the launch of its own Gas MS product. However, this company was some years from sales of its product on any significant scale and we decided that it was unlikely to impose any substantial competitive constraint on Thermo in the near future. As such, we did not change our finding on barriers to entry.

We considered what would have occurred if Thermo had not acquired GVI ('the counterfactual'). Thermo submitted that, had it not acquired GVI, GVI would have imminently failed and gone into liquidation and, though some assets might have been bought by small competitors, the additional competitive constraint on Thermo would have been negligible. We obtained evidence about GVI's financial condition and concluded that GVI would most likely have failed, without the likelihood of a successful restructuring.



We also gathered evidence about prospective acquirers of GVI in this scenario and concluded that, due to the potential interest, a sale of at least GVI's Gas MS and TIMS assets out of administration would have been the most likely outcome. These possible acquirers would have maintained a substantial competitive constraint on Thermo in these markets.

Conclusions

In the Gas MS and TIMS markets, we concluded that an SLC might be expected to result from the completed merger. We did not find an SLC in the MC-ICP-MS market.

Remedies

We believed that divestiture of GVI as a whole would provide the most effective remedy but we acknowledged that partial divestiture, if feasible, might also be an effective remedy, and would be less intrusive than divestiture as a whole.

Thermo agreed to sell either the whole of GVI or its Gas MS and TIMS assets in order to remedy the SLC effectively.

At the beginning of the inquiry we put in place interim undertakings to keep the Thermo and GVI businesses separate and subsequently directed Thermo to appoint a

Monitoring Trustee. These arrangements stayed in place until the divestitures which achieved an effective remedy were completed.

Outcome

The reference was brought to a close by the sale of the Gas IRMS product line on 11 December 2007 and of the TIMS product line on 4 February 2008.

MERGER INQUIRY **Kemira GrowHow Oyj and Terra Industries Inc**

FINDINGS CONCLUSIONS REMEDIES OUTCOME

The CC found that the proposed joint venture, a merging of the two main UK suppliers of fertilizer and associated chemical products, would give rise to an SLC in four of the seven relevant markets. Remedies to maintain competition within those markets were implemented and the joint venture commenced trading.

Referred: 26 January 2007
Published: 11 July 2007
Inquiry Group:
Robert Turgoose, *Chairman*
Jill Hill
Professor Sudi Sudarsanam

The inquiry concerned a proposed joint venture that would merge the greater part of the UK businesses of Kemira GrowHow Oyj (Kemira) and Terra Industries Inc (Terra). Both of these companies operated fertilizer plants that also produced associated chemical products. No other company had similar operations in the UK.

Findings

Parties:
Kemira GrowHow Oyj
Terra Industries Inc

Markets:
Fertilizers

The main market was for ammonium nitrate (AN) fertilizers. We found that this market was at least as wide as the EEA and that UK market prices were likely to be constrained by substitution, or the threat of substitution, of the parties' AN by imported AN and urea.

The most significant other use of AN, by far, is for explosives manufacture. We considered that there were potentially viable alternative sources of AN for explosives manufacturers. We recognized that there were practical issues to be overcome but, on balance, we considered that at least one of the alternatives would be viable, thereby constraining the joint venture's prices.

With regard to nitric acid (of 58 to 60 per cent concentration), aqueous ammonia and anhydrous ammonia, we found that, due to transport costs, imports did not constrain prices in the UK. The joint venture would be expected to have a very high share of each of these markets.

Outcome:
Undertakings given to remedy adverse effects

We also examined the market for complex fertilizers—those that have more than one main nutrient. Terra's share of this market was small, and although the joint venture would be the largest supplier there were other suppliers of similar size.

The ammonia production process is one of the most effective sources of carbon dioxide (CO₂). As a result, the parties, between them, had a very high share of the market for the supply of CO₂ to distributors in the UK.



Conclusions

We concluded that the formation of the joint venture would not give rise to an SLC in either of the fertilizer markets or in the market for ammonium nitrate for non-agricultural use. We concluded that it would give rise to SLCs in each of the markets for nitric acid, aqueous ammonia, anhydrous ammonia and CO₂.

Remedies

A divestiture package was developed to address the SLCs in the markets for nitric acid, aqueous ammonia and anhydrous ammonia. This package included provisions for a long-term lease on fixed assets at Ince (Kemira's main UK site), long-term supply agreements, transfer of customer contracts, transfer of information and key personnel. We considered that this remedy was viable and appropriate.

With regard to CO₂, we decided that the SLC could best be remedied by obtaining suitably detailed commitments in relation to an existing contract between Kemira and Air Liquide which would prevent the joint venture from raising prices as a result of its formation.

Outcome

We approved the joint venture subject to the prior implementation of these remedies. Both remedies were implemented and the joint venture commenced trading on 1 October 2007.

MERGER INQUIRY **Greif Inc and Blagden Packaging Group**

FINDINGS CONCLUSIONS OUTCOME

The CC found that the merged company's behaviour would be constrained by a new large steel drum production line being installed in the Netherlands by a major manufacturer of industrial packaging. This would operate in addition to any current or future constraints imposed by other existing suppliers, other imports, other forms of packaging and any countervailing buyer power.

Referred:
20 February 2007

Published:
17 August 2007

Inquiry Group:
Diana Guy, *Chairman*
Jeremy Peat
Professor Mahendra Raj
Jonathan Whiticar

Parties:
Greif Inc
Blagden Packaging Group

Market:
The supply of new and
reconditioned large steel drums

Outcome:
Clearance

This inquiry concerned the completed acquisition by Greif Inc of the new steel drum and closures businesses of Blagden Packaging Group. Greif Inc's UK subsidiary, Greif UK Limited is the largest manufacturer of new large steel drums in the UK. Prior to the merger, the acquired businesses were owned by Belgium-based Blagden Group NV, a leading producer of new and reconditioned drums in Europe.

Findings

We concluded that the product market was new and reconditioned large steel drums. So far as alternatives such as large plastic drums, IBCs and bulk transport were concerned, we found evidence of some past switching. We also noted that customers variously reported some willingness to switch and that developments in product technology (particularly in relation to plastics technology) might affect willingness to switch in future. We noted, however, that significant increases in the price differentials between large steel

drums and alternative plastic products in the past had not resulted in a pattern of switching that we might expect of close substitutes.

We concluded that the geographic market primarily affected by the merger was the supply to customers in Great Britain. We included potential imports from neighbouring countries because we found evidence that imports from at least Belgium and the Netherlands could render unprofitable a price rise in Great Britain.

We found that the demand for new large steel drums in the UK has been declining for many years. We heard that the decline was attributable partly to a decline in the demand for packaging overall, related to a decline in relevant UK manufacturing output, and partly to switching to other packaging, particularly plastic drums and IBCs.



We considered the possible effect of the merger on competition and noted that the merger would result in the loss of Greif's strongest existing competitor; one that had imposed the greatest constraint on Greif pre-merger. Without further developments in the market, we did not consider the constraints imposed by alternative forms of packaging or other existing suppliers of large steel drums would sufficiently mitigate this loss of rivalry. We therefore considered whether there were other possible factors that would develop in the market to constrain the merged entity's behaviour.

While we did not consider that entry or expansion of production in Great Britain was likely, it was clear that significant new capacity would be available shortly from Schütz Group's new plant in the Netherlands. Our analysis showed that imports from the new plant would act as an effective competitive constraint on the merged business in the future.

Conclusions

We did not reach an expectation that the merger would result in an SLC in the market for new and reconditioned large steel drums in Great Britain.

Outcome

We cleared the acquisition.

MERGER INQUIRY **Woolworths Group PLC and Bertram Group Limited**

FINDINGS CONCLUSIONS OUTCOME

The CC found that the ability of the merged company to exploit its position would be limited even against independent bookshops which tended to be more reliant than other types of retailer on wholesalers. The third wholesaler, Gardners, remained as a strong competitor and there was scope for booksellers to divert at least some orders to direct supply from publishers.

Referred: 3 April 2007

Published: 4 September 2007

Inquiry Group:
Diana Guy, *Chairman*
Ivar Grey

Richard Taylor
Professor Michael Waterson

Parties:
Woolworths Group PLC
Bertram Group Limited

Market:
The supply of books to retailers
and to libraries in the UK

Outcome:
Clearance

The inquiry concerned the completed acquisition of Bertram Group Limited by Woolworths Group PLC. Bertram is a book wholesaler and library supplier. Woolworths' book wholesale operations are handled through its two subsidiaries, EUK and THE. The merger had reduced the three largest wholesalers of books to two.

Book wholesalers supply books to a variety of retailers and libraries and they stock and market books from many publishers. Publishers also offer direct supply of books to retailers. In 2006, over 75 per cent by volume and 78 per cent by value of book supply to retailers was sourced from publishers or distributors acting on behalf of publishers (together these are termed direct supply) with the remainder being sourced from wholesalers.

Findings

We concluded that there were separate relevant markets for the supply from

wholesalers or by direct supply of books to supermarkets, and for the supply of books to other retailers. A separate market existed for the supply of books to libraries. The geographic market was the UK.

Bertram had not been active in supplying supermarkets—EUK's main area of business—and so we did not expect the merger of these two companies to affect competition.

Bertram and THE do compete for non-supermarket customers but their combined market share is small, as many retailers use direct supply rather than purchasing from wholesalers. We found that many retailers could feasibly switch a further proportion of their demand to direct supply, and we concluded that this was a sufficient constraint at the margin to prevent a blanket increase in prices in the wholesale supply of books. Publishers would also have the option of promoting closer competition from their

distributors if they believed wholesalers were operating in a way which adversely affected the publishers' interests in selling books. We also expect that Gardners would seek to compete aggressively if the merged party were to seek to increase prices.

We considered whether there would be potential for the merged parties to discriminate selectively against customers, or in particular purchasing circumstances, where the ability to switch to direct supply was limited. Independent retailers were the group most likely to be vulnerable to changes in the wholesale market since many tended to rely on wholesalers for orders requiring rapid delivery and purchase of back-list books.

We found that a policy of discriminating against independent retailers was unlikely to be profitable because such retailers varied in the ability and willingness to increase their purchases through direct supply and there was no obvious means of determining the willingness of individual retailers to switch to direct supply. We did not think it would be likely that a wholesaler could easily identify specific books ordered for particular reasons such as the need for rapid delivery on one title, or for a book which was unavailable through distributors, as such books would typically be bundled in with other titles, and raising prices for the whole order would induce the customer to switch these other purchases elsewhere.

We found that Woolworths' plans to develop the sale of books through its own stores were limited and would not be likely to influence its incentives to supply other retailers.

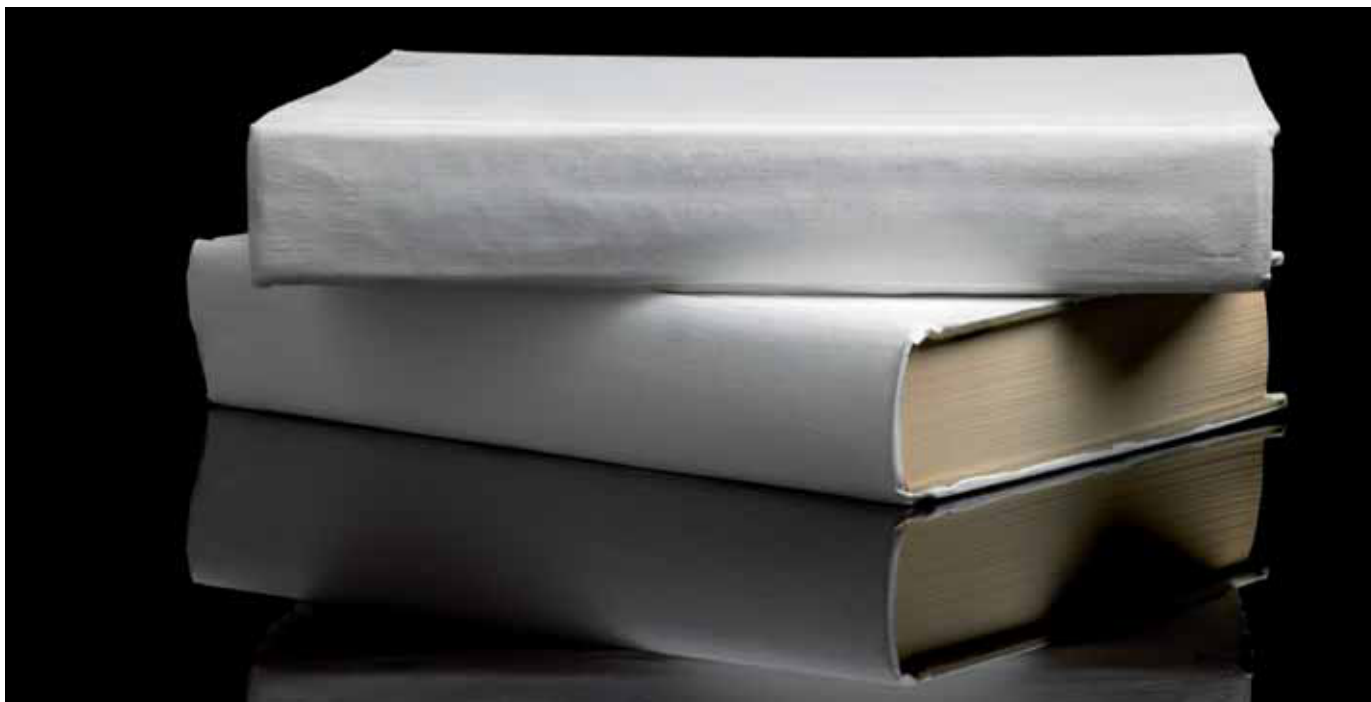
Additionally, we found that Bertram faced several significant competitors in the supply of books to libraries and that Woolworths' involvement in the supply of books to libraries has been so limited until now that no adverse effects could be expected from the merger.

Conclusions

We concluded that the acquisition had not resulted in, and may not be expected to result, in an SLC.

Outcome

We cleared the acquisition.



MERGER INQUIRY **Tesco plc and Co-operative Group (CWS) Limited**

FINDINGS CONCLUSIONS OUTCOME

Tesco's acquisition of a grocery store reduced competition and choice in grocery retailing in Slough. Negotiations are ongoing with Tesco to agree Undertakings on the sale of the site, or alternatives, to a purchaser approved by the CC.

Referred:
19 April 2007

Published:
28 November 2007

Inquiry Group:
Peter Freeman, *Chairman*
Jayne Almond
Barbara Donoghue
Professor Alan Gregory
Professor Alan Hamlin
Professor Bruce Lyons

Parties:
Tesco plc
Co-operative Group
(CWS) Limited

Market:
The supply of groceries at
larger grocery stores in the
Slough urban area

Outcome:
Divestiture

The inquiry concerned the completed acquisition of the Co-operative Group (CWS) Limited (CGL) grocery store in Slough by Tesco. It was an unusual inquiry, in that there was a three and a half year period between the completion of the acquisition (in October 2003) and its referral to the CC. Also, the inquiry took place at the same time as a CC market investigation into the supply of groceries by retailers in the UK, and there was some overlap in the issues, in particular the analytical approach to defining the relevant market.

The CGL store was located on the corner of Uxbridge Road and Wellington Street in Slough, approximately 350 metres to the east of the town centre. Tesco's supermarket in Slough was located approximately 800 metres west of the CGL store on the corner of Brunel Way and Wellington Street and to the north of Slough's pedestrianized high street shopping centre.

Tesco told us that it acquired the CGL store so as to obtain temporary trading premises while its original Brunel Way store was being extended. We concluded that concerns about the financial impact on the Brunel Way store of a competitor acquiring the CGL store also influenced Tesco's decision as to how much to bid for, and ultimately its acquisition of, the CGL store.

The acquisition was completed in October 2003. Tesco refurbished the CGL store and reopened it as a Tesco-branded store in January 2004, with Tesco operating the Brunel Way store and the CGL store simultaneously. Tesco closed the Brunel Way store for work on its extension in January 2005, and traded exclusively from the CGL

store for approximately six months. Tesco opened the redeveloped Brunel Way store on 1 August 2005, having closed the CGL store permanently the previous day.

The OFT started an investigation into Tesco's acquisition of the CGL store shortly after the acquisition was completed. In its decision of 2 February 2004, the OFT considered that there was a significant prospect that the merger would substantially lessen competition in the relevant local market, but decided to suspend its duty to refer the merger to the CC given Tesco's offer of undertakings in lieu, under which it would agree to sell either the CGL store, or a grocery retail unit in a proposed four-unit retail park on the site, to an effective competitor.

Following Tesco's final closure of the CGL store in July 2005, the OFT became increasingly concerned that Tesco should make progress in finding a suitable occupant for the proposed grocery retail unit on the site. At a meeting on 29 January 2007, the OFT told Tesco that, for its duty to refer the merger to the CC to remain suspended, Tesco must identify within two months a suitable buyer of either the undeveloped CGL store site or the grocery retail unit in the proposed Tesco redevelopment. Tesco did not provide the OFT with a proposal for a suitable buyer of either the site or the proposed retail unit, and the acquisition was referred to the CC on 17 April 2007.

On 14 June 2007, the CC accepted interim undertakings offered by Tesco, under which Tesco was permitted to continue the development of the retail park on the CGL site, subject to conditions. However, on 7 August, the CC made an interim order, under

which Tesco was obliged to cease construction pending the outcome of the inquiry, on the basis that continued construction could prejudice the reference or impede any action which might be justified by the CC's decision on the reference.

Findings

We considered that the relevant market in which the Tesco store on Brunel Way and the CGL store on Uxbridge Road competed at the time of the merger also included other larger grocery stores in the Slough urban area (being the Asda store on Telford Drive, the Sainsbury's store in Taplow and the Safeway (now Sainsbury's) store on Farnham Road). We did not, however, consider that each of these three other stores exercised the same competitive constraint on the CGL store as Tesco Brunel Way.

For the counterfactual, we considered what would have happened to the CGL store and Tesco Brunel Way in the absence of the merger. In relation to the ownership of the CGL store, we thought that the most likely outcome was that Sainsbury's would have acquired the store. In relation to Tesco Brunel Way, had Tesco not been able to relocate to the CGL store, we concluded that Tesco would have replaced the original Brunel Way store with the largest store that it could place on the site while still continuing to trade from the site during the extension.

In considering the competitive effects of this merger, we assessed whether Tesco gained the ability to increase prices unilaterally or otherwise worsen its retail offer to customers. We were particularly concerned to assess the closeness of competition between Tesco Brunel Way and the CGL store. We were also concerned that the merger may have reduced the competitive pressure faced by all stores in the relevant market.

We found that Tesco's acquisition of the CGL store resulted in a significant increase in both Tesco's market share and concentration generally in the local market, compared with the counterfactual of Sainsbury's acquisition of the CGL store. The geographic location of Tesco Brunel Way and the

CGL store, as well as evidence from Tesco Clubcard data and Tesco's internal documents analysing the acquisition proposal, pointed to a substantial overlap in the catchment areas for these two stores. We found that the CGL store was the closest competitor for the customers of Tesco Brunel Way, and that this competition would have been further emphasized had the CGL store been operated by Sainsbury's. We also found that the acquisition of the CGL store, and the consequent loss of the closest competitor to Tesco Brunel Way, provided Tesco with the ability and incentive to worsen its retail offer to customers at Tesco Brunel Way.

Although there had been developments in grocery retailing in Slough since the merger, these were not sufficient to offset the reduction in competition resulting from the merger. Moreover, in the absence of regulatory intervention, we did not expect that the retail park being developed by Tesco on the CGL site would include a grocery store that would create a competitive constraint sufficient to remedy the SLC.

Conclusions

We concluded that the acquisition of the CGL store by Tesco had resulted in a significant lessening of competition in the relevant market. We also found that Tesco's acquisition of the CGL store gave rise to reduced choice in grocery retailing for Slough residents, particularly those living in the Langley area to the east of the CGL store.

Outcome

Following publication of the report, there have been discussions between Tesco and the CC in relation to the content of proposed undertakings by Tesco to sell either the CGL site or a grocery retail unit in a retail park development on the site, to a purchaser to be approved by the CC.



MERGER INQUIRY

Sportech Plc and the Vernons Football Pools Business of Ladbrookes Plc

FINDINGS CONCLUSIONS OUTCOME

This proposed acquisition saw the merger of the UK's two remaining large football pools operators. The CC found that customers did not view them as close substitutes and that the merger would not remove a substantial competitive restraint. The acquisition was cleared.

Referred:
3 May 2007

Published:
11 October 2007

Inquiry Group:
Dr Peter Davis, *Chairman*
Roger Davis
Peter Stoddart
Jonathan Whitticar

Parties:
Sportech plc
Ladbrokes plc

Market:
Football pool betting

Outcome:
Clearance

The inquiry concerned the anticipated acquisition of the Vernons football pools business of Ladbrokes plc by Sportech plc (Sportech). Sportech already owned the Littlewoods and Zettors football pools. Together Sportech and Vernons comprised virtually 100 per cent of football pool betting in the UK.

Findings

Although the number of customers playing the pools has been steadily declining since the introduction of the National Lottery in 1994, the game was played by 800,000 people in 2006, spending almost £80 million.

The popular "treble chance" games offered by the three major football pools—Littlewoods, Vernons and Zettors—are basically the same. In each case the player chooses a number of football matches from a list of 49 and wins prizes based on the number of points won by his selection according to the actual results of the matches. The more matches they select,

the more a player pays to enter the game and the more chances they have of winning. While the games are very similar, and the proportion of the stakes returned as prizes roughly the same, there are significant differences between the three pools in terms of their entry prices and the size of the prizes they award.

We concluded that for the purposes of assessing the competitive effects of the merger the product market was no wider than football pools. While the National Lottery was more likely to be seen as a substitute for football pools than any other gambling product, we saw little evidence of the pools operators reacting to the Lottery, for example by improving the value of their games to customers. In fact, the proportion of the "pool" paid out as prizes by both Littlewoods and Vernons had fallen in recent years. We concluded that the Lottery did not act as a significant constraint on the pools operators and was not part of the same product market.



We conducted two customer surveys ourselves, one of current customers and one of those who had recently stopped playing the pools. We also had access to the results of two similar surveys commissioned by Sportech. The survey evidence showed that customers were unlikely to switch between pools operators in the event of a price increase and that very few of those that had stopped playing with one operator had started playing with another. This strongly suggested that customers did not see the operators as close substitutes for each other.

This finding was supported by evidence from a number of market events—the closure of the Vernons collector network in 1998, a Littlewoods price increase in 1999 and the marketing activities of both operators—none of which had led to significant customer switching, and by a detailed analysis we undertook of the operators’ customer databases in order to identify the number of customers that had switched over a 17-month period.

Conclusions

We concluded that Sportech and Vernons did not exercise a competitive restraint on each other that would be removed by the merger. We thus found that the proposed acquisition would not be likely to give rise to an SLC.

Outcome

We cleared the proposed acquisition.

MERGER INQUIRY

British Sky Broadcasting Group plc and ITV plc

FINDINGS CONCLUSIONS OUTCOME

BSkyB's 17.9 per cent share in ITV would enable it to influence ITV's key strategic decisions, which would likely restrict competition and therefore operate against the public interest. The CC recommended divestiture of BSKyB's stake to below 7.5 per cent. The Secretary of State accepted our recommendations. However, both BSKyB and Virgin Media had their applications for a review of his decisions and the CC's findings on jurisdiction, SLC and remedies granted by CAT.

Referred:
24 May 2007

Reported to the Secretary of State for BERR
14 December 2007

Inquiry Group:
Peter Freeman, *Chairman*
Christopher Bright
Christopher Smallwood
Professor Stephen Wilks

Parties:
British Sky Broadcasting Group plc
ITV plc

Market:
The media sector, in particular the supply of television services

The inquiry concerned the 17.9 per cent shareholding British Sky Broadcasting Group plc (BSkyB) had acquired in ITV plc (ITV). It resulted from a reference by the Secretary of State for Business, Enterprise and Regulatory Reform (BERR), following reports he had received from the OFT and Ofcom. The reference—the first to be made to the CC under the public interest provisions of the Enterprise Act—asked us to assess the competitive effects of the acquisition and to advise on whether it might be expected to operate against the public interest, taking account of any SLC and the media public interest consideration. The media public interest consideration specified was the need, in relation to every different audience, for there to be a sufficiency of plurality of persons with control of the media enterprises serving that audience.

Findings

We found that the acquisition had created a relevant merger situation; BSKyB's 17.9 per

cent shareholding gave it the ability to block special resolutions proposed by ITV's management and hence to limit ITV's strategic options. We also found that the competitive effects of the merger should be assessed with regard to the UK market for television as a whole, including both Free-to-Air (FTA) and Pay-TV services, of which ITV and BSKyB respectively were major providers. We found it likely that, given the dynamic environment in which ITV operates, the board would need to make major investments requiring external funding over the next two to three years. BSKyB would be likely to exercise its ability to influence ITV's strategy so as substantially to lessen competition by, for example, influencing ITV's strategy in relation to content production and commissioning, influencing investment by ITV in high-definition television or other services requiring additional spectrum, or attempt to influence the course of any future transactions involving ITV to weaken the constraint that FTA would otherwise provide.

In relation to the media public interest consideration set out in the Act, given the extent of BSkyB's influence resulting from the acquisition, we found that the regulatory mechanisms, combined with a strong culture of editorial independence within television news production were likely to be effective in preventing any prejudice to the independence of ITV news. We did not find that BSkyB would have the ability to exert significant commercial influence over ITV's news output or more widely over ITN.

Conclusions

We concluded that: BSkyB's acquisition of a 17.9 per cent stake in ITV was:

- likely to reduce the rivalry between ITV and BSkyB in the all-TV market and result in an SLC; and
- unlikely to operate against the public interest, having regard only to the media public interest consideration set out in the Enterprise Act.

Overall, we concluded that the SLC might be expected to operate against the public interest. We recommended to the Secretary of State that he require BSkyB to reduce its stake to below 7.5 per cent.

Outcome

The Secretary of State endorsed our media public interest findings, noted our competition findings (which were binding on him) and accepted our recommendation on divestiture. BERR is seeking final undertakings from BSkyB. BSkyB applied to the CAT for a review of the CC's findings on jurisdiction, substantial lessening of competition and remedies

and the Secretary of State's decision on remedies. Virgin Media Inc, an interested third party, applied for a review of the CC's and Secretary of State's decisions on media public interest and remedies.

The appeals were heard by CAT on 3 to 6 June 2008 (judgment not known at time of publication).



MERGER INQUIRY

Macquarie UK Broadcast Ventures and National Grid Wireless Group

FINDINGS REMEDIES CONCLUSIONS OUTCOME

The CC found that this completed acquisition, which combined the only two integrated terrestrial broadcast transmission companies in the UK, would lead to an SLC. The loss of rivalry between them could lead to higher prices and lower service quality but, following the implementation of a suitable package of behavioural remedies that would protect the interest of customers, it was allowed to proceed.

Referred:
8 August 2007

Published:
11 March 2008

Inquiry Group:
Diana Guy, *Chairman*
Laurence Elks
Jill Hill
John Smith

Parties:
Macquarie UK Broadcast Ventures Limited
National Grid Wireless Group

Market:
Supply of terrestrial transmission services

Outcome:
Undertakings given to remedy adverse effects

The inquiry concerned the completed acquisition of the National Grid Wireless Group (NGW) by Macquarie UK Broadcast Ventures Limited (MUKBV), which also owns Arqiva. Arqiva and NGW are the only two integrated providers of terrestrial broadcast transmission services in the UK.

Findings

We concluded that the relevant economic markets were the provision of managed transmission services and network access (MTS/NA) to television broadcasters, the provision of MTS/NA to certain radio broadcasters, and the provision of site access and ancillary services to mobile network operators and wireless communication service providers. We determined market shares across the UK but also considered factors which indicated that, in some markets, the parties' market shares may underestimate their competitive strength.

We found that the acquisition would lead to an SLC in the provision of MTS/NA to television and radio broadcasters. We concluded that this loss of rivalry could be expected to lead to higher prices and/or lower service quality under existing, new and renewed contracts.

Remedies

Given the unique situation created by the digital switchover (DSO) process, we agreed with customers who told us that a package of behavioural remedies could be the best way to address the effects of the loss of competition and ensure that the customers shared in the cost savings and synergies generated by the merger.

Arqiva offered a package of behavioural remedies including an immediate 17 per cent price reduction to all radio customers, an immediate 3.25 per cent price reduction to all pre-DSO television customers and price reductions worth £44 million to 2020

(net present value) for all post-DSO television customers. In addition, the measures included service quality guarantees on all existing and new contracts, and the requirement of cost-oriented pricing and fair, reasonable and non-discriminatory terms going forward. Arqiva also offered to pay for an independent adjudicator to resolve any disputes.

Subject to the successful negotiation of an appropriate form of undertakings we decided that Arqiva's proposals would be effective in addressing the adverse effects of the acquisition, whilst preserving the benefits that could arise from the acquisition, including reducing the risks associated with DSO. However, we concluded that, if suitable undertakings could not be agreed, we would order a substantial divestment of the NGW MTS/NA business.

Conclusions

We found that the merger may be expected to lead to a substantial lessening of competition as a result of the loss of rivalry between Arqiva and NGW, resulting in a worsening in the price and non-price factors on which the parties compete in the provision of MTS/NA to television and radio broadcasters.

Outcome

We cleared the acquisition, subject to the agreement of a suitable package of measures to protect the interests of customers.



MERGER INQUIRY **Game Group PLC and Games
Station Limited**
FINDINGS CONCLUSIONS OUTCOME

This merger brought together the two largest specialist retailers of new and pre-owned video games and related accessories. In a finely balanced decision the CC concluded that if the merged company were to raise prices customers would readily switch to already existing alternative retail channels. The merger was cleared.

Referred:
9 August 2007

Published:
15 January 2008

Inquiry Group:
Dr Diane Coyle, *Chairman*
Alexander Johnston
Ian Jones
Richard Taylor

Parties:
Game Group PLC
Games Station Limited

Market:
Supply of gaming software,
consoles or peripherals in
the UK

Outcome:
Clearance

The inquiry concerned the completed acquisition of Games Station Limited (Gamestation) by Game Group PLC (GAME). Before the merger GAME and Gamestation were the two largest specialist retailers of new (mint) and pre-owned video games, (including PC games), video games consoles and related accessories in the UK. At both retailers customers can trade-in old or unwanted products in return for credit to be used against future purchases. Gamestation has a substantially higher proportion of its hardware and software sales made up from pre-owned than does GAME.

Findings

We found that mint products were available from a variety of retailers but trade-in and pre-owned tended to be offered mainly by specialist electronic gaming retailers. Over the last few years the market share of specialist retailers, and particularly general high street retailers, has declined. The share of supermarkets and internet retailers has

increased and the parties attributed this to their typically lower selling prices. The parties told us that their pre-owned activity allows them to offer cheaper products to price-sensitive customers in competition with lower cost retailers. They also said that trade-in credits represented in effect a reduction in the net cost of subsequent purchases.

We found there were distinct product markets for consoles, software and other peripherals. We did not find distinct markets for different types of games or hardware. We considered whether there were any different markets corresponding to different types of retailer but we found that many customers purchased these products at a variety of retailers, that many appeared to look around for the best deals, and that there were no obvious barriers to customers switching between different types of retailer.

We considered carefully whether mint and pre-owned products were in the same market.

There was survey evidence indicating that customers would choose between mint and pre-owned on the basis of relative prices, and all the third parties we spoke to believed that there was a competitive interaction between them. We therefore concluded that mint and pre-owned were in the same market.

In mint products we found that many customers viewed GAME and Gamestation as the next best alternative retailer for each other. Nonetheless, we saw that there were many alternative retailers open to customers, such as supermarket and Internet retailers, who have been increasing their market share, high-street retailers and other specialists. Survey evidence showed that many customers shopped in a variety of retailers, compared prices, and were willing to switch retailers in response to changes in relative prices.

There are fewer alternative retailers engaged in trade-ins and the sale of pre-owned. However, we saw that certain competitors were expanding rapidly and customers were increasingly making use of alternative retail channels. We also found that competition for new gaming products effectively sets a cap on prices for pre-owned products, as survey evidence indicated that enough marginal customers would be willing and able to switch to purchasing new products from, particularly, supermarket and Internet retailers, as to make unprofitable an increase in pre-owned prices by the merged company.

In the case of trade-in, we noted particularly the increasing use of online trading of pre-owned gaming products by individuals, and we considered that the merged company would be mindful of the need to recruit enough stock through trade-ins to support its pre-owned sales, which would reduce its incentives to cut trade-in prices.

We did not expect the merger to harm investment or innovation by suppliers as they tended to be large multi-national companies, and very little product development was UK-specific. We also concluded that suppliers were unlikely to give unfair allocation of scarce stock to the merged parties, and that any allocation of special editions or exclusive

products would not be likely to affect competition between retailers.

Conclusions

Two members of the Group took a dissenting view, concluding that the evidence in this case supported an adverse finding in relation to the sale and trade-in of pre-owned software. Because the Group was evenly divided, the Chairman exercised her casting vote¹ in favour of the finding that the facts found in this inquiry did not support an anti-competitive outcome.

Outcome

The acquisition was cleared.



1. Competition Act 1998, Schedule 7, paragraph 21. It should be noted that the Act (Schedule 7, paragraph 20(2)) requires that at least two-thirds of the members of the Group conclude that there would be an anti-competitive outcome for there to be an SLC finding.

A report on the economic regulation of the London airports companies

(Heathrow Airport Ltd and Gatwick
Airport Ltd)

FINDINGS CONCLUSIONS OUTCOME

The CC recommended a maximum level of airport charges at Heathrow of £10.19 per passenger in 2008/09 subsequently increasing at no more than RPI+7.5; and at Gatwick of £5.50 per passenger subsequently increasing at no more than RPI-0.5. It also found that Heathrow Airport Ltd (HAL) and Gatwick Airport Limited (GAL) had displayed the same failings in relation to quality of service in the last five years as identified in our 2002 report. In particular they had failed to manage security queuing and queue times to avoid unacceptable delays to passengers, crew and flights and consequently had not furthered the reasonable interests of the users of Heathrow and Gatwick. We considered that those effects adverse to the public interest could be remedied or prevented by the extension of the existing conditions and/or by the imposition of new conditions as detailed in the report.

Referred:
30 March 2007

Published:
3 October 2007

Inquiry Group:
Christopher Clarke, *Chairman*
Laura Carstensen
Dr John Collings
Professor Jonathan Haskell
Richard Holroyd
Professor Peter Moizer
Professor Puliya Sudarsanam

Parties:
BAA Ltd

Market:
London Airports

Outcome:
Recommended changes in
airport charges and in the
service quality rebate scheme

We were required to recommend the maximum level of airport charges that HAL and GAL (owned by BAA Ltd (BAA)) might levy during the period of five years beginning on 1 April 2008. We were also required to consider whether either of the two companies had at any time during the period from 28 February 2002 to 30 March 2007 pursued a course of conduct which had operated or might be expected to operate against the public interest. The final determination of charges would be made by the Civil Aviation Authority (CAA).

Findings

A main determinant of the level of airport charges is the cost of capital. We estimated a range for the real, pre-tax cost of capital at Heathrow of between 4.8 per cent and 6.4 per cent and at Gatwick of between 4.9 per cent and 6.8 per cent. We adopted figures close to the top end of this range, 6.2 per cent at Heathrow and 6.5 per cent at Gatwick.

Before making the reference to us, the CAA encouraged a process of Constructive Engagement between BAA and the airlines with a view to their reaching an agreement on some of the main issues; that process continued during our inquiry. We assumed a capital expenditure programme at Heathrow of £3,535 million in Q5, about 20 per cent higher than that assumed by the CAA and by BAA in its first submissions to us in May 2007, given the increases in the programme agreed under Constructive Engagement. We also assumed an investment programme at Gatwick of £712 million which was almost two-thirds higher than the £434 million anticipated by the CAA and by BAA. This was also the outcome of Constructive Engagement though an important difference remained between BAA and the airlines over the construction of a new pier.

During the inquiry BAA told us that it would need to reconsider its investment programme if the regulatory settlement was based on

what it regarded as an inadequate cost of capital. However, we saw no reason for this, since we based our recommended maximum level of airport charges on what we regarded as a reasonable rate of return that was close to the top of the range of our estimate of BAA's cost of capital. The risks of cost overruns on capital investment programmes at the two airports were separately taken into account by BAA, including a 25 per cent allowance over the estimated costs for each project. We therefore saw no reason why BAA should not be able to finance its capital expenditure programme and recommended enhanced capital expenditure triggers, in which part of the allowable airport charges was contingent on the implementation of and progress on the capital expenditure programme envisaged against specified milestones.

We also recommended that the regulatory asset base (RAB) be reduced by the value of the sale of a site for the development of a hotel adjacent to Terminal 5 at Heathrow; and that there should also be a reduction in the RAB for the value of the pension fund holiday taken by BAA in the 1997/98 to 2002/03 regulatory period. We assumed higher commercial revenues than put forward by BAA; and a lower operating expenditure than BAA, but a somewhat higher level than that proposed by the CAA, partly reflecting recent increases in security costs. We also assumed slightly higher traffic forecasts than BAA at Heathrow. It was, however, unusual for there to be so many substantial changes to key inputs into a pricing determination during the course of a CC inquiry, a number of which, together with other outstanding issues, would need further consideration by the CAA.

Conclusions

We recommended at Heathrow a maximum opening yield of airport charges per passenger of £10.19 (at 2007/08 prices)

with charges subsequently increasing at no more than RPI+7.5 and at Gatwick a maximum opening yield of £5.50 (at 2007/08 prices) with charges subsequently increasing no more than RPI-0.5. These charges were significantly below those put forward by BAA, but above those proposed by the airlines, but would in, our view, enable BAA to implement its plans to improve its facilities and levels of service at both airports for the benefit of airlines, passengers and other airport users.

In our 2002 report we had recommended the introduction of a service quality rebate (SQR) scheme to remedy the adverse effects on users at HAL and GAL. Despite the operation of the scheme, we received strong criticisms of quality of service, particularly at Heathrow. Important aspects of BAA's performance had been poor, and the SQR scheme needed to be extended and strengthened to cope with the significant changes in requirements that had since been introduced.

Outcome

The CAA made its final price control decisions in March 2008, having had regard to the recommendations set out in our report.



ENERGY CODE
MODIFICATION
APPEAL

E.ON UK plc v GEMA
FINDINGS CONCLUSIONS OUTCOME

The CC found that GEMA's Decision was wrong in two areas and less than satisfactory in one. However, the CC did not agree that there had been procedural failures on the part of GEMA whilst making its choice of which code modification to implement.

Permission to appeal granted: 11 May 2007	This appeal concerned the decision made by the Gas and Electricity Market Authority (GEMA) to reform the regime for the off-take of gas from Great Britain's high-pressure National Transmission System. GEMA considered five alternative proposals for modifications to the Uniform Network Code and decided that proposal 116V made by National Grid Gas NTS should be implemented. E.ON UK Plc (E.ON) appealed that decision and British Gas Trading Limited (BGT) intervened in support of E.ON.
Permission to intervene granted: 1 June 2007	
Published: 10 July 2007	
Inquiry group: Dame Barbara Mills, <i>Chairman</i> Professor Catherine Waddams Robert Turgoose	
Appellant: E.ON UK plc Respondent: GEMA	
Intervener: British Gas Trading Limited	
Market: The off-take of gas from the National Transmission System	
Outcome: Appeal allowed in part, decision to be reconsidered by GEMA	

Findings

We considered challenges to each of the aspects of 116V—user commitment, interruptibility and flexibility—as well as to the cost-benefit analysis in GEMA's decision. E.ON also argued that the decision to implement 116V formed part of Ofgem's and GEMA's own agenda and so was not the independent adjudication of a dispute between industry parties.

We were not persuaded that GEMA had erred in its analysis of the proposed reforms to user commitment. While we did highlight a lack of transparency in the decision this did not lead to a finding that the decision was procedurally flawed.

On the question of interruptibility we found that GEMA had not demonstrated that the existing arrangements were discriminatory, as GEMA had claimed. However, we did not find that GEMA was wrong to conclude that the proposed reform could be expected to deliver competition and efficiency benefits.

We allowed the appeal in relation to GEMA's proposal for the reform of flexibility capacity. We found that there was no current shortage of flexibility capacity and whilst we did not think that it was wrong, in principle, to address the potential risks of future scarcity, GEMA did not justify its decision on flexibility by providing a proper assessment of the likelihood that scarcity would occur.

Furthermore, GEMA did not identify properly the nature and extent of the benefits that would accrue to consumers.

We identified a number of errors in GEMA's cost-benefit analysis. The decision did not contain sufficient evidence to form a conclusion that the flexibility product would deliver benefits to customers. In addition, GEMA erred in its approach to upfront transporters' costs. It did not establish a proper basis on which to exclude them from the cost-benefit analysis, and when balancing quantified costs against qualitative benefits, GEMA did not explain sufficiently the nature of the benefits and the way in which the benefits had been balanced and weighed against the costs.

Conclusions

We concluded that the appeal should be allowed in part. The decision to direct the implementation of UNC116V was quashed.

Outcome

GEMA's decision to direct the implementation of UNC116V was quashed. The decision is being reconsidered by GEMA.





Financial Statements of the Competition Commission

for the year ended 31 March 2008

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Council Report

1. Format of accounts

These financial statements have been prepared in a form directed by the then 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 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 OFT but in certain circumstances the Secretary of State, or as a result of price determinations, under sector-specific legislative provisions relating to regulated industries. Since July 2005 the CC has also had jurisdiction to consider appeals against Gas and Electricity Markets Authority (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 2008 the membership comprised the Chairman, and three Deputy Chairmen, two non-executives, 39 members of the reporting panel, of whom 16 were also members of the specialist panels (utilities). All members are appointed by the Secretary of State.

Members at 31 March 2008	
Chairman	1
Deputy Chairmen	3
Non-executives	2
Reporting panel Members	39
(includes 16 Members also on specialist panels)	
Total Members	45

Throughout the year Mr Peter Freeman was Chairman and Mr Christopher Clarke, Dr Peter Davis and Mrs Diana Guy were deputy Chairmen.

There were two non-executives, Mr Tony Foster and Dame Patricia Hodgson. Mr Martin Stanley was Chief Executive throughout 2007/08.

Each inquiry is conducted by a Group, consisting of three to seven members, appointed by the Chairman.

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 58.

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 main source of funding is grant-in-aid received from BERR. The CC draws down grant to meet its cash requirements. Some other income is generated, primarily from sub-tenants occupying space at Victoria House.

Revenue grant-in-aid received was £22,082,000 (2006/07: £16,730,000). Capital grant received was £418,000 (2006/07: £470,000).

Income and expenditure is accounted for on an accruals basis. This treatment results in an annual deficit that is taken to the Income and Expenditure reserve balance that appears in the Balance Sheet.

In 2007/08 the overall deficit for the year of expenditure over income after interest and taxation was £21,254,000 (2006/07 deficit £18,596,000). Operating expenditure was £24,207,000 (2006/07: £21,617,000).

6. Financial performance measure

BERR 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 2008/09:

	2006/07 Actual £'000	2007/08 Actual £'000	2008/09 Forecast £'000
Payroll costs	11,198	12,710	11,480
Accommodation costs (net)	3,669	4,040	4,633
Other costs less sundry income	4,908	6,430	4,387
Total costs	19,775	23,180	20,500
Relocation provision	(1,123)	(1,717)	0
Reimbursement from regulator	0	(152)	0
Revenue DEL	18,652	21,311	20,500
Capital expenditure	470	418	626

The following table reconciles the revenue DEL format for 2007/08 with the total expenditure of £24,207,000 shown in the Income and Expenditure account:

	2007/08 Actual £'000
Revenue DEL	21,311
Add:	
income receivable	2,798
interest receivable	194
Deduct:	
corporation tax charge	(39)
cost of capital	(57)
Expenditure per Income and Expenditure account	24,207

The final budget set by BERR for 2007/08 was £21,067,000 (2006/07: £20,485,000), made up of revenue expenditure of £20,441,000 and capital expenditure of £626,000; an increase of 2.84 per cent from 2006/07. The CC spent £21,729,000 made up of revenue expenditure of £21,311,000 and capital expenditure of £418,000 resulting in an overall over spend of £662,000 (3.1 per cent). The over spend was due to the increase in inquiries workload but was partially off set by a reduction in the relocation provision required for New Court as a result of a new tenant being secured.

BERR budget allocation for 2008/09 is £21,126,000 made up of revenue expenditure of £20,500,000 and capital expenditure of £626,000.

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 97 per cent of relevant invoices were settled within 30 days (2006/07: 93 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 26 in the notes to the financial statements.

10. Pension liabilities

Please refer to accounting policy 1(g) and note 20 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. Recent examples of this are discussions on: 'flexi time and excess hours', 'performance management', and 'grievance procedure'. The Chief Executive runs regular seminars and all staff are invited to hear presentations on issues of interest, updates on management changes and to raise any questions.

12. Employment of disabled people

The CC adheres to BERR'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 2008 the cost of work performed was £39,000. The audit services provided by the C&AG's staff related only to statutory audit work.

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.

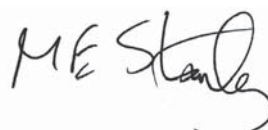
So far as the Accounting Officer is aware, there is no relevant information of which the CC's auditors are unaware.

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
26 June 2008

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, in most cases, 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 CC also has jurisdiction to consider appeals against GEMA decisions on modifications of certain energy industry codes and to determine price control matters raised in appeals to the Competition Appeal Tribunal. Other regulators make licence modification referrals or price control references intermittently.

2. The CC's employees

The CC had 178 employees at the end of March 2008 (165 at end of March 2007). Staff turnover for the year was 18.4 per cent, this falls to just 12.3 per cent when excluding retirees and fixed-term appointees. The CC looks to recruit high-calibre people from the private and public sector. The CC continues to promote a diverse workforce. During the year, 52 per cent of the new staff appointed were women and 30 per cent were from ethnic minorities; 45.5 per cent of the CC's most senior staff (band A and above) are women.

3. Environmental matters

The CC is committed to minimising 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 Key Performance Indicators (KPIs) and agreed in conjunction with BERR to:

- monitor the level of satisfaction of the CC's stakeholders as surveyed approximately every two years by an independent third party; the latest survey was published in September 2007;
- commission a peer review, which assesses the performance of the UK competition regime (including the CC) against the objective of being world class. This is carried out by independent consultants every three years; the latest review by KPMG was published in June 2007; and
- monitor the CC's financial performance as measured by budget compliance, and progress in achieving annual efficiency improvements.

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

6. Objectives and strategy for achieving them

The Corporate Plan 2008/09 was published on the CC website (www.competition-commission.org.uk) on 4 April 2008, and sets the Key Performance Indicators, objectives and strategy for the new financial year.

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

During 2007/08 there were 12 inquiries brought forward from the previous financial year and 13 new inquiries. Of these, 16 were completed, three were cancelled, and six carried forward to the next financial year. Of the 13 new inquiries received in 2007/08, ten were merger inquiries, one was a market investigation, one was an Energy Code Modification appeal and one was an appeal under the Communications Act.

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

The CC is a purely reactive body, conducting inquiries only after it has received a reference from the OFT, another regulator or other body with powers to refer to the CC. The CC's workload

<i>Inquiries summary</i>	<i>Mergers</i>	<i>Markets</i>	<i>Regulatory</i>	<i>Energy Code Mod Appeal</i>	<i>Appeal under communications Act</i>	<i>Total</i>
New inquiries 2007/08	10	1	0	1	1	13
Inquiries brought forward from 2006/07	6	4	2	0	0	12
Deduct inquiries cancelled	(3)	(0)	(0)	(0)	(0)	(3)
Deduct inquiries carried forward at 31 March 2008	(1)	(4)	(0)	(0)	(1)	(6)
Inquiries completed in 2007/08	12	1	2	1	0	16

is therefore unpredictable and future prospects are affected by conditions in the economy as a whole, changes to the legal framework in which the CC works and changes in the OFT referral practices.

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

The CC's primary resource is its staff; 41 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, two Senior Inquiry Directors 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 2007/08 the proportion of short-term staff was on average 26 per cent (2006/07: 28 per cent).

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

The CC has continued to manage its risks through its risk management processes and policies during 2007/08. These are more fully recorded in the Statement on Internal Control (pages 61 to 63), specifically under the capacity to handle risk and the risk and control framework. During 2007/08 there were no reported security data incidents.

11. Resources and liquidity

The accounts show a cumulative surplus on the Income and Expenditure Reserve of £1,853,000 at 31 March 2008. The CC's sponsoring department, BERR, 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.

12. Effect of post Balance Sheet events

There are no post Balance Sheet events to report.



Martin Stanley
Chief Executive and Secretary
Accounting Officer
26 June 2008

Remuneration Report

1. Remuneration policy

Remuneration of the Chairman, Deputy Chairmen and non-executives is set by the Secretary of State for BERR. 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:

3. Council members' remuneration

The following information is subject to audit.

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

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.

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

4. Pension details of Council members

Mr Peter Freeman, Mr Christopher Clarke, Dr Peter Davis 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.

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

Figures in column 5 at the start of period CETV for 2007/08 are slightly different than the final period CETV 2006/07 shown in

	<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
Dr Peter Davis (Deputy Chairman)	18 September 2006	17 September 2012
Mrs Diana Guy (Deputy Chairman)*	1 September 2004	30 November 2010
Mr Tony Foster (non-Executive)*	1 September 2003	31 August 2009
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.

	<i>Salary</i>	<i>Pension contributions</i>	<i>Taxable expenses</i>	<i>2007/08 total</i>	<i>2006/07 total</i>
Mr Peter Freeman (Chairman)	162,528		4,602	167,130	164,529
Mr Christopher Clarke (Deputy Chairman)*	97,512			97,512	95,041
Dr Peter Davis (Deputy Chairman)	121,888			121,888	63,690
Mrs Diana Guy (Deputy Chairman)*	97,512			97,512	95,070
Mr Tony Foster (non-Executive)	14,875		2,452	17,327	11,257
Dame Patricia Hodgson (non-Executive)	6,125		711	6,836	5,900
Mr Martin Stanley (Chief Executive)	141,732	33,227		174,959	166,126

*Two of the Deputy Chairmen are employed on a four days a week basis.

the accounts for 2006/07 due to certain factors being incorrect in last years CETV calculator.

Cash Equivalent Transfer Values:

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised 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 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 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.

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
26 June 2008

	Column 1 Real increase in pension £'000	Column 2 Real increase in lump sum £'000	Column 3 Pension at 31/03/08 £'000	Column 4 Lump sum at 31/03/08 £'000
Mr Peter Freeman	0 – 2.5	n/a	5 – 10	n/a
Mr Christopher Clarke	0 – 2.5	n/a	5 – 10	n/a
Dr Peter Davis	0 – 2.5	n/a	0 – 5	n/a
Mrs Diana Guy	0 – 2.5	n/a	5 – 10	n/a
Mr Martin Stanley	0 – 2.5	n/a	70 – 75	n/a

	Column 5 CETV at 31/03/07 (nearest £'000)	Column 6 CETV at 31/03/08 (nearest £'000)	Column 7 Employee contributions and transfers-in £'000	Column 8 Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £'000)
Mr Peter Freeman	126	182	3.5 – 4.0	36
Mr Christopher Clarke	83	128	3.0 – 3.5	37
Dr Peter Davis	9	32	3.5 – 4.0	17
Mrs Diana Guy	80	115	3.0 – 3.5	28
Mr Martin Stanley	1367	1580	4.5 – 5.0	35

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 comply with the requirements of the Government Financial Reporting Manual and in particular:

1. 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;
2. make judgements and estimates on a reasonable basis;
3. state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and

4. 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 BERR has designated the Chief Executive to the CC as the Accounting Officer for the CC. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping of proper records and for safeguarding the CC's assets, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in Managing Public Money.

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 Managing Public Money.

As Accounting Officer, I have responsibility for ensuring that the CC meets quarterly with its sponsor department, BERR. At these meetings, BERR is informed of all high level risks and in particular, those effecting our financial situation.

The purpose of the system on internal control

The system on 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 on 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 on internal control has been in place in the CC for the year ended 31 March 2008 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 Board¹ 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. All managers of risk are given internal training and directed to the risk policy published on the Intranet. Further external training is available through the management development programme. Operations Board's commitment to the management of risk is set out in its Terms of Reference and supported by the Risk Policy.

(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 also responsible for advising the Council about key strategic risks. The Council reviews these risks at the bi-monthly Council meeting.

(iv) The Operations Board is responsible for overall security policies and procedures and overseeing effective security management.

(v) 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. Off-site HQ facilities and off-site IT arrangements are in place to ensure that the CC and/or core IT systems are up and running as soon as possible.

(vi) Policies are in place in the event of a pandemic.

(vii) 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.

(viii) The Security Working Group works alongside the Business Continuity Group and reports to the Operations Board and the Audit Committee. It is responsible for ensuring the CC implements guidance on protection and security of its IT, physical and data assets from CESG (the National Technical Authority for Information Assurance), Cabinet Office and Centre for the Protection of the National Infrastructure (CPNI). The Chair of the Committee is also the Commission's Departmental Security Officer and SIRO (Senior Information Risk Owner). During 2007/08 there were no reported security data incidents at the CC.

The risk and control framework

The CC's Risk Policy sets out responsibilities for the identification, evaluation and control of risks including data handling, information and Information Technology risks recorded in the CC's risk registers. 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 Management Team² meets approximately once a month, and is tasked with taking the Council's Review³ forward and provides operational and strategic advice to the Council, the Chief Executive and other Committees.

(ii) The Senior Team⁴ meets around three times a year to discuss strategic issues to advise the Council, the Chief Executive and other Committees.

(iii) The Operations Board comprises a group of senior staff from across the organization and is responsible for taking

decisions on key operational matters. Operations Board manages its own risk register and reports high level risks to Council.

(iv) Corporate Services Management Team (CSMT)⁵ meets monthly to report to the Director of Corporate Services. Each manager is responsible for a risk register for its team and reports significant risks to Operations Board.

(v) Three of the Heads of Profession⁶ are each responsible for a risk register on behalf of their respective committees. These committees report high level risks to Council.

(vi) Operations Board and the three Heads of Profession have an annual risk register meeting to ensure there is continuity of scoring, identification and responsibility for all risks and that the process is working effectively.

(vii) Every manager within the CC is responsible for identifying the types of risks that fall within their own remit. Operations Board has responsibility of ensuring all possible types of risk are being managed.

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

(ix) Project plans are drawn up for all inquiries and Inquiry Directors report progress to me on a weekly basis. A formal report on the status of each inquiry is issued at key stages of the inquiry; the progress report identifies key risks facing the inquiry, which are discussed in a progress meeting. Upon completion of the inquiry, formal reports are issued commenting on all aspects of the inquiry plan and process.

(x) Financial control and value-for-money considerations are overseen by the Head of Finance and the Procurement Officer through the financial and procurement policy and procedures, a strict delegated financial authority's structure, control of purchases through a purchase order system and by a monthly financial reporting system to all senior managers and monthly reporting to BERR.

(xi) A Competition Commission Programme Board (CCPB) which meets quarterly and reviews the progress on all CC projects, sets long-term CC strategy goals and reviews benefits of completed projects.

(xii) Project Boards are established for all major projects (such as, the Finance System project) to ensure projects are managed under generally accepted project management techniques including identification and assessment of project risks.

(xiii) A Staff Council, with representatives from staff at all levels, meets at least three times a year to advise staff of changes affecting the organization and to take account of their views and concerns.

(xiv) Responsibility for health and safety (including the maintenance of annual external audits) is delegated to an officer and is reported to 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 work of the internal auditors, the executive managers within the CC who have responsibility for the development and maintenance of the internal control framework, and by 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 Council⁷ that meets at least six times a year to consider the plans and strategic direction of the CC and to review recent inquiries, high level risks and discuss best practice across inquiry groups;

(ii) an Audit Committee⁸ chaired by a non-executive member of Council which meets at least 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 UK Audit Ltd during 2007/08 and will be provided by RSM Bentley Jennison from April 2008.

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.



Martin Stanley
Chief Executive and Secretary
Accounting Officer
26 June 2008

1. The Operations Board comprises the Chief Executive, the Director of Corporate Services, the four Heads of Profession and three Inquiry Directors.
2. The Senior Management Team comprises of the Chief Executive, Heads of Profession, Senior Inquiry Directors and Director of Corporate Services.
3. In 2007, the CC launched a comprehensive internal review of the way the CC fulfils its role. The findings of the review are being implemented throughout 2008.
4. The Senior Team comprises all the senior managers across all functions.
5. CSMT comprises of the Head of Finance, Head of Planning, Head of HR, Head of IT and the Head of Facilities.
6. The Chief Legal Adviser, the Chief Economist and the Chief Business Adviser and Head of Remedies.
7. The Council comprises the Chairman, the Deputy Chairmen, the Chief Executive and two non-executive members.
8. The Audit Committee comprises a non-executive member of Council, and two members of the CC one of whom is a qualified chartered accountant.

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 2008 under the Competition Act 1998. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having being audited.

Respective responsibilities of the Competition Commission, Accounting Officer and Auditor

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

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited 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 Secretary of State for Business, Enterprise and Regulatory Reform's directions made thereunder. I report to you whether, in my opinion, the information, which comprises the Council's Report, the Management Commentary and Council Members, included in the Annual Report, is consistent with the financial statements. 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.

In addition, I report to you 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 HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Competition Commission's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers 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 information comprises the remaining sections of the Annual Report and the unaudited part of the Remuneration Report. 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 Accounting Officer 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 by the Secretary of State for Business, Enterprise and Regulatory Reform, of the state of the Competition Commission's affairs as at 31 March 2008 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 the Secretary of State for Business, Enterprise and Regulatory Reform's directions made thereunder; and
- information, which comprises the Council's Report, the Management Commentary and Council Members, included within the Annual Report is consistent with the financial statements.

Opinion on regularity

In my opinion, 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.

Report

I have no observations to make on these financial statements.

T. J. Burr
National Audit Office
Comptroller and Auditor General
151 Buckingham Palace Road
Victoria
London SW1W 9SS
3 July 2008

Income and Expenditure Account for the period ended 31 March 2008

	Note	2007/08 £'000	2006/07 £'000
Income	3	2,798	2,907
Expenditure			
Members' remuneration	4	1,345	1,194
Staff remuneration	5	11,551	10,239
Accommodation costs	6	6,500	6,146
Depreciation	9, 10, 11	1,208	1,332
Permanent diminution in value of assets	10	-	68
Loss on disposal of fixed assets	10	2	38
Decrease in provisions for liabilities & charges	17a	(1,717)	(1,123)
Pension provision	17b	277	371
Other operating charges	6	5,041	3,352
		24,207	21,617
Deficit on ordinary activities before interest & Tax		(21,409)	(18,710)
Interest receivable	7	194	140
Notional cost of capital	7	(57)	(56)
Deficit on ordinary activities before Tax		(21,272)	(18,626)
Corporation Tax	8	(39)	(26)
Deficit for the year after Tax		(21,311)	(18,652)
Add back notional cost of capital	7	57	56
Deficit for the year		(21,254)	(18,596)

Statement of recognized gains and losses

	2007/08 £'000	2006/07 £'000
Revaluation surplus	96	113

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

The notes on pages 69 to 83 are part of the financial statements.

Balance Sheet as at 31 March 2008

	Note	31-Mar-08 £'000	31-Mar-07 £'000
Fixed assets			
Intangible fixed assets	9	325	191
Tangible fixed assets	10	6,691	7,429
		7,016	7,620
Dilapidations asset provision	11	1,123	1,154
Debtors: amounts due after more than one year	12	282	323
Current assets			
Debtors due within one year	13	886	1,765
Cash at bank and in hand	14	478	169
		1,364	1,934
Current liabilities			
Creditors: amounts falling due within 1 year	15	(2,001)	(1,849)
Net current (liabilities)/assets		(637)	85
Total assets less current liabilities			
		7,784	9182
Creditors: amounts falling due after more than 1 year	16	(2,001)	(2,139)
Provisions for liabilities & charges	17a	(1,598)	(4,363)
Pension liabilities	17b	(1,884)	(1,721)
		2,301	959
Financed by:			
Income and Expenditure reserve	18	1,853	576
Revaluation Reserve	19	448	383
		2,301	959

The notes on pages 69 to 83 are part of the financial statements.



Martin Stanley
Chief Executive and Secretary
Accounting Officer
26 June 2008

Cash flow statement for the period ended 31 March 2008

	<i>Note</i>	<i>2007/08 £'000</i>	<i>2006/07 £'000</i>
Net cash outflow from operating activities	27 (i)	(21,835)	(18,908)
Capital expenditure	27 (ii)	(527)	(349)
Return on investments and servicing of finance	27 (ii)	197	145
Financing—revenue	27 (ii)	22,082	16,730
Financing—capital	27 (ii)	418	470
Taxation	8	(26)	(48)
Increase/(decrease) in cash	27 (iii)	309	(1,960)

The notes on pages 69 to 83 are part of the financial statements.

Notes to the financial statements

1. Accounting policies

(a) Accounting convention

These financial statements have been prepared in accordance with the Government Financial Reporting Manual (FReM). The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. As permitted by the 2007/08 FReM, tangible fixed assets are no longer revalued on an annual basis using indices. Depreciated historical cost is now used as a proxy for current value as this realistically reflects consumption of the assets. Revaluations would not cause a material difference. The modified historical cost convention has though been applied to the leasehold and dilapidations assets.

(b) Income

The overall cash needs of the CC are financed by grant-in-aid from BERR.

Income relates mainly to charges to tenants for occupancy 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).

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. 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 charged to the Income and Expenditure Account 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, 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 charged in respect of all capitalized fixed assets at rates calculated and then charged to the Income and Expenditure Account as 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 ie over lease term
IT	3 to 5 years
Fixtures and furniture	5 to 10 years
Leasehold dilapidations	20 years
Intangible fixed assets	
Software licences	2 to 4 years

(e) Notional cost of capital

In accordance with Treasury requirements, a notional charge on capital of 3.5 per cent a year (2006/07: 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 related 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 sub-letting and some miscellaneous trading activities. The CC charges VAT to its tenants on property transactions and reclaims VAT on its related expenditure. Expenditure on property that is sub-let and expenditure on miscellaneous trading activities is shown exclusive of VAT in the Income and Expenditure Account.

(g) Pensions

Full staff and members pension details are given in note 20.

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 recognised 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

BERR 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 (2006/07: 2.2 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 remaining term of the leasehold.

2. Government Grant in Aid

	2007/08 £'000	2006/07 £'000
Drawn down	22,500	17,200
Revenue expenditure	22,082	16,730
Capital expenditure	418	470
GIA drawn down	22,500	17,200

In accordance with the FReM grant-in-aid is credited directly to the Income & Expenditure Account balance appearing in the balance sheet.

3. Income

	2007/08 £'000	2006/07 £'000
Rent and other occupancy charges:		
External – Garbe	558	579
Intra Government – Competition Service	1,338	1,283
– NHS Institute for Innovation and Improvement	160	177
– Museums, Libraries and Archives Council	404	438
	2,460	2,477
Charges for Seconded out Staff		
Intra Government – OFT	3	166
Intra Government – Department for Transport		7
Intra Government – Ofgem		16
Intra Government – Cabinet Office		14
External	183	32
	186	235
Compensated legal costs of judicial review	152	180
Sundry Income – Intra Government Treasury Solicitor		10
Sundry Income		5
Total Income	2,798	2,907

4. Members' remuneration costs

The cost of members' remuneration was:

	2007/08 £'000	2007/08 £'000	2007/08 £'000	2006/07 £'000
	<i>Chairman & Deputy Chairmen</i>	<i>Other members</i>	<i>Total</i>	<i>Total</i>
Salaries	479	737	1,216	1,085
National Insurance costs	56	73	129	109
	535	810	1,345	1,194

(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) Members, including non-Executive Council members, are paid per diem and reimbursed for their travel expenses from home to office. Income Tax and National Insurance is also paid by the CC on payments for their travel expenses.

5. Staff Remuneration Costs

(a) The cost of staff remuneration was:

	2007/08 £'000	2007/08 £'000	2007/08 £'000	2006/07 £'000
	<i>Permanent Staff</i>	<i>Other Staff</i>	<i>Total</i>	<i>Total</i>
Salaries	5,795	3,553	9,348	8,206
National Insurance costs	578	171	749	666
Pension Costs	1,189	265	1,454	1,367
Total	7,562	3,989	11,551	10,239
Less recoveries in respect of outward secondments	(186)		(186)	(235)
Total net costs	7,376	3,989	11,365	10,004

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

(ii) Salaries include redundancy payments of £82,417 (2006/07: £417,000).

(iii) £186,000 was recovered in respect of the outward secondment of permanent staff.

(b) Number of Staff

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

	2007/08 FTE	2006/07 FTE
Employed on references		
Permanent staff	80	83
Other staff	50	21
Total employed on references	130	104
Inquiry support		
Permanent staff	9	10
Other staff	7	5
Total inquiry support	16	15
Support staff		
Permanent staff	17	15
Other staff	16	17
Total support staff	33	32
Total staff	179	151

6. Accommodation costs and other operating charges

(a) Accommodation costs

	2007/08 £'000	2006/07 £'000
Accommodation costs—Victoria House	6,500	6,146

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 £2,460,000 (2006/07: £2,477,000) which is included as other income (see note 3).

Operating lease rental costs were £4,553,000 for the year (2006/07: £4,553,000).

(b) Other operating charges

	2007/08 £'000	2006/07 £'000
Consultants' Fees—Inquiries related *	2,011	268
Consultants' Fees—Not inquiry related	229	126
Consultants' Fees—Relocation		
Consultants' Fees—IT	16	177
Consultants' Fees—IT Projects		
Travel, subsistence and hospitality:		
—Members	220	204
—Staff & contractors	167	103
Staff Training	205	255
Staff Recruitment*	214	123
Publishing	5	15
Audit fees*	39	33
Other administration*	1,935	2,048
Total other Operating charges	5,041	3,352

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

Consultants' Fees—Inquiries related; have increased due to high workload and more complex inquiries requiring specialist consultants.

Staff recruitment; costs have increased, again due to the increase in workload.

Audit fees; an amount of £39,000 is due to the National Audit Office for 2007/08 audit services, which relate only to statutory audit work (£33,000 for 2006/07).

Other administration charges include legal costs, office supplies, software licences and other accountancy fees.

7. Interest & Cost of Capital

	2007/08 £'000	2006/07 £'000
Interest Receivable	194	140
Notional Cost of Capital	(57)	(56)
	137	84

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 (2006/07: 3.5 per cent).

8. Corporation Tax

	2007/08 £'000	2006/07 £'000
Corporation Tax payable on interest	39	26
	39	26

Corporation Tax payable on interest is based on 20 per cent of gross interest receivable.

9. Intangible Fixed Assets

	2007/08 Software licences £'000
Current Cost	
At 1 April 2007	691
Additions at cost	241
Transfers from assets in course of construction	31
Disposals	0
At 31 March 2008	963
Amortization	
At 1 April 2007	500
Provision for the year	138
Released on disposal	0
At 31 March 2008	638
Net Book Value	
At 31 March 2008	325
At 31 March 2007	191

10. Tangible Fixed Assets

	<i>Information technology 2007/08 £'000</i>	<i>Fixtures & fittings 2007/08 £'000</i>	<i>Leasehold costs 2007/08 £'000</i>	<i>Assets in course of construction 2007/08 £'000</i>	<i>Total 2007/08 £'000</i>
Current Cost					
At 1 April 2007	3,212	652	7,602	138	11,604
Additions at cost	159	18	-		177
Disposals	(55)	(5)			(60)
Transfer to intangible assets				(31)	(31)
Revaluation	-		112		112
At 31 March 2008	3,316	665	7,714	107	11,802
Depreciation					
At 1 April 2007	2,149	409	1,617	-	4,175
Provision for the year	514	125	339		978
Released on disposal	(54)	(4)			(58)
Revaluation			16		16
At 31 March 2008	2,609	530	1,972	-	5,111
Net Book Value					
At 31 March 2008	707	135	5,742	107	6,691
At 31 March 2007	1,063	243	5,985	138	7,429

Assets in the course of construction carried forward are in respect of software licences for the Autonomy search tool (£107,000). The new finance system has been transferred to intangible assets.

The revaluation relates to an increase in the value of leasehold assets based on the relevant Office for National Statistics and BERR price indices.

11. Dilapidations asset provision

	2007/08 £'000
Current Cost	
At 1 April 2007	1,388
Discount rate reduction	
Unwinding of discount	18
Revaluation	43
At 31 March 2008	1,449
Depreciation	
At 1 April 2007	234
Provision for the year	81
Revaluation	11
At 31 March 2008	326
Net Book Value	
At 31 March 2008	1,123
At 31 March 2007	1,154

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 is 2.2 per cent (2006/07: 2.2 per cent).

12. Debtors: Amounts falling due after more than one year

	2007/08 £'000	2006/07 £'000
Tenants' rent-free period	282	323

Debtors falling due after one year represent a rent-free period granted to tenants. This amount is being amortized over the periods of the respective leases. The total rent-free period debtor at 31 March 2008, including those amounts shown at note 13 falling due within one year, was £323,000.

13. Debtors: amounts falling due within one year

	2007/08 £'000	2006/07 £'000
Staff travel advances	23	24
Trade debtors:		
External	386	167
Intra Government – OFT	4	8
Intra Government – Competition Service	(5)	47
Intra Government – Museums, Libraries and Archives Council	(2)	8
Intra Government – NHS Institute for Innovation and Improvement	19	18
Intra Government – Treasury Solicitor		4
Prepayments – rent		1,120
Prepayments – other	373	250
VAT debtor	35	
Tenants' rent free period	41	102
Sundry debtors	4	6
Interest accrued	8	11
	886	1,765

14. Cash at bank and in hand

	2007/08 £'000	2006/07 £'000
Paymaster General	478	169

The CC's bank account is an interest-bearing current account with the Paymaster General's Office.

15. Creditors: amounts falling due within one year

	2007/08 £'000	2006/07 £'000
Trade creditors:		
External	322	235
Intra Government – BERR		19
Intra Government – DCA		30
Deferred income	138	280
PAYE, National Insurance & Pension	401	496
VAT creditor		14
Corporation Tax	39	26
Other Creditors	1,101	749
	2,001	1,849

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

	2007/08 £'000	2006/07 £'000
Victoria House rent—deferred income	2,001	2,139

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 £2,139,000 (2006/07: £2,918,000).

17. Provisions

(a) Provisions for the period ending 31 March 2008 are:

	Office relocation £'000	Capitalized office dilapidations £'000	Total provisions £'000
Balance as at 1 April 2007	2,975	1,388	4,363
Provided in the year	-	43	43
Provisions not required written back	(1,717)		(1,717)
Provisions utilised during the year	(1,109)	-	(1,109)
Unwinding of discount		18	18
At 31 March 2008	149	1,449	1,598
	£'000	£'000	£'000
Less than one year	36	-	36
One to five years	113		113
More than five years		1,449	1,449

The office relocation provision relates to the CC's former offices at New Court London 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 four years of the agreement taking into account likely sub-letting income. See note 21 on operating leases for an explanation of the CC's contractual obligations for New Court.

The write back of £1,717,000 in 2007/08 is the result of a new tenant moving into the building and taking up the remainder of the space available.

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.

(b) Pension provisions for the period ending 31 March 2008 are:

	Pension Liabilities £'000
As at 1 April 2007	1,721
Provided in year	277
Provisions utilized in the year	(114)
As at 31 March 2008	1,884

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 20).

18. Income and Expenditure Reserve

	2007/08 £'000	2006/07 £'000
Balance at 1 April	576	1,949
Grant-in-Aid – Revenue	22,082	16,730
Grant-in-Aid – Capital	418	470
Realised element of revaluation reserve	31	23
Deficit for the year	(21,254)	(18,596)
Balance at 31 March	1,853	576
Made up of:		
Pension provision	(1,884)	(1,721)
Office relocation provision	(149)	(2,975)
Other income and expenditure	3,886	5,272
Total at 31 March	1,853	576

The cumulative surplus at 31 March 2008 of £1,853,000 is primarily made up of other income and expenditure (£3,886,000), offset by the pension provision (£1,884,000) and the office relocation provision (£149,000), both of which were unfunded in terms of grant-in-aid received at 31 March 2008.

19. Revaluation Reserve

	2007/08 £'000	2006/07 £'000
Balance at 01 April 2007	383	270
Revaluation of leasehold assets in the year	112	163
Realised element transferred to I&E Account	(31)	(23)
Backlog depreciation to leasehold assets	(16)	(27)
Balance at 31 March 2008	448	383

20. 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 2008 there were four active members and ten current pensioners. 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 2008 was £1,884,000 (31 March 2007: £1,721,000). Pensions in payment of retirees (and deferred pensions) increase at the rate of 3.9 per cent from 7 April 2008. 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 1.8 per cent a year, is specified for resource accounting purposes by HM Treasury. The following allowances are assumed: increase in salaries 4.3 per cent a year, price inflation 2.75 per cent a year, increase for pensions in payment and deferred pensions 2.75 per cent a year.

During the period ended 31 March 2008 pension payments of £114,000 (2006/07: £98,000) were made to retired Chairmen and Deputy Chairmen members.

Staff pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium, or classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit

arrangement or a good quality 'money purchase' stakeholder pension 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 and nuvos. Benefits in classic accrue at the rate of 1/80th 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 1/60th 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 hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his pensionable earnings during his period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of his pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI.

In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 to 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. 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 this and other Civil Service pension arrangements can be found at www.civilservice-pensions.gov.uk.

For the year ended 31 March 2008, employer's contributions of £1,454,000 were payable to the PCSPS (2006/07: £1,367,000).

21. Operating leases

At 31 March 2008 the CC was committed to making the following payments during the next year in respect of operating leases before VAT:

	2008 £'000	2007 £'000
Land and buildings		
Leases that expire after five years	4,409	4,135

The CC has a 20-year lease for office space in Victoria House, Southampton Row, London, WC2. The lease start date was September 2003. The total space is 8,261 square metres of which 3,838 square metres (46 per cent) has been sublet and 4,423 square metres (54 per cent) is the CC's net space. One tenant's lease expires in June 2008 and another expires in September 2008. The CC's net operating lease commitment is £3,033,000 a year (2007: £2,394,000).

The terms of the Victoria House lease include a compounded annual rent increase of 2.5 per cent that is applied every five years. The operating lease commitments shown above do not include the compounded annual rent increase. The first increase is due in September 2008 and is expected to be 13.14 per cent.

The CC also has an existing tenancy agreement under a memorandum of terms of occupation (MOTO) between BERR and The Valuation Office for approximately 3,000 square 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 BERR 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 sub-let income. Provision has been made for remaining liabilities.

22. Contingent liabilities

There are no contingent liabilities to report.

23. 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 and which are provided for in these accounts.

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

There are no other capital commitments.

24. Post balance sheet events

There are no post balance sheet events to report.

25. Related party transactions

The CC is a Non-Departmental Public Body (NDPB) sponsored by BERR and funded by a grant-in-aid from that department. BERR is regarded as a related party. During the year, the CC

had various material transactions with BERR 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 BERR) 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 and Archives Council.

26. 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 such 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 BERR 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.

27. Notes to the cash flow statement

(i) Reconciliation of deficit on ordinary activities before interest and tax to operating cash flows

	2007/08 £'000	2006/07 £'000
Deficit on ordinary activities before interest and tax	(21,409)	(18,710)
Movements not involving cash:		
Depreciation	1,208	1,332
Loss on disposal of fixed assets	2	38
Decrease in provisions for liabilities and charges	(2,663)	(1,645)
Permanent diminution in value of fixed assets	-	68
	(22,862)	(18,917)
(Increase)/decrease in debtors	917	368
(Decrease)/increase in creditors	110	(359)
Net cash outflow from operating activities	(21,835)	(18,908)
(ii) Analysis of cash flows for headings netted in the cash flow statement		
Capital expenditure		
Payments to acquire fixed assets	(527)	(352)
Proceeds from the sale of fixed assets		3
	(527)	(349)
Return on investments and servicing of finance		
Interest received	197	145
Financing—grant-in-aid funding from BERR:		
Revenue	22,082	16,730
Capital	418	470
	22,500	17,200

(iii) Analysis of changes in net funds

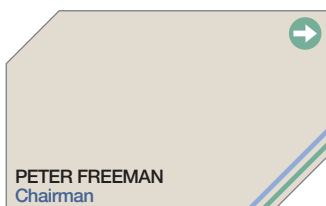
	At 1 April 2007 £'000	Cash Flow £'000	At 31 March 2008 £'000
Cash at bank and in hand	169	309	478

28. Authorized for issue

These financial statements were authorized for issue by Martin Stanley, the Accounting Officer on 3 July 2008.

Council Members

BIOGRAPHIES



PETER FREEMAN
Chairman

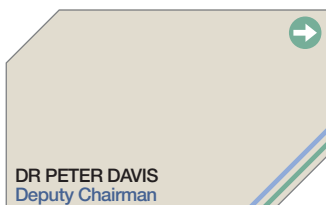


Peter Freeman was appointed Chairman in 2006, having been a member since May 2003 and a Deputy Chairman since September 2003. Prior to joining the CC, he was head of the EC and Competition Law Group of the international law firm Simmons & Simmons. He was co-founder of and, until 2007, Chairman of the Regulatory Policy Institute, is a Consulting Editor of *Butterworths' Competition Law*, and is a member of the Advisory Boards of the *Competition Law Journal*, the International Competition Law Forum and the ESRC Research Centre for Competition Policy. Recent cases include the Groceries market investigation; and the Tesco/Co-op Slough and BSKYB/ITV merger inquiries.



CHRISTOPHER CLARKE
Deputy Chairman

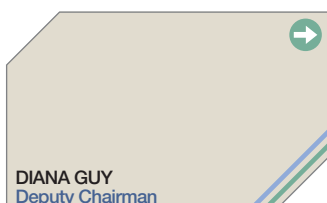
Christopher Clarke was appointed Deputy Chairman in 2004, having been a member since 2001. Mr Clarke is a non-executive director of The Weir Group PLC and of Omega Insurance Holdings Limited. Until 1998, he was a director of HSBC Investment Banking and from 1982-1996, a director of Samuel Montagu. His investment banking responsibilities in the UK and internationally encompassed restructurings and privatizations; mergers, acquisitions and disposals; joint ventures; financing; and regulatory matters. Recent or continuing cases include the Wienerberger Finance/Baggeridge Brick merger inquiry; the quinquennial reviews of airport charges at Heathrow, Gatwick and Stansted; and the Northern Ireland Banks Personal Current Accounts and BAA Airports market investigations.



DR PETER DAVIS
Deputy Chairman

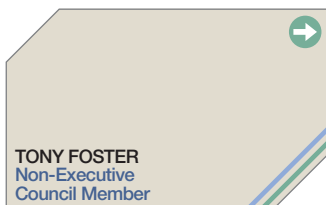


Dr Peter Davis was appointed Deputy Chairman in 2006 and was previously on the CC's academic panel of expert economists from 2004. He received a PhD from Yale and served on the faculty of MIT, before joining LSE, where he was Leverhulme Lecturer. His academic work includes contributions to the *Journal 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*. Recent or continuing cases include the South East Water/Mid Kent Water, Stonegate Farmers Ltd/Deans Food Group Ltd, and Sportech plc/Vernons merger inquiries; the Payment Protection Insurance market investigation and the Mobile Phone Wholesale Termination Charges Appeals (Hutchison 3G/British Telecom).



DIANA GUY
Deputy Chairman

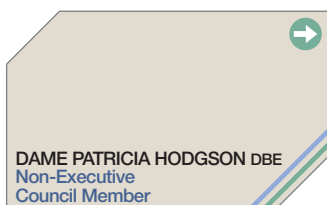
Diana Guy was appointed Deputy Chairman in 2004, having been a member since 2001. She is a qualified solicitor and was a partner, and later a consultant, at Theodore Goddard (now part of Addleshaw Goddard). During her career she specialized in EU and competition law and was involved in some significant cases before the MMC and the European Commission. She is a non-executive director of Catlin Underwriting Agencies Limited and Catlin Insurance Company (UK) Limited. Recent or continuing cases include the Greif Inc/Blagden Packaging group, Woolworths Group plc/Bertram Group Ltd, and Macquarie/NGW merger inquiries; and Rolling Stock Leasing market investigation.



TONY FOSTER
Non-Executive
Council Member

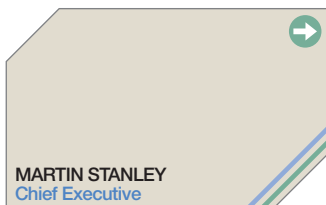


Tony Foster was appointed non-executive Council member in 2003. He has spent much of his career in the industrial chemicals sector: as General Manager of ICI General Chemicals Business, Director of ICI Chemicals and Polymers Ltd, and Chief Executive of ICI Chlorochemicals Business. He was also a non-executive director of Ellis and Everard plc, Chairman of the Catalyst Museum of the Chemical Industry, a member of the Supervisory Board of EVC, and a non-executive Director of the Countess of Chester NHS Trust. From 1997 to 2006 he was a full-time member of the Criminal Cases Review Commission. He is now a non-executive director of the government agency Animal Health and is a member of committees for the Institute of Chartered Accountants and the Solicitors Regulation Authority.



DAME PATRICIA HODGSON DBE
Non-Executive
Council Member

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

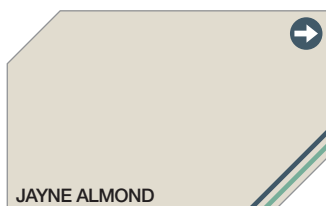


MARTIN STANLEY
Chief Executive



Martin Stanley was appointed Chief Executive in 2004, having spent most of his career in the DTI (now BERR) where he held a number of senior positions including Principal Private Secretary. He was 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. He regularly writes and lectures about the UK Government and Civil Service.

Reporting Panel Members



JAYNE ALMOND



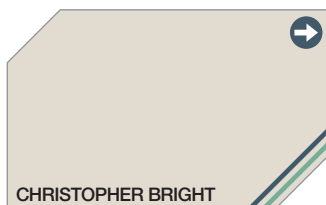
Jayne Almond (appointed in 2005) is currently Chief Executive of Stonehaven, a specialist Equity Release mortgage business, and Chairman of Squarestone, a private commercial property business with interests in the UK and Portugal. She was previously Managing Director of Barclays' Home Finance business. Prior to this, she was Group Marketing Director at Lloyds TSB, and Managing Director of Lloyds TSB's European Internet banking business. In her earlier career she worked for Shell, and was a senior Partner at LEK Consulting, in charge of its financial service practice. She has held a number of non-executive appointments including Ascot plc and Deputy Chair of CDC.



PROFESSOR
JOHN BAILLIE



Professor John Baillie (appointed in 2001) is a chartered accountant, specializing in share and business valuation and dispute resolution. He was previously a partner in KPMG. In 1983 he was appointed Professor of Accounting at the University of Glasgow, where he is now a visiting Professor. He is a Member of the Accounts Commission and a Board Member of Audit Scotland. He has just completed a two-year project on the Committee, conducting an independent review of local government finance in Scotland for the Scottish Executive. He has also chaired various committees and groups for the Institute of Chartered Accountants of Scotland.



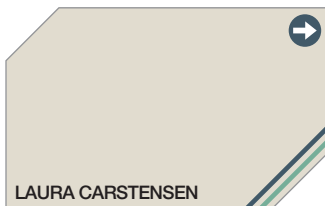
CHRISTOPHER BRIGHT



Christopher Bright (appointed in 2006) has practised as a solicitor in the City of London, specializing in competition and utility regulation, for over 20 years, he was a partner of Shearman & Sterling LLP until February 2006. Chris Bright is also 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 an accredited CEDR mediator.



LAURA CARSTENSEN



Laura Carstensen (appointed in 2005) is a senior lawyer with over twenty years experience of EU and UK competition law practice including as a partner in the City law firm Slaughter and May (1994 to 2004). She is co-founder and director of two online mail order businesses—Blue Banyan Ltd (products for meditation, yoga and other mind/body/spirit practices) and Hortica (garden products). She is a non-executive board member of the Office of the Parliamentary Counsel (Cabinet Office). Ms Carstensen is also a self-employed consultant on strategy & business development to the law firm Linklaters.



DR JOHN COLLINGS



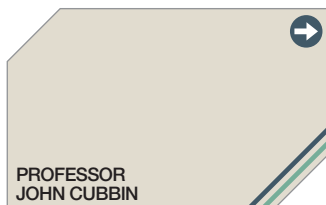
Dr John Collings (appointed in 2001) was Director of Regulation at Powergen until December 2001, having previously been a partner at Coopers & Lybrand (1987 to 1994) and Commercial Regulation Adviser at BT (1986 to 87). He has lectured at Aston and Hull universities and worked as an Economic Adviser in the Government Economic Service. He led Powergen's inquiry team when its proposed acquisition of MEB was referred to the Monopolies and Mergers Commission and is also a Trustee of the Community Council of Devon.



DR DIANE COYLE



Dr Diane Coyle (appointed in 2001) is an Economic Consultant and freelance writer, specializing in globalization and new technologies. She is also a Visiting Professor at the University of Manchester's Institute for Political and Economic Governance. She was formerly Economics Editor of *The Independent* and also European Editor of *Investors Chronicle*. Dr Coyle has worked as Senior Economic Assistant to HM Treasury and published several books on economics. She is a member of the Executive Committee of the Centre for Economic Policy Research, the Migration Advisory Committee and a BBC Trustee. She has a PhD in Economics from Harvard University. Dr Coyle recently chaired the Thermo Electron/GV Instruments and GAME/Game Station merger inquiries.



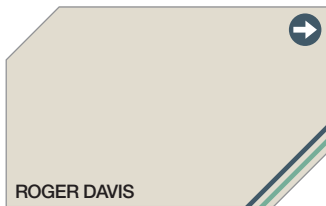
PROFESSOR
JOHN CUBBIN



Professor John Cubbin (appointed in 2006) was Professor of Economics at City University in London, where he taught topics in industrial organization and finance. He is currently director of the Centre for Competition and Regulatory Policy at City where he researches on the economics of regulation. He was previously an Associate Director with National Economic Research Associates (NERA); Professor of Economics at UMIST; Reader in Economics at Queen Mary College, University of London; and a Lecturer in Economics at the University of Warwick.

Reporting Panel Members

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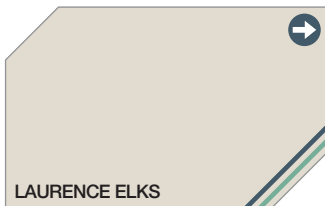
Roger Davis (appointed in 2005) is a chartered accountant. Until 2003 he was a partner of PricewaterhouseCoopers. For several years he was Senior Audit Partner and then Global Head of Professional Affairs. He also spent two years with HM Treasury. He is currently a board member of the Professional Oversight Board, the UK's independent regulator for the accountancy and actuarial professions.



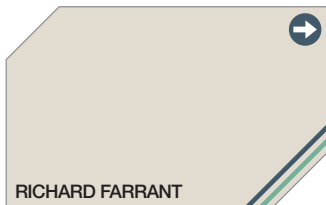
Carolan Dobson (appointed in 2005) is a non-executive director and member of the Audit Committee of Shires Smaller Companies plc. She was previously a director with Abbey National Asset Managers Limited. Today she is Chairman of Lomond School and a council member of Sport Scotland. She is the independent Investment Adviser to the Environment Agency, The London Borough of Enfield and Rhondda Cynon Taf's Pension Fund. She is also a trustee of Avon Pension Fund.



Barbara Donoghue (appointed in 2005) is a banker with experience in raising capital, both debt and equity, in domestic and international markets. She is a non-executive director and Chairman of the Audit Committee of Eniro AB, the Stockholm-based publisher and a Member of the Broadcasting Policy Group. She has served as Chair of the Co Regulatory Design Group of Ofcom. She is a former Teaching Fellow in Strategic and International Management at the London Business School and Member of the Independent Television Commission. Previously she was Managing Director at Hawkpoint Partners and NatWest Markets. She holds a Bachelor's degree in Economics and a Masters degree in Business Administration, both from McGill University, Canada.



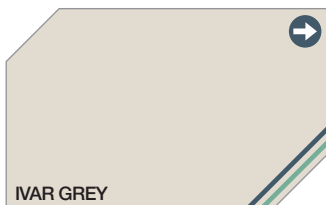
Laurence Elks (appointed in 2001) was a member of the Criminal Cases Review Commission (until December 2006) and a partner at Nabarro Nathanson, solicitors, (1984 to 1995), during which time he worked on a number of high-profile merger cases. He has worked in the area of competition law and written and lectured on the subject. He has been involved in a wide range of voluntary activities and is Trustee of the Hackney Historic Buildings Trust. He was previously Trustee of the Ocean Music Trust and the Hackney Music Development Trust.



Richard Farrant (appointed in 2005) is Chairman of both the charity Sustrans and the Investigation Committee of the Institute of Chartered Accountants. He is a non-executive director of Daiwa SMBC Europe. In 2006 he retired as Vice Chairman of United Financial Japan International Limited. Prior to this, he was Chief Executive of the Securities and Futures Authority, Managing Director and Chief Operating Officer of the Financial Services Authority, and a board member of the Gas and Electricity Markets Authority.



Professor Alan Gregory FCMA (appointed in 2001) is Professor of Corporate Finance at the University of Exeter. He has previously held Chair appointments at the University of Wales, Aberystwyth, and at the University of Glasgow, and before becoming an academic worked as a management accountant in industry. He has contributed to the *Journal of Empirical Finance*, *The Economic Journal*, the *Journal of Business Finance and Accounting*, the *Journal of Accounting and Public Policy*, *Accounting & Business Research*, and *European Financial Management*. His research interests include the performance of acquiring firms, cost of capital, risks and returns to equity trading strategies, and returns to socially responsible investments. His consulting experience includes advising on equity funds and company valuation.



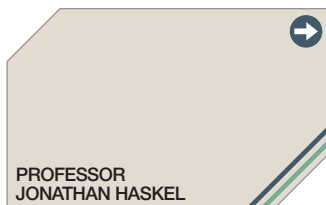
Ivar Grey (appointed in 2005) is a self-employed Financial Adviser. He also works as a non-executive director of Finance Wales PLC, a non-executive director of Gwent Healthcare NHS Trust and as Governor of Port Regis School. He acts as a Forensic Accountant and works with various charitable and business organizations. He is also a Chartered Accountant. In 2002 he retired as a partner with KPMG, having worked with them in the UK, Norway, Denmark and the Netherlands.



PROFESSOR
ALAN HAMLIN

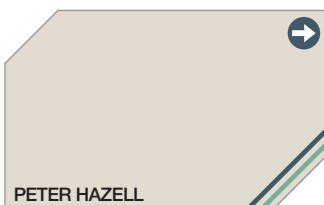


Professor Alan Hamlin (appointed 2001) is Professor of Political Theory and Director of the Manchester Centre for Political Theory at the University of Manchester. He was previously Professor of Economics and Dean of Law, Arts and Social Sciences at the University of Southampton. He has held visiting appointments at a number of overseas universities, has published widely on a range of topics in economics and politics, and is currently editor of the journal *Constitutional Political Economy*.



PROFESSOR
JONATHAN HASKEL

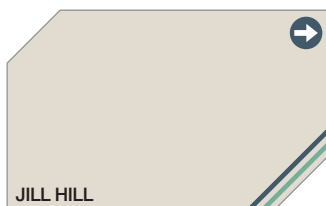
Professor Jonathan Haskel (appointed 2001) is Professor of Economics at the Department of Economics, Queen Mary College, University of London. He has also taught at Bristol University, London Business School and Stern School of Business at New York University. He has worked as a consultant to the OFT, the DfEE and HM Treasury. He is on the Editorial Board of *Economica*.



PETER HAZELL

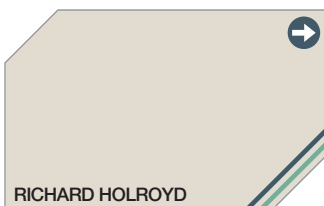


Peter Hazell (appointed in 2002) is currently the Chairman of the Argent Group, a major UK property developer, and a non-executive director of two listed companies, UK Coal plc and Brit plc (an insurance company). He is also a non-executive director of Smith & Williamson. He was until 2000 a partner in the accountancy firms Deloitte Haskins & Sells, Coopers & Lybrand and PricewaterhouseCoopers, where he was the UK Managing Partner. He was also a director and board member of the National Grid Company. He is a council member of the Natural Environment Research Council.



JILL HILL

Jill Hill (appointed in 2005) was a Director of Remploy for seven years, after many years with Rolls-Royce plc, and is currently a non-executive director of NDI Ltd. She is a Chartered Engineer and a Fellow of the British Computer Society. She has previously been member of several trade organisations, including a Regional Council Member and an Education and Training Committee member of the CBI, and a Director of the Employment Related Services association. She was an advisory member to the Foster Review on Further Education.



RICHARD HOLROYD

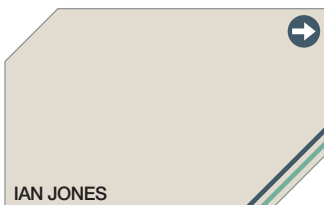


Richard Holroyd (appointed in 2001) is a non-executive director of Cantrell & Cochrane plc, a leading beverage manufacturer in Ireland; Otto Weibel AG; and ABRO, the MoD Trading Fund. Previously, he was a Senior Executive at Shell International and in 1998/99 he led a team responsible for reviewing Shell's global strategy for the consumer facing retail business. Prior to joining Shell he worked for Reckitt & Colman and was Managing Director of Colman's of Norwich.



ALEXANDER JOHNSTON

Alexander Johnston (appointed in 2005) was until 2003 a Managing Director at Lazard, London, where he worked in corporate and project finance, mainly in electricity, rail and utility industries, both in the UK and in Europe. He is an external member of the Finance Committee of Cambridge University, Chairman of North West Cambridge—a property development of Cambridge University—and Senior Advisor to Lilja & Co AG, a Swiss financial advisory firm. He was also Chairman of BMS Associates Limited, a reinsurance broker.



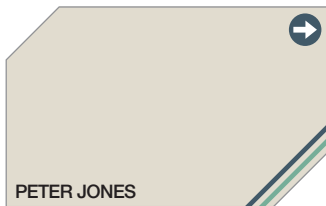
IAN JONES



Ian Jones (appointed in 2005) is a Special Adviser with NERA Economic Consulting. Prior to this he was Director and Head of NERA's European Transport Practice where he was extensively involved in the privatization of UK airports and railways, and directed major studies for the European Commission on the use of market mechanisms to allocate scarce airport capacity, on rail infrastructure charging and regulation, and on competition in European aviation markets. He has also worked with the National Institute of Economic and Social Research, the MMC, London Business School and the Government Economic Service.

Reporting Panel Members

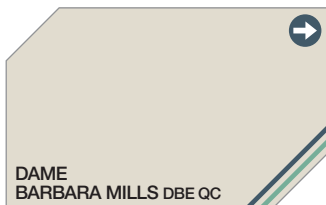
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Peter Jones (appointed in 2005) is a director of Rhydfach Consulting Limited, a private consultancy company. Prior to this he was a Managing Director in corporate finance at HSBC Bank plc, working latterly in the Energy and Utilities sectors and previously on a number of major UK privatisations. Through Rhydfach Consulting Limited, he is a consultant to EnergySolutions EU Limited and Hammonds; he was also a consultant to the Government's Shareholder Executive in 2004/05.



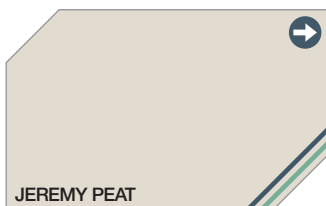
Professor Bruce Lyons (appointed in 2002) is Professor of Economics at the University of East Anglia (UEA). Previously he was an economics lecturer at St John's College, Cambridge. Since 1994, he has been a member of the Economic Advisory Group on Competition Policy for the European Commission. He is Deputy Director of the ESRC Centre for Competition Policy at UEA, and is involved in a research programme on the economics of competition policy. He was formerly Editor of the *Journal of Industrial Economics* and is Associate Editor of *Economica*. He has published various books and articles on the economics of industry.



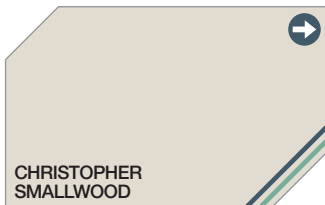
Dame Barbara Mills DBE QC (appointed in 2001) is the Adjudicator for Her Majesty's Revenue and Customs. Previously she was the Director of Public Prosecutions (1992 to 98). As Director of the Serious Fraud Office, Dame Barbara dealt with the BCCI case. In 1986, she was a DTI inspector under the Financial Services Act and she has also 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 Mills recently chaired the E.ON UK plc v. GEMA on Energy Code Modification UNC 116 appeal.



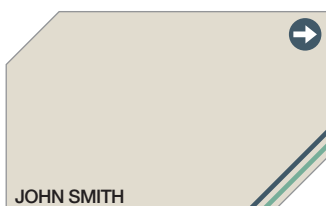
Professor Peter Moizer PhD FCA (appointed in 2001) is Professor of Accounting at Leeds University Business School. Trained as a chartered accountant with Price Waterhouse, he has been a member of a number of committees for the Institute of Chartered Accountants in England and Wales and has also written reports for the DTI on audit issues. He is a co-founder of the European Auditing Research Network and serves on the editorial boards of six major international research journals. He is also a strategic advisor to the Greater Manchester Pension Fund, the largest local authority pension fund in the UK.



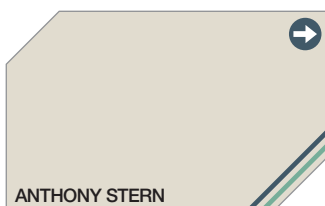
Jeremy Peat (appointed in 2005) was Group Chief Economist at The Royal Bank of Scotland, from 1993 to 2005. Prior to this he was an economic adviser at The Scottish Office, HM Treasury, the Manpower Services Commission and the Ministry of Overseas Development. In the early 1980s he worked for the Ministry of Finance and Development Planning in Botswana. In 2005 he was appointed to the BBC Board of Governors, as National Governor for Scotland, where he later became a trustee. In the same year, he also took over as director of the David Hume Institute. He is a fellow of the Royal Society of Edinburgh and a director of the Signet Accreditation Company.



Christopher Smallwood (appointed in 2001) is Chairman of the Hounslow PCT and Policy Adviser to the Prince's Charities. Until 2005, he was Chief Economic Adviser to Barclays plc, following several years as a partner at the City consultancy Makinson Cowell. He was formerly Strategic Development Director and Chief Economist at TSB Group. He was also Economics Editor of *The Sunday Times* and Chief Economist and Head of Financial Strategy and Planning for BP. He has been an Economic Adviser to HM Treasury and a Special Adviser at the Cabinet Office. He has also served as a member of the MMC.



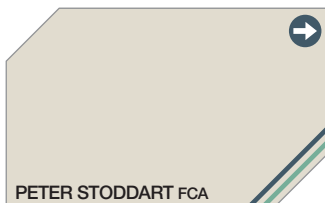
John Smith (appointed in 2005) worked for 12 years in the privatised water and rail sectors as Director of Regulation, first with Anglian Water Services Limited and then with Railtrack plc. Previously, as a member of the Government Economic Service he worked in transport, local government finance and environmental protection, and was involved in water privatisation. Currently, he works as an independent consultant; is a non executive member of the steering board of the Marine & Fisheries Agency; and is an honorary treasurer for Groundwork North London, an environmental regeneration charity.



ANTHONY STERN

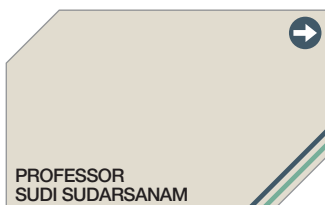


Anthony Stern (appointed in 2005) is a director of InterContinental Hotels UK pension trust. He was Director of Treasury for Bass and InterContinental hotels from 1988 to 2003, where he participated in financing mergers and acquisitions, a number of which involved competition investigations. Prior to this he worked for Dixons, Marks & Spencer and Chase Manhattan Bank. From 2001 to 2002 he was President of the Association of Corporate Treasurers. He has written for the Economist Intelligence Unit on aspects of financial markets.



PETER STODDART FCA

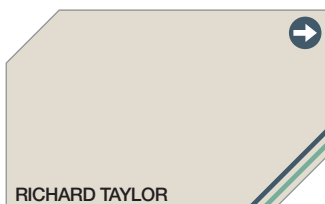
Peter Stoddart FCA (appointed in 2001) was a member of the Board, Company Secretary and Director of Financial Services for Nissan Motor Manufacturing (UK) Limited until his retirement in 2000. He previously worked with British Shipbuilders Corporation and was Finance Director of Cammell Laird Shipbuilders Limited. He was Interim Director of Operations of the NE Regional Development Agency and has held a number of non-executive appointments: Chairman of Further Education Colleges, Deputy Chairman of the RVI and Associated Hospitals NHS Trust.



PROFESSOR SUDI SUDARSANAM

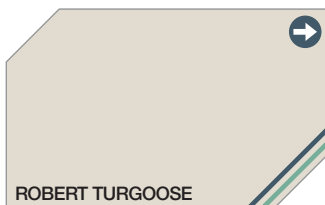


Professor Sudi Sudarsanam (appointed in 2005) is Professor of Finance & Corporate Control at the School of Management, Cranfield University, where he has worked for the last eight years and Co-Director of the Centre for Research in Economics and Finance. Prior to this, he was Professor of Finance & Accounting at the Cass Business School in London. He is the author of *The Essence of Mergers and Acquisitions* and *Creating Value from Mergers and Acquisitions: The Challenges* and co-editor of *Corporate Governance and Corporate Finance in Europe*. 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 for the *Journal of Business Finance & Accounting*. He is an Associate of the Chartered Institute of Bankers, London.



RICHARD TAYLOR

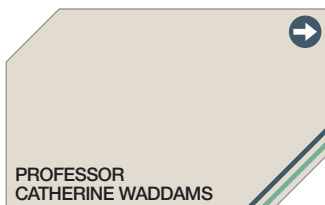
Richard Taylor (appointed in 2005) was a partner at CMS Cameron McKenna, where he worked for 30 years and specialized in competition law. During this time, he also both founded and chaired CMS, an alliance of European law firms. He is a member of the board of the Solicitors Regulation Authority and is co-chair of the Corporate Social Responsibility committee of the International Bar Association. He is also a trustee of the charities Beating Bowel Cancer and the Eating Disorders Association and a governor of Ickburgh School, a special school in Hackney.



ROBERT TURGOOSE

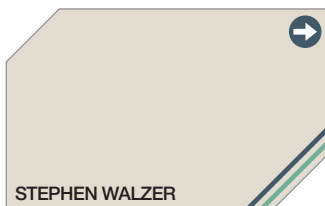


Robert Turgoose (appointed in 2002) was a corporate finance partner in PricewaterhouseCoopers. Much of his work has centred around competition in the gas and electricity industries, advising regional electricity companies on the creation of a competitive market post-privatization. He has advised governments and companies in the UK and overseas on energy industries. Mr Turgoose recently chaired the Kemira GrowHow/Terra Industries merger inquiry.



PROFESSOR CATHERINE WADDAMS

Professor Catherine Waddams (appointed 2001) is Professor at Norwich Business School and founding Director of the ESRC Centre for Competition Policy at the University of East Anglia. She is a Life Fellow of Clare Hall, Cambridge and has been a Visiting Fellow at the University of California Berkeley and at the University of Copenhagen and the University of Leicester. She has published widely on the economics of regulation, competition and gains from utility reform. Her current research interests focus on consumer choice and its role in competition policy and on the distributional effects of utility reform.



STEPHEN WALZER



Stephen Walzer (appointed in 2001) is Chairman of the International Chamber of Commerce UK Competition committee and rapporteur to the parent committee in Paris. A member of the Law Society/Bar Competition working party, he also serves on European Round Table groups responsible for competition policy and industrial relations, and the competition committee of UNICE, both in Brussels. He is a member of the board of the solicitors Regulation Authority and is a public interest member of the Audit Registration Committee of the Institute of Chartered Accountants for England and Wales.

Reporting Panel Members


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PROFESSOR
MICHAEL WATERSON



Professor Michael Waterson (appointed in 2005) is Professor of Economics at the University of Warwick. He held previous academic posts at the Universities of Reading and Newcastle and was President of the European Association for Research in Industrial Economics. He was also General Editor of the *Journal of Industrial Economics*. Currently, he is Chair of the (UK) Network of Industrial Economists. He is also an external examiner at the University of Edinburgh. He was until late 2007, Chairman of the Utilities Appeals Panel for Guernsey. He has served as Specialist Adviser to Subcommittee B of the European Union Committee of the House of Lords. Prior to his appointment to the CC, he was a member of the CC Academic Panel for one year.



JONATHAN WHITICAR


Jonathan Whiticar (appointed in 2005) is a business consultant. Formerly a Managing Director of The Royal Bank of Scotland, he has over 20 years' experience in mergers and acquisitions, banking and capital markets. He also spent two years on secondment with the DTI, as Director of the Industrial Development Unit. He is a Fellow of the Institute of Chartered Accountants of England & Wales and a member of the Institute of Chartered Accountants of Ontario, Canada. He is currently Trustee and Treasurer of the Hampshire & the Isle of Wight Community Foundation.



PROFESSOR
STEPHEN WILKS FCA



Professor Stephen Wilks FCA (appointed in 2001) is Professor of Politics at the University of Exeter. He was Deputy Vice Chancellor (Research) of the University from 1999 to 2002 and again for 2004 to 2005 and was a Member of the Economic and Social Research Council from 2001 to 2005, where he chaired the Strategic Research Board. His research interests centre on political economy and public policy and he has specialized in the study of UK and comparative competition policy. He has published widely on UK and European competition regimes including a history of the first 50 years of the MMC.




FIONA WOOLF CBE

Fiona Woolf CBE (appointed in 2005) is a Consultant with CMS Cameron McKenna where she built an international energy and infrastructure practice as a partner. She has worked on energy, water and infrastructure reforms, projects and regulation in over 38 jurisdictions. She is also a senior adviser with London Economics International LLC, a non-executive director of Three Valleys Water plc and a trustee of Raleigh International. In addition to this, Ms Woolf is immediate past President of The Law Society of England and Wales and an Alderman in the City of London.

Academic Panellists




DR WALTER BECKERT

 **Dr Walter Beckert** is an academic economist at Birkbeck College, University of London. He earned his PhD at the University of California, Berkeley, and subsequently taught at the University of Florida. He is also a research associate at the Institute of Fiscal Studies and the Centre for Microdata Methods and Practice (cemmap). His research focuses on theoretical and applied Econometrics and Applied Microeconomics. He has published in various academic journals, like the *Review of Economic Studies* and the *Review of Economics and Statistics*. He has advised the CC since September 2002. He is also a member of the Economics Council of Oxera Consulting Ltd.




DR PIERRE DUBOIS

 **Dr Pierre Dubois** is Research Director of INRA at the Toulouse School of Economics of the University of Toulouse and a research fellow of the Institute of Industrial Economics (IDEI). After a PhD at CREST and EHESS (Paris) in 1999, he was first assistant professor at the department of economics of the University of Montreal, then invited researcher at the University of California at Berkeley before joining INRA and the University of Toulouse at the end of 2000. He is Deputy director of GREMAQ since January 2007 and teaches Microeconometrics at the Master and PhD levels at the Toulouse School of Economics. His research is on Development Economics and Industrial Organization. He has published articles in international peer reviewed journals such as the *Journal of Political Economy*, *Econometrica*, the *Journal of Development Economics*, the *Journal of the European Economic Association*, the *American Journal of Agricultural Economics*, the *Journal of Regulatory Economics*. He is also a research affiliate at CEPR.




PROFESSOR RICHARD GREEN

 **Professor Richard Green** is currently the Director of the Institute for Energy Research and Policy and Professor of Energy Economics in the Department of Economics at the University of Birmingham. He has worked at the University of Cambridge (where he took his degrees) and the University of Hull, and held visiting positions at the Office of Electricity Regulation, University of California Energy Institute, and the Massachusetts Institute of Technology. He is a member of the Supergen Flexnet Consortium, and an Associate of the Electricity Policy Research Group. He is a Fellow of the Energy Institute.




PROFESSOR PAUL KLEMPERER

 **Professor Paul Klemperer** FBA is Edgeworth Professor of Economics at Oxford University. His work is focused on industrial economics, auctions, and economic policy (especially competition policy, and climate change). He has been an adviser to several government departments, the Bank of England, and the Competition Authorities, and has also advised the US government on merger and competition cases and policy. He has spent several years working in the private sector, and has served on the Board of Advisors of, or as a consultant to, a number of private companies. He has published many papers, edited eleven academic journals, and is a Fellow of the British Academy and of the Econometric Society and a Foreign Honorary Member of the American Academy of Arts and Sciences. He has also held visiting positions at M.I.T., Stanford, Berkeley, Yale and Princeton.



DR LARS NESHEIM

 **Dr Lars Nesheim** obtained his Ph.D. in Economics from the University of Chicago in 2001. He is currently a Lecturer in the Department of Economics at University College London (UCL) and is Co-Director of the Centre for Microdata Methods and Practice (CEMMAP), an ESRC national research centre, located at the Institute for Fiscal Studies and at UCL. As Co-Director of CEMMAP, Dr. Nesheim helps to manage the Centre's research and training activities and conducts research on structural econometric models of location choices and pricing. He has applied this analysis to study markets for education, housing and labour as well as to study the supermarket industry. At UCL, Dr. Nesheim teaches courses in Urban Economics and Econometrics. He has provided advice on competition policy and econometrics to the OFT, the Treasury, the CC and the DTI.

Academic panellists continued...



PROFESSOR VOLKER NOCKE

➔ **Professor Volker Nocke** (member of the Panel of Academic Advisors since 2007) is the Professor of Industrial Economics at the University of Oxford and a Fellow of Jesus College, Oxford. Volker studied Economics in Germany and France, graduating from the University of Bonn. He took his PhD at the London School of Economics for a thesis entitled "Industry Structure and the Dynamics of Competition". Subsequently, he was a Prize Research Fellow at Nuffield College, Oxford. After spending five years as an Assistant Professor of Economics at the University of Pennsylvania, he returned to Oxford in 2006. Volker is the Convenor of the Industrial Economics Research Group at the University of Oxford and Co-Editor of the *International Journal of Industrial Organization*. He has published in many leading academic journals, including the *American Economic Review*, the *Review of Economic Studies*, the *RAND Journal of Economics*, the *Journal of the European Economic Association*, and the *Economic Journal*.



DR PHILIPP SCHMIDT-DENGLER

➔ **Dr Philipp Schmidt-Dengler** studied undergraduate economics at the University of Vienna. He received an M.A. in Economics from Queen's University and a PhD from Yale. He joined LSE in 2005, where he is a lecturer in Economics. His academic research focuses on empirical and applied theoretical Industrial Economics. He teaches Industrial Economics, Competition Policy and Econometrics.



DR HOWARD SMITH

➔ **Dr Howard Smith** is University Lecturer in the Economics Department, University Of Oxford and an Official Fellow of Keble College. His research is on empirical modeling of industry behaviour. He has studied a range of industries. In recent years a particular focus has been the supermarket industry.



DR ANDREW SWEETING


➔ **Dr Andrew Sweeting** (appointed in 2007) is an academic in the Economics Department at Duke University in North Carolina. He previously held a position at Northwestern University and obtained his PhD at the Massachusetts Institute of Technology. Most of his research is in the field of Empirical Industrial Organization. He has particular knowledge of the electricity and radio industries, and is currently working on projects involving resale ticket markets and firm advertising strategies. Prior to entering academia, Andrew worked as an economic consultant in London and Brussels.




PROFESSOR TOMMASO VALLETTI

➔ **Professor Tommaso Valletti** has a *magna cum laude* degree in engineering from Turin and holds a MSc and a PhD in economics from the London School of Economics, where he also taught until 2001. He is Professor of Economics at Imperial College London, and also Professor of Economics at the University of Rome "Tor Vergata" (Italy). He is a Fellow of CEPR. Tommaso's main research interests are in industrial economics, regulation, and telecommunications economics. He is the Editor of *Information Economics & Policy* and Associate Editor of the *Journal of Industrial Economics*. He is also a member of the panel of academic advisors to Ofcom.

Senior Team

 Heads of Department

 Inquiry Directors and Deputy Heads of Department

 **RACHEL MERELIE**
Senior Inquiry Director

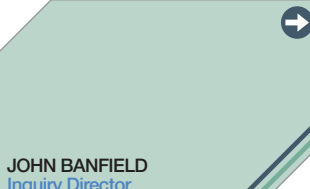


Rachel Merelie joined the CC in 2003 from Cap Gemini Ernst & Young. She previously managed business planning for Ernst & Young, worked as a management consultant, and held a variety of posts in the electricity industry. She has an MBA from HEC in France. At the CC she led the market investigation into personal current accounts in Northern Ireland and has worked on a variety of merger inquiries including those in stock exchanges, book retailing, water regulation and, most recently, television.



 **ANDREW TAYLOR**
Senior Inquiry Director

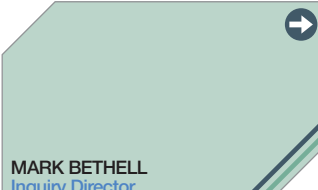
Andrew Taylor joined the CC in 2005. Previously, he worked as a utilities sector consultant advising on economic, financial and regulatory issues. Prior to this, he worked in the Australian Government both at the Federal Treasury and as an adviser to an Australian Government Minister. Since joining the CC he has worked on merger inquiries in soft drinks and clinical waste and directed the groceries market investigation.

 **JOHN BANFIELD**
Inquiry Director




John Banfield joined the CC in 1984 and was formerly an economist at the DTI and at the Department for Transport. Initially he was an Economic Adviser within the CC, before becoming Inquiry Director. He has worked on over 70 inquiries, including around 40 mergers and over 10 regulatory inquiries. In recent years he has worked on merger inquiries in insurance and supply of eggs and on the Heathrow and Gatwick quinquennial review. He is now leading on the BAA airports market investigation.



 **MARK BETHELL**
Inquiry Director

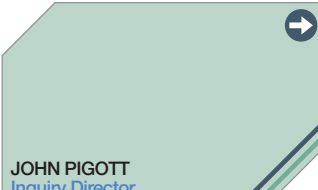
Mark Bethell joined the CC in 2008. He has practised competition law in private practice in Brussels, and was a case handler at the OFT leading the BSKyB, Aberdeen Journals and Attheraces Competition Act investigations. He has also acted as one of the UK's agents in litigation before the EC courts, and as an advisory lawyer at Defra.

 **DOUGLAS COOPER**
Inquiry Director




Douglas Cooper joined the CC in 1999 as an economic advisor. He acted as lead economist on many merger and market inquiries, including groceries, extended warranties and Northern Ireland personal current accounts. Before joining the CC, Douglas worked at the DTI dealing with various industry sectoral issues, and at MAFF, working in the area of international agricultural policy reform. He holds a PhD in economics from Nottingham University. In 2007 he was Inquiry Director for mergers in book wholesaling and in video game retailing. He is currently directing the inquiry into railway rolling stock leasing.



 **JOHN PIGOTT**
Inquiry Director

John Pigott joined the CC in 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. In 2007 he worked on merger inquiries for mass spectrometry and fertiliser businesses, an energy code modification appeal relating to gas transmission and the market inquiry into railway rolling stock leasing. He is currently directing the mobile call termination appeals.

 **ANTHONY PYGRAM**
Inquiry Director



Anthony Pygram joined the CC in 2005 from the DTI, where he worked, among other things, on mergers and nuclear non-proliferation. He has also worked as a postdoctoral researcher in ceramics, in product development of microporous materials, and in the nuclear industry. Since joining the CC he has worked on several merger inquiries, including in harbour towage and the manufacture and supply of bricks. He is now leading on the payment protection insurance market investigation.



CAROLINE WALLACE
Inquiry Director

Caroline Wallace joined the CC in 2005. She spent the previous five years at OfTel and then Ofcom, where she was a Director of Competition Policy. She is a chartered engineer and, prior to joining OfTel, had worked in the telecoms, water and manufacturing industries. Since joining the CC she has worked on merger inquiries in transport, food and entertainment.



ANDREW WRIGHT
Inquiry Director

Andrew Wright joined the CC in 2005. Previously, he was a manager at Deloitte Corporate Finance, having initially trained as a Chartered Accountant with Arthur Andersen. Since joining the CC, Andrew has worked on a number of inquiries as an accounting adviser and as an inquiry director, has led inquiries into mass spectrometry and the UK's broadcast transmission infrastructure and services.



ELIZABETH DYMOND
Chief Financial and
Accounting Advisor

Elizabeth Dymond joined the CC in 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.



LUCY BEVERLEY
Deputy Director of
Financial Analysis

Lucy Beverley joined the CC in 2002. She qualified as a Chartered Accountant with Coopers & Lybrand in 1997 and then moved to the firm's management consulting division specialising in telecoms strategy and policy. Prior to joining the CC she was Finance Director of an AIM listed company. Since joining the CC she has completed an MA in Competition and Regulation Policy from the University of East Anglia.



ADAM COOPER
Deputy Director of
Financial Analysis

Adam Cooper joined the CC as an accounting adviser in 2004. He qualified as a Chartered Accountant with Ernst & Young and remained there until 2001, including three years working as a consultant in the firm's Centre for Business Knowledge. In 2001 he moved to Abbey National plc as an E-business analyst in the company's Corporate Strategy department. Since joining the CC he has worked on a number of cases including Store Cards and Home Credit. In 2006 he spent three months at the OFT investigating profitability issues in UK retail banking.



DAVID ROBERTS
Chief Business Adviser and
Head of Remedies

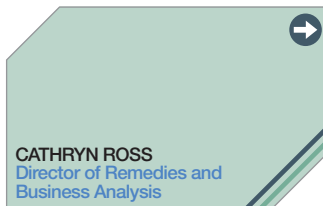
David Roberts joined the CC in 2002 from Sainsbury's where his roles included Director of Corporate Finance and Group Treasurer. He previously worked for BP and Deloitte Haskins & Sells Management Consultants. Since joining the CC, he has led advice on remedies for a wide variety of mergers and several market inquiries. He is a chartered accountant and is a trustee of Livability, a charity assisting disabled and disadvantaged people.



ADAM LAND
Director of Remedies and
Business Analysis

Adam Land joined the CC in May 2004. Before becoming Director of Remedies and Business Analysis, he worked in the Economics Branch. In that role, he was the lead economist on the home credit market investigation and various merger inquiries as well as acting as Head of Policy Analysis. Adam joined the CC from HM Treasury, where he worked on the Cruickshank Review of banking, the Barker review of housing supply and on various aspects of utility regulation and European microeconomic policy. Before that, Adam was at OFT for five years, where he evaluated mergers and competition issues in financial services.

Senior Team Continued...



CATHRYN ROSS
Director of Remedies and
Business Analysis



Cathryn Ross joined the CC in 2003. She was previously Head of Competition Economics at the Office of the Rail Regulator, where she worked primarily on cases surrounding the Competition Act 1998, but also advised on access agreements and liaised with the SRA on rail franchising policy and fares regulation. Prior to this, Cathryn was an economic adviser at OfTel working on price controls and competition casework. Before joining OfTel, Cathryn was an economic consultant, working for a range of public and private sector clients on competition and regulatory issues.



JOHN DAVIES
Chief Economist



John Davies joined the CC in 2003 as a director in the economics team and in 2005 became the Chief Economist. Since then he 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.



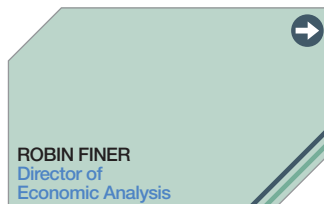
BENOIT DURAND
Director of
Economic Analysis



Benoit Durand joined the CC in 2006. Previously, he was a member of the Office of the Chief Economist, a service of the Directorate-General for Competition of the European Commission, where he worked on mergers and antitrust investigations covering a large range of industries. Prior to this he worked as an economic consultant in Washington DC specializing in competition policy matters. He holds a PhD in economics from Boston College.



ROBIN FINER
Director of
Economic Analysis



Robin Finer joined the CC in 2007. Previously, he was a Director in the Markets and Projects area of the OFT, where he led market studies and Competition Act 1998 investigations in the Infrastructure and Knowledge Economy group. Prior to this he worked as an economist on a wide range of OFT merger and antitrust investigations across many sectors, including a spell in the Chief Economist's team. He has also worked in the Directorate General for Competition of the European Commission in Brussels where he dealt with antitrust matters in the food, drink, agricultural and pharmaceutical sectors.



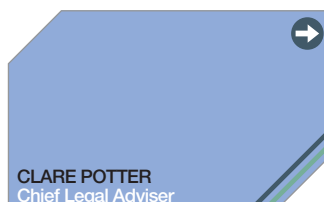
TOM KITCHEN
Director of
Economic Analysis



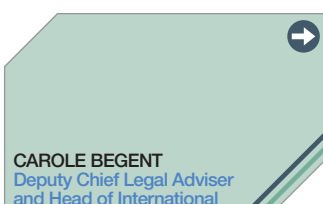
Tom Kitchen joined the CC in the late 1990s for his second stint at the CC and became a director in the economics team in 2003. He has worked on many inquiries. Before joining the CC, Tom's competition and regulatory work mainly focused on the transport and energy industries.



CLARE POTTER
Chief Legal Adviser



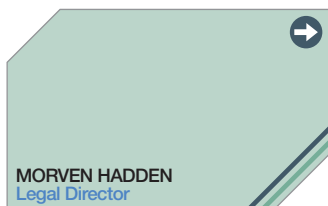
Clare Potter joined the CC in 2004. She was previously a partner in the competition group at City law firm Simmons & Simmons where she specialized in UK and EC competition law, utility regulation and telecoms. She advised a wide range of companies in regulated and unregulated sectors as well as a number of regulatory bodies. She had periods of secondment to the DTI and the European Commission.



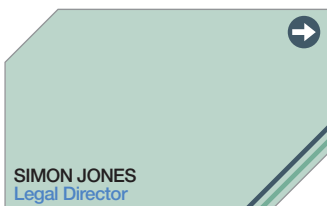
CAROLE BEGENT
Deputy Chief Legal Adviser
and Head of International



Carole Begent joined the CC in 2000. She has specialised in competition and regulation, previously holding legal and policy posts at ORR and Ofwat, and has been involved in managing change in consequence of changes to the competition (notably Enterprise Act and Competition Act) or regulatory regimes. Before joining Ofwat she was a solicitor in private practice specializing in corporate, commercial and regulatory law.



Morven Hadden joined the CC in 2007. She was previously a senior associate in the EU, Competition & Regulatory department of City law firm Simmons & Simmons where she specialized in EU and competition law. Morven was seconded to the DTI in 2003 where she worked as a competition policy adviser on the media merger provisions of the Communications Act 2003.



Simon Jones joined the CC from the Treasury Solicitor's Department in 2001. Since then, he has advised the Commission in numerous merger, market, complex monopoly and regulatory cases. He has also acted for the Commission in litigation and advised on code modification appeals and governance.



Rebecca Lawrence joined the CC in 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.



Chloe MacEwen joined the CC in 2008. She was previously Deputy Director of Mergers at the OFT where she was responsible for delivery of mergers casework across a variety of industry sectors including transport and financial services. Prior to this, Chloe worked as a seconded national expert in the mergers policy and strategic support unit of DG Competition, European Commission and as a Legal Adviser at the CC working on mergers and market inquiries. Before working at the CC, Chloe qualified as a solicitor at Simmons & Simmons and also spent three years at Herbert Smith working on a variety of mergers and anti-trust work.

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