



Directors' Report and
Financial Statements



For the year to
5th September 2015



Our mission

To be a successful co-operative business

- **providing** the widest possible range of services for our members.
- **maintaining** quality, value and ethical principles.
- **building** for the future by generating profits to develop our services, pay dividends to members and support our local communities.
- **encouraging** customers to become members and to be involved in running their Society.
- **developing** the skills our staff need, to help achieve our mission.

Contents

| | |
|----|--|
| 1 | Directors, Senior Management & Auditors |
| 2 | Directors' Report for year ended 5th September 2015 |
| 2 | Trading review |
| 3 | Employees & Pensioners |
| 4 | Co-operative environmental & social performance indicators |
| 5 | Governance |
| 8 | Remuneration report |
| 9 | Independent auditor's report |
| 10 | Statement of directors' responsibilities |
| 10 | Internal auditor's overall assurance statement |
| 11 | Financial statements |
| 30 | Agenda for annual members' meeting |
| 31 | Standing orders |



Your Board of Directors

Top row, left to right: **Jane Powell** (Group Secretary), **Peter Gault**, **Julia Romney**, **Kevin Shaw**, **Mark Bowen**

Bottom row, left to right: **Sue Neal**, **Carol Bratton**, **Stephen Hughes**, **Amy Morley** (President), **Ursula Lidbetter** (Chief Executive), **Stuart Parker** (Vice President), **Rev Barbara Hutchinson**, **David Maltby**

Directors, Senior Management and Auditors

Board of Directors

- Amy Morley - President
- *+ Stuart Parker BSc (Eng)
– Vice President, Chair of Pension Scheme Trustees and Remuneration Committee
- Julia Romney
- * Carol Bratton MIC
- * Stephen Hughes BPharm
- * Sue Neal
- + David Maltby - Chair of Audit Committee
- * Reverend Barbara Hutchinson
- Mark Bowen MSc, Pg Cert, Dip CG, FCMI, CMgr
Peter Gault MBA
- + Kevin Shaw BSc Hons, ACA
- [Audit Committee](#)
- + [Board Nominated Trustee of the Pension Scheme](#)
- * [Remuneration Committee](#)

Senior Management Team

+**Ursula Lidbetter** MBE, BSc Hons, FCIS, DL
Chief Executive Officer

Jane Powell LLB Hons, MBA
Group Secretary

David Dernley Dip.F.D. MBIE.
Head of Funeral Services

Laura Dunne BA Hons
Head of Marketing and Membership

Alastair Farquhar BSc, MRPharmS
Head of Pharmacy

Mark Finn LLB Hons, MBA
Chief Retail Officer

Stephen Galjaard BA Hons, FCA
Chief Financial Officer

Heather Lee BA Hons, MCIPD, MBA
Head of People and Performance

Andrew Turner
Head of Group Services

Auditors

KPMG LLP, 1 St Peter's Square, Manchester M2 3AE

Registered Office

Stanley Bett House, 15/23 Tentercroft St, Lincoln LN5 7DB

For the year ended 5th September 2015

The Society's trading activities include food stores, bakery and butchery, retail and wholesale pharmacy, filling stations, post offices, travel agents, funeral services, crematorium, florist and a portfolio of commercial and residential properties.

Trading Review

We achieved a strong uplift in sales across our businesses, both through organic growth and new outlets.

In the highly competitive grocery sector, our food store sales grew by 4.3%, 1.4% like for like, especially pleasing as we lowered prices, particularly on fruit and vegetables. Our Gadsby's bakery sales rose 7.4%, aided by supply to our own new stores and further outlets of other neighbouring co-ops.

Lower prices at the pumps and reduced volumes depressed our fuel sales, but profits improved.

Income in our 41 post offices reduced once again. We are making strenuous efforts to protect this service in its traditional form, which we know is important to our members.

Sales through our travel agencies increased strongly by 9.1%. Income from our funeral branches and crematorium grew 13.1% and we dispensed 3.6% more prescriptions from our pharmacies.

Gross Sales across the business totalled £293 million, an increase of £6.6 million.

With margins strengthening and costs well controlled the society produced a surplus before payments to members of £20.9 million, an increase of £2.2 million.

This strong result has allowed staff a share in our profits worth over 1.5 week's pay in the year.

We recruited 19,726 new members and at the year-end membership stood at 241,536. In the light of our strong results the Board is recommending to members that £3,400,000 is allocated to dividend from which £1,833,000 has already been paid during the year, and that a dividend bonus is awarded equal to 85p for every pound of dividend distributed in the year.

Resources devoted to member benefits and support totalled £1.3 million in addition to dividend. This includes our Community Champions scheme which distributes money to local good causes chosen by members, in proportion to their purchases. This year 380 organisations received a total of £184,000.

The Society's reserves were strengthened by our good trading result but offset by the pension scheme liability which grew by £7.3 million and by property revaluations which reduced by £4.1 million, principally due to the £3.4 million value of land we are contributing to the Lincoln Transport Hub.

The net assets of the Society increased in total by £2 million to £282 million.

Developments

Our continued strong trading results supported a £17 million capital programme this year. We use local contractors, specialists and builders where possible.

We rolled out our updated brand to refresh the fascias, internal graphics and marketing materials of our businesses and this will continue in our new financial year.

This has been a fruitful period for new trading outlets. We opened food stores in Worksop, Holbeach, Newark, Washingborough and Dunholme, took over a post office in Holton le Clay and our travel business in Louth moved to bigger premises.

We built a new funeral home in Lincoln which significantly improves the facilities to include a chapel and catering suite. Investment in upgrading the offices at Thomas Parker House in the city enabled us to let the space to a national company.

We are working in partnership with local builders, Lindum Group, to build seven new homes adjacent to our new store in Long Bennington.

We have also invested further in our healthy living pharmacy concept, which improves the clinical environment for our pharmacy staff and clients. The School of Pharmacy on our Science Park at the University of Lincoln now has 86 students and three of our pharmacists work there as teacher practitioners, with 12 of our pharmacies providing work placements.

27 employees have now commenced on our bespoke degree course in business management at the University of Lincoln, with 4 having completed their BA Hons. degree. This course allows colleagues to study for their qualification paid for by the Society while continuing their career with us and gaining highly relevant skills and knowledge.

We support 24 apprentices in our food, travel and pharmacy businesses. Looking forward we are building our business plans to accommodate the new National Living Wage.

Since the year end we have purchased Heckington pharmacy and opened new stores in Long Bennington and Collingham. We are also building new stores to replace our current estate in Wragby, Boston, Old Leake and Gainsborough.

We are expecting to be on site during 2016 building the first phase of the Cornhill Quarter in Lincoln's city centre, the reconfiguration and refurbishment of the Riverside Shopping Centre in Sleaford and the Boole Technology Centre on the Lincoln Science and Innovation Park.

Employees and Pensioners

Our Chief Retail Officer **Jim Thomson** retired during the year and we thank him for his service to the Society over 30 years.

The following staff have received awards for:-

25 years' service

Sue Townsend

Senior Clerk
in the wages office in Lincoln

Carol Sellars

Customer Services Assistant
at Market Rasen food store

Denise Buckberry

Dispensing Technician
at Rookery Lane Pharmacy in Lincoln

Daphne Simmons

Duty Manager
at Horncastle food store

Jo Sims

Manager
at Gainsborough Travel

Tracey Pinkett

Supervisor
at Collingham food store

Joanna Proctor

Manager
at Sutton on Trent food store

Andrew Atkin

Store Manager
at Ruskington food store

Cheryl Keeley

Officer Manager
at the Food Distribution Centre in Lincoln

Jane Nutting

Supervisor
at Wragby food store

Carole Tindall

Customer Services Assistant
at Market Rasen food store

Jacqueline Brown

Checking Technician
at the Forum Pharmacy in Lincoln

Lorraine Semmens

Customer Services Assistant at
Woodhall Drive food store in Lincoln

Sylvia Jackson

Duty Manager
at Bardney food store

Richard Lister

Regional Manager
in Food division

40 years' service

Tena Martin

Clerk
at the Food Distribution Centre in Lincoln

Denise Black

Customer Services Assistant
at Nunsthorpe food store in Grimsby

Condolences

It is with regret that we report the deaths of the following pensioners and employees and we extend our condolences to their families and friends:-

Trisha Mann aged 54

Customer Services Assistant at Heckington food store.

Diane Flood aged 51

Delicatessen Supervisor at Long Sutton food store.

David Neal aged 65

Service Advisor at the Jaguar Motor Dealership in Lincoln

Frank Dring aged 85

Grocery Manager at Holbeach food store

George Kirton aged 92

Butcher at Victoria Street food store, Newark

Acknowledgement

The directors extend their thanks and appreciation to the members for their continued support and to all the Society's staff, as the progress made would not be possible without their efforts.

For and on behalf of the Board,

Amy Morley

President

Stuart Parker

Vice President

Ursula Lidbetter

Chief Executive Officer

Jane Powell

Group Secretary

26th October 2015

Co-operative Environmental & Social Performance Indicators

As a co-operative the Society seeks to operate its business in accordance with co-operative values and principles. To assist in the monitoring of our performance we use a variety of indicators which are recognised by Co-operatives UK.

| Description | Measure | Performance in 2014/15 |
|--|---|---|
| Member economic involvement | Trade conducted with members as a proportion of turnover | Data from the use of the dividend card and pro rata estimates for divisions where the dividend card is not used, indicate that trade conducted with members represents 51.3% of total sales which is less than last year's figure of 52.3%. |
| Member democratic participation | Number of members voting in elections, and as a percentage of total membership | An election was held for 4 places on the board with 4 candidates standing. The ballot produced 6,527 votes equating to 2.7% of members. Last year 5,246 members voted equating to 2.3% of members. |
| Participation of employees in training and education | Hours of training undertaken | On average each employee spent 12.1 hours on specific off the job training. Last year we also included on the job training in these figures and identified that each full time employee received 27 hours training. |
| Staff injury and absentee rates | Total number of accidents and reportable accidents. Staff absentee rates | The total number of incidents involving staff and reported during the year was 222 of which 207 were minor and 15 were reported to the Health and Safety Executive. This is a reduction from last year when 255 incidents occurred. 229 were minor, and 26 were reported to the Health and Safety Executive. The average number of days taken due to sickness was 6.8 compared to 7.3 last year. |
| Staff profile – gender and ethnicity | Gender split and % employees from different ethnic groups | The gender split of employees is the same as last year. 72% of our employees are female and 28% are male. We also monitor the diversity of our staff and currently 1.4% of those who tell us about their ethnicity have an ethnic minority background. |
| Consideration of ethical issues and procurement and investment decisions | Evidence of ethical issues in decision making | Over 98% of our food procurement is done through membership of the Co-operative Retail Trading Group which is managed by the Co-operative Group. We have supported the ethical buying policies of the Co-operative Group which has stated that it's committed to developing fair and sustainable relationships with suppliers across its supply chain. The remainder of our food is sourced locally from verified local suppliers. All of our fuel procurement for our filling stations is from Certas Energy, a British company which supplies fuel from a local refinery at Immingham to all of our sites. |
| Investment in community and co-operative initiatives | Annual proportion of investment in community/co-operative initiatives as a % of pre-tax profits | Over the year we have invested £834,000 in community initiatives and £50,000 in co-operatives and their development. This equates to about 5% of our pre-tax profits. Last year we invested £937,521 in community initiatives and a further £50,000 in co-operatives equating to around 6.5% of pre-tax profits. |
| Net CO2 emissions arising from operations | Net tonnes of CO2 emissions from energy used for all on-site operations (but excluding transport) | We produced 1,765 tonnes of CO2 from on-site operations this year which is a small increase on the amount produced last year (1,550 tonnes) which reflected the milder winter. |
| Waste recycled | % of waste recycled/re-used as % of total waste | We are continuing to monitor the amount of waste which is recycled. This year we have recycled 92.5% of waste produced which is slightly more than last year (91.9%). |

As a Registered Society under the Co-operative and Community Benefit Societies Act 2014, Lincolnshire Co-operative Ltd is not subject to the provisions of the Combined Code. However, Co-operatives UK (which is the representative body for co-operatives in the UK) has issued a voluntary code for consumer co-operatives. This code is based on the principles contained in the Combined Code but is tailored to the particular governance characteristics found within co-operative societies. A copy of the code applicable for co-operatives is available from the Group Secretary or can be found on the Co-operatives UK website.

The board has responsibility to outline how the Society has complied with the principles of the Code and to explain any instances of non-compliance. This report covers the period between September 2014 and August 2015.

Society Structure

Co-operatives are member led and democratically controlled organisations. The board has sought to encourage members to play their part in the governance of the business and to improve member participation. The board is committed to the principles of member democratic control and elections to the board took place during the year.

The Society has a board which currently comprises eleven directors. Nine directors are elected by and from the members of the Society and two have been appointed by the elected directors. The maximum term a director can serve without standing for re-election is three years. In addition a maximum of three directors may be appointed by the elected directors.

In accordance with Society rules, Amy Morley was elected as President of the Society.

19 meetings of the board were held during the year. Each individual director's attendance was as follows:-

| Names of Directors | Board | Audit Committee | Remuneration Committee |
|-----------------------------|---------|-----------------|------------------------|
| Margaret Tranter | 12(14)+ | 1(2) | 3(3) |
| Julia Romney | 19(19)+ | | |
| David Maltby | 14(19)+ | 2(3) | |
| Stuart Parker | 18(19)+ | 3(3) | 3(3) |
| Susan Neal | 16(19)+ | | 3(3) |
| John Levine | 13(14)+ | 2(2) | 3(3) |
| Carol Bratton | 15(19)+ | | 3(3) |
| Stephen Hughes | 15(19)+ | | |
| Malcolm Hoskins | 10(14)+ | | |
| Reverend Barbara Hutchinson | 16(19)+ | | |
| Amy Morley | 18(19)+ | 3(3) | |
| Kevin Shaw | 8(11)+ | 2(2) | |
| Mark Bowen | 4(4)+ | 1(1) | |
| Peter Gault | 3(4)+ | | |

Some directors hold positions on group or associated companies. Stephen Hughes is a member of the Co-operative Group Members' Council.

A programme of continuing development and training is in place for the board. In addition a skills audit and performance evaluation of the board, is undertaken regularly. The Co-operative College completed a full board skills audit during 2012/13 and their assessment was used to identify any significant skills gaps and areas where the functioning of the board could be improved.

On an annual basis, the board evaluates its performance in respect of corporate governance. The results are contained in this report.

Board Elections

In May 2015 elections for 4 positions on the board took place. 6,527 votes were cast with 16 spoilt papers. Subject to the rules of the Society the successful candidates named below were all elected for the terms stated.

| | | |
|------------------------|-------------|---------|
| Mark Bowen | 2,802 votes | 3 years |
| Peter Gault | 2,405 votes | 3 years |
| Rev Barbara Hutchinson | 2,201 votes | 3 years |
| Carol Bratton | 2,074 votes | 2 years |

Three directors John Levine, Margaret Tranter and Malcolm Hoskins retired during the year and we extend our thanks to them for their contribution to the Society over many years.

The Board

The board is responsible for setting the Society's objectives and strategy, monitoring delivery by management of that strategy and identifying any management risk. The board also has a duty to ensure that the Society operates as a bona fide co-operative and adheres to the values and principles unique to such organisations.

The Society's rules prescribe certain duties and responsibilities which are the sole preserve of the board. These include, for example, the power to establish member committees and determination of capital expenditure delegated authority levels.

The board meets on a regular basis throughout the year. At its meetings, it receives reports from management on trading and other matters, reviews the financial performance of the Society for the period and cumulatively for the year, and considers papers presented for decision or information. Decisions made are actioned as appropriate by management.

() possible attendance

* The UK Code on corporate governance, which applies to listed companies, is a voluntary code rather than a regulatory requirement. However, the UK Listing Rules require listed companies to disclose in their annual report the extent of their compliance or non-compliance with the code.
+The total number of board meetings set out above includes up to 2 meetings which were exceptional meetings held at short notice to deal with a single issue.

The board has delegated the management of the Society's activities to the Chief Executive and her Management Team. The members of the Senior Management Team are identified on page 1. To comply with the Code we are required to report any outside directorships held by them. Andrew Turner is a director of Hill Holt Wood and Hill Holt In The Community Limited, Stephen Galjaard is a director of Lincolnshire Community Land Trust and Investors In Lincoln Ltd, Alastair Farquhar is a director of North Hykeham Day Centre Ltd, Heather Lee is a director of Sir Robert Pattinson Academy, Beewise Credit Union, Co-operative Employees Association Ltd and Blue Symmetry Ltd and Jane Powell is a director of The Priory Federation of Academies.

The Group Secretary can only be appointed or removed by the board and is independent of the management structure. All directors have access to the advice and services of the Secretary at all times. In addition, external professional advice may be taken if requested by at least 4 directors.

In June 2015 members approved a change in the Society's rules. In the future, new directors will no longer be required to stand down at the half yearly meeting after their 68th birthday. Instead they will be allowed to continue in office as long as they haven't served for more than three consecutive terms of three years each. Transitional provisions apply to directors in office when the rules were changed. The board is able to appoint up to 3 additional directors and this year David Maltby was re-appointed along with Kevin Shaw who joins as a new member of the board. These appointments are subject to ratification by the members as required by the rules.

Board Balance and Independence

All directors are non-executive and hold the following occupations:-

Stephen Hughes Retired Pharmacist

Susan Neal Phlebotomist/Health Care Assistant

Julia Romney Security

Stuart Parker Engineer

Carol Bratton Business Development Advisor

Kevin Shaw Chartered Accountant

Rev Barbara Hutchinson Hospital Chaplain

Amy Morley Senior Account Manager

David Maltby Retired Company Director

Peter Gault Manager

Mark Bowen Enterprise Development Manager

The Chief Executive Officer, Ursula Lidbetter is a director of Investors in Lincoln Ltd, and Federal Retail and Trading Services Ltd. She also chairs Lincoln Business Improvement Group Ltd, Lincolnshire Chamber of Commerce and Greater Lincolnshire Local Enterprise Partnership Ltd. Kevin Shaw is a director of Wright Vigar Ltd and Jericho Investments Ltd and Carol Bratton is a director of Ongo Commercial Ltd.

The Secretary maintains a register of directors' interests to ensure they do not participate in any decisions where they may have an interest. The rules of the Society provide that members are debarred from becoming directors in circumstances where specific interests in other organisations are held.

The President

The President of the Society is elected by the board at their first meeting each year following the half yearly meeting of members. The President acts as chair at all board meetings.

Audit Committee

The Audit Committee of the board currently comprises three elected directors (who are not employees of the Society) and two appointed directors. The chair of the committee is David Maltby and its membership includes Kevin Shaw who is a chartered accountant. The committee is scheduled to meet at least three times a year.

Its written terms of reference are regularly reviewed by the board of directors and include:-

1. Consideration of the appointment, reappointment and removal of the external auditor, subject to confirmation by the members and consideration of the scope of the audit;
2. Review of the financial statements and the auditor's report;
3. Review of the internal audit programme and all internal audit reports;
4. Review of the Society's statement on internal control systems; and
5. Limits on the level of non-audit work which the Society's external auditor can do without prior approval of the committee

The committee always takes the opportunity to meet the external auditors and the internal auditors without the presence of management during the year.

The chair of the Audit Committee reports the outcome of all Audit Committee meetings to the board at the first Board meeting after the Audit Committee and the board receives the minutes of the Audit Committee meetings.

During the year the board undertook a review of the systems of internal control and does not consider that any weaknesses have come to light that have resulted in material losses or contingencies which require disclosure.

Internal Control Framework

The Society has adopted an internal control framework which the directors consider appropriate to its size and diversity.

Risk Management

The board and executive management have the primary responsibility for identifying the key business risks facing the Society and the development of appropriate policies to manage these risks.

Control Environment

The Society has clearly defined reporting lines and levels of delegated authority. Expenditure authorisation levels are set for every area of the business. Large capital projects and acquisitions require prior board approval in accordance with the criteria set out in the schedule of matters reserved to the board. The group is centrally controlled.

Control Activities

Procedure manuals cover the key control systems and all divisions are required to comply with them. The intranet continues to be used for dissemination and updating policy documents and instruction manuals, key information and reporting forms.

Whistleblowing

A documented whistleblowing procedure is in place and communicated to employees. To complement this, a detailed anti-fraud policy has been developed and a dedicated confidential reporting phone line established. This policy is reviewed by the Audit Committee.

Monitoring

Internal audit services are outsourced to Streets Accountants and this ensures that resources are concentrated in the areas where they are most required. The use of an external service provider for this role gives flexibility and an independent view. An annual report of the activities of the internal audit service has been produced for the year 2014/15. The internal auditor's overall assurance statement is set out on page 10.

A three year programme for the audit of all key systems and controls has been agreed with the Audit Committee. Any weaknesses identified are highlighted to management and to the Audit Committee which monitors all internal audit reports and ensures that appropriate actions are taken.

Supplier Payment Policy

It is Society policy to agree the terms of payment as part of the commercial arrangement negotiated with suppliers and then pay according to those terms based upon the timely receipt of an accurate invoice. Trade creditor days for the year to 5 September 2015 were 27 days compared to 24 days last year.

Compliance Statement

The Society complies with the Corporate Governance Code for Consumer Co-operative Societies launched in November 2013 except as set out below:-

Acquisitions and Disposals (Code Provision 22)

The Code requires that a board proposing transactions, acquisitions or disposals involving 25% or more of the Society's members' funds should be reported to members at a consultative meeting. Although no such transaction has been concluded during the year and none is contemplated, the board are concerned that placing certain information in the public domain may prejudice the successful conclusion of any negotiations.

Disclosure – The Annual Report and Financial Statements (Code Provisions 113 and 114)

Details of the individual remuneration packages of the Chief Executive Officer and management executive are not disclosed, or put to members for an advisory vote, but an explanation of this is contained within the Remuneration Report on page 8.

Audit Committee (Code Provision 125)

The current President (who acts as chair of the board) sits on the Audit Committee. As the President will step down from this position in June 2016 and only took office in June 2015 it is considered that this does not create a situation of undue influence.

The corporate governance compliance statement set out above is hereby signed on behalf of the board of directors pursuant to paragraph 165 of the Corporate Governance Code for Consumer Co-operative Societies launched in November 2013 .

Amy Morley
President

Ursula Lidbetter
Chief Executive Officer

Jane Powell
Group Secretary

26th October 2015

Underlying Principles

The principle which the Society and the board adopt in relation to remuneration is that no-one should be involved in consideration or determination of their own remuneration package or any aspect of that package.

Directors

The Members approve the directors' fees. The research which precedes a recommendation to members is undertaken by the Group Secretary, who obtains external advice, usually from Co-operatives UK and other co-operative societies.

Directors' fees were last reviewed on 23 May 2007 when the present arrangements were agreed by members. There is also a formula for updating the fees in line with the index of average earnings. This formula was agreed by members.

The present flat rate fees are:-

| | | |
|---------------|----------------|---------------|
| President | Vice-President | Directors |
| £5,533 | £4,578 | £4,164 |

In addition to the flat rate fees, directors are entitled to delegation fees for undertaking duties authorised by the board which are outside the Society. The present scale of delegation fees was agreed by members on 23 May 2007. There is also a formula for updating delegation fees in line with the index of average earnings. This formula was also agreed by members. The present level of delegation fees is:-

| | |
|----------------------------------|--------|
| For delegations up to four hours | £9.83 |
| For delegations over four hours | £19.71 |

Delegation fees are not paid in respect of attendance at an organisation which itself pays fees, if the director concerned receives such a fee. When on business delegated by the board, directors receive mileage allowances for using their own cars, reimbursement of public transport fares and reimbursement of reasonable actual expenditure for meals and hotels.

For the year ended 5 September 2015 individual directors' total gross remuneration (including expenses and delegation fees) was as follows:-

| | | |
|--------------------------------------|--|----------------------------------|
| Stephen Hughes £4,687.11 | John Levine £4,288.78 | David Maltby £4,424.16 |
| Susan Neal £4,441.59 | Carol Bratton £4,647.81 | Mark Bowen £960.96 |
| Julia Romney £4,251.81 | Malcolm Hoskins £4,807.49 | Peter Gault £960.96 |
| Stuart Parker £4,307.91 | Barbara Hutchinson £6,652.58 | Kevin Shaw £2,541.01 |
| Margaret Tranter £4,517.76 | Amy Morley £5,112.92 | |

Executives

The remuneration package of the Chief Executive and the Group Secretary are determined by the board on the recommendation of the Remuneration Committee. Their remuneration is not set out in this report as this is not a requirement under current financial reporting standards and in view of this it seems inappropriate to put this report to the members for an advisory vote. Unlike most plcs and in common with many other consumer co-operatives, the Chief Executive and the Group Secretary are not members of the Board and under the arrangements outlined in this report, do not play any part in the consideration or determination of their own remuneration package.

The Remuneration Committee is made up of the five longest serving non-employee directors and is chaired by the longest serving. Remuneration Committee meetings held during the year comprised of the following members:-

Stuart Parker (Chair)

Sue Neal

Margaret Tranter

John Levine

Carol Bratton

As Margaret Tranter and John Levine stepped down from the Board during the year their places on the Remuneration Committee were taken by Rev Barbara Hutchinson and Stephen Hughes. The new members have not yet attended any meetings of this committee.

The Group Secretary is Secretary to the Remuneration Committee but is excluded from any part of any meeting where her own remuneration is under consideration.

The Remuneration Committee obtains advice from external professional advisers, principally Co-operatives UK (formerly the Co-operative Employers' Association) who themselves have access to industry data worldwide through their partnership with Hay Group.

The objective of the Remuneration Committee is to pay at the median point for the relevant professional discipline.

Determination of the remuneration packages of other members of the senior management team is delegated to the Chief Executive who discusses her approach and her conclusions with the Remuneration Committee.

Stuart Parker
Chair

26th October 2015

Independent auditor's report to the members of Lincolnshire Co-operative Limited

We have audited the financial statements of Lincolnshire Co-operative Limited for the year ended 5 September 2015 set out on pages 11 to 28. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Society's members, as a body, in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and, in respect of the reporting on corporate governance, on terms that have been agreed. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and, in respect of the reporting on corporate governance, those matters we have agreed to state to them in our report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As more fully explained in the Statement of Directors' Responsibilities set out on page 10 the Society's directors are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's affairs as at 5 September 2015 and of the income and expenditure of the Group for the year then ended; and
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014.

Matters on which we are required to report by exception

We have nothing to report in respect of the following.

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

- the Society has not kept proper books of account; or
- the Society has not maintained a satisfactory system of control over its transactions; or
- the financial statements are not in agreement with the Society's books of account; or
- we have not received all the information and explanations we need for our audit.

In addition to our audit of the financial statements, the directors have engaged us to review their Corporate Governance Statement on pages 5 to 7 as regards the Society's compliance with provisions 43, 123 to 130 and 135 to 152 of Co-operatives UK Limited's Corporate Governance Code for Consumer Co-operative Societies issued in November 2013 ('the Code'). Under the terms of our engagement, we are required to review whether the Corporate Governance Statement reflects the Society's compliance with the provisions of the Code specified for our review.

Lindsey Crossland (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
1 St Peter's Square
Manchester M2 3AE

Statement of Directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Group financial statements in accordance with applicable law and regulations.

The Co-operative and Community Benefit Societies Act 2014 requires the directors to prepare financial statements for each financial year. The directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the income and expenditure of the Group for that period. In preparing the Group financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Board Certification

The financial statements on pages 11 to 28 are hereby signed on behalf of the board of directors pursuant to the Co-operative and Community Benefit Societies Act 2014.

Amy Morley
President

Stuart Parker
Vice President

Jane Powell
Group Secretary

26th October 2015

Internal Auditors' Overall Assurance Statement

In our opinion, for the year 2014/15, Lincolnshire Co-operative Ltd has an adequate, effective and reliable framework of internal control which provides reasonable assurances regarding the effective and efficient achievements of objectives. Whilst some deficiencies in control have been identified by the internal audit service, we are satisfied that they are being resolved in an appropriate manner.

Streets Internal Audit

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of land and buildings. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements. The net assets of the Society were £282,010,000 at 5th September 2015, the Group had no borrowings, trading surplus remains robust and the Society has adequate resources to continue in operational existence for the foreseeable future. Hence the financial statements have been prepared on a going concern basis.

Basis of consolidation

The Group Financial Statements consolidate Lincolnshire Co-operative Ltd. and its active subsidiaries as follows:

Wholly owned:-

LCS Retail Ltd.

Lincoln Shop Equipment Ltd.

LCS Property Ltd.

Lincoln Corn Exchange & Markets (1991) Ltd.

Greetwell Developments Ltd.

Gadsby's of Southwell Ltd.

South Lincolnshire Crematorium Ltd.

52 weeks to 5th September 2015

Lincoln Co-operative Chemists Ltd.

F Maltby & Sons Ltd.

12 months to 31st August 2015

Majority Owned:-

Lincoln Science and Innovation Park Ltd.

12 months to 31st August 2015

Joint Venture:-

LC Community Projects Ltd.

12 months to 31st August 2015

The Group's interest in Joint Ventures are accounted for using the Gross Equity method.

Goodwill

Purchased goodwill is capitalised and amortised over its estimated useful life which is deemed to be a maximum of 20 years. Goodwill purchased before 5th September 1998, and previously written off against reserves, has not been restated onto the Group Balance Sheet.

Goodwill sold is recognised in the Group Revenue Account as part of the surplus or deficit on disposal of fixed assets. The historical cost of goodwill sold is reinstated directly to the revenue reserve.

Gross sales

Gross sales includes cash sales, goods sold on credit, post office income and property rental income, inclusive of value added tax.

Gross sales also includes amounts recognised in respect of sales made on an agency basis principally relating to travel and concession sales with a reduction to the value of commission receivable shown separately in arriving at turnover.

Tangible fixed assets and depreciation

Trading properties are included at current market values after being subject to depreciation at the appropriate rate and to impairment charges where appropriate. An assessment is made whether deficits are temporary or permanent in nature based upon a range of factors, including market conditions, yields and neighbouring developments. Other fixed assets are stated at their acquisition cost and are depreciated over their expected useful lives to their estimated residual values by equal instalments based on the following minimum rates:

| | |
|---------------------------------------|---------------|
| Freehold land | Nil |
| Freehold and long leasehold buildings | 2% p.a. |
| Fixtures, fittings and plant | 5 - 25% p.a. |
| Transport | 14 - 33% p.a. |

Investment properties are stated at current market value in accordance with SSAP 19 and are not subject to depreciation.

Assets leased to the group

Operating lease rentals are charged to the Group Revenue Account on a straight line basis over the period of the lease.

Taxation

The charge for taxation is based on the surplus for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by balance sheet date.

Stocks

Stocks are valued at the lower of cost and net realisable value.

Repairs

Repair expenditure is charged to the Group Revenue Account in the year that the cost was incurred.

Dividend and dividend bonus

A charge is made to the Group Revenue Account which represents the amount accounted for as dividend in the year together with the additional amount approved by the membership at the previous Annual General Meeting.

The provision for unredeemed dividend in the Group Balance Sheet is based on the full redemption value of the dividend and has been shown as a current liability.

Cash and liquid resources

Cash, for the purpose of the Group Cash Flow Statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash).

Investments

Fixed asset investments are stated at cost less provision for any permanent diminution in value. Investments held as current assets are stated at the lower of cost and net realisable value.

Funeral bonds

Liabilities for funeral bonds are based on the total commitment at the balance sheet date (ie. redemption value).

Funeral benefits

Funeral benefits are treated as a distribution in the financial statements, reflecting the underlying substance of the benefit.

Pension costs

Defined Benefit Scheme

The Society operates a pension scheme providing benefits on final pensionable pay. The assets of this scheme are held separately from those of the Society. The scheme closed to new entrants in December 2012.

Pension scheme assets are measured using market values. For quoted securities the current bid price is taken as market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency of the liability. The pension scheme deficit is recognised in full. The movement in this scheme deficit is split between operating charges, finance items and in the statement of total recognised gains and losses, actuarial gains and losses.

Defined Contribution Scheme

Following the closure of the Final Salary Pension Scheme to new entrants, the Society now also operates a Defined Contribution Scheme.

The amount charged to the Group Revenue Account represents the contributions payable to the scheme in respect of the accounting period. The assets of this scheme are held separately from those of the Group in an independently administered fund.

Group Revenue Account

Year Ended 5th September 2015

| | Notes | 2015 (52 weeks) £'000 | 2014 (52 Weeks) £'000 |
|---|-------|-----------------------------|-----------------------------|
| Gross sales (including vat) | | 292,541 | 285,892 |
| Less: value added tax | | (22,658) | (22,584) |
| Turnover (including agency turnover) | 1 | 269,883 | 263,308 |
| Less: agency share of turnover | | (18,983) | (17,469) |
| Turnover | | 250,900 | 245,839 |
| Less: cost of sales | | (160,870) | (159,977) |
| Gross profit | 1 | 90,030 | 85,862 |
| Less: expenses – ordinary trading | 2 | (69,469) | (66,543) |
| | | 20,561 | 19,319 |
| Less: expenses – member benefits and grants | 4 | (1,315) | (1,179) |
| Trading surplus | 1 | 19,246 | 18,140 |
| Profit on sale of fixed assets | | 528 | - |
| Surplus before interest | | 19,774 | 18,140 |
| Net interest received | 9 | 219 | 138 |
| Other finance income | 22 | 885 | 446 |
| Surplus for the year before payments to and on behalf of members | | 20,878 | 18,724 |
| Less: Payments to and on behalf of members | 4 | (3,177) | (3,463) |
| Surplus for the year before taxation | | 17,701 | 15,261 |
| Taxation | 5 | (3,849) | (3,379) |
| Surplus for the year after taxation | | 13,852 | 11,882 |
| Equity minority interest | 17 | 11 | (7) |
| Surplus for the year transferred to reserves | 15 | 13,863 | 11,875 |

All amounts in the current and prior year relate to continuing operations.

The accounting policies on pages 11 to 12 and the notes on pages 17 to 28 form part of these accounts

Group Balance Sheet

| As at 5th September 2015 | Notes | 2015 £'000 | 2014 £'000 |
|--|-------|-----------------|-----------------|
| Fixed assets | | | |
| Intangible assets | 6 | 13,843 | 15,163 |
| Tangible assets | 7 | 84,559 | 77,363 |
| Investment properties | 8 | 196,342 | 197,983 |
| Investments | 9 | 17,123 | 14,731 |
| Share of joint venture | | | |
| Share of gross assets | | 513 | - |
| Share of gross liabilities | | (513) | - |
| | | 311,867 | 305,240 |
| Current assets | | | |
| Stocks | | 14,402 | 14,765 |
| Debtors | 10 | 13,207 | 12,048 |
| Investments | 9 | 1,000 | 1,000 |
| Cash at bank and in hand | 19 | 27,738 | 21,647 |
| | | 56,347 | 49,460 |
| Creditors: amounts due within one year | | | |
| Creditors | 11 | 36,635 | 33,329 |
| Dividend | 11 | 3,760 | 3,690 |
| | | 40,395 | 37,019 |
| Net current assets | | 15,952 | 12,441 |
| Total assets less current liabilities | | 327,819 | 317,681 |
| Creditors: amounts falling due after more than one year | 11 | (18,445) | (16,095) |
| Net assets excluding pension liability | | 309,374 | 301,586 |
| Pension liability | 22 | (27,364) | (21,692) |
| Net assets | | 282,010 | 279,894 |
| Financed by: | | | |
| Share capital | 13 | 8,423 | 8,757 |
| Revaluation reserve | 14 | 62,755 | 67,351 |
| Revenue reserve | 15 | 210,836 | 203,771 |
| Members' funds | | 282,014 | 279,879 |
| Equity minority interest | 17 | (4) | 15 |
| Total funds employed | | 282,010 | 279,894 |

The accounting policies on pages 11 to 12 and the notes on pages 17 to 28 form part of these accounts

Group Cash Flow Statement

| Year ended 5th September 2015 | Notes | 2015 (52 weeks) £'000 | 2014 (52 weeks) £'000 |
|---|-------|-----------------------------|-----------------------------|
| Net cash flow from operating activities | 18 | 30,017 | 27,132 |
| Returns on investments and servicing of finance | | | |
| Interest received | 9 | 219 | 138 |
| Taxation | | | |
| UK corporation tax paid | | (3,790) | (4,609) |
| Capital expenditure and financial investment | | | |
| Purchase of tangible fixed assets | | (15,835) | (14,691) |
| Purchase of fixed asset investments | | (2,392) | (1,475) |
| Sale of tangible fixed assets | | 2,768 | 4,165 |
| | | (15,459) | (12,001) |
| Acquisitions and disposals | | | |
| Acquisition of businesses | 21 | (1,391) | (1,000) |
| Payments to and on behalf of members | | (3,171) | (3,658) |
| Cash inflow before use of liquid resources and financing | | 6,425 | 6,002 |
| Management of liquid resources | | | |
| Sale of current asset investments | | - | 332 |
| Financing | | | |
| Issue of shares | 13 | 1,217 | 1,468 |
| Redemption of shares | 13 | (1,551) | (2,320) |
| | | (334) | (852) |
| Increase in cash during the year | 19 | 6,091 | 5,482 |

The accounting policies on pages 11 to 12 and the notes on pages 17 to 28 form part of these accounts

Group Statement of Total Recognised Gains and Losses

| Year ended 5th September 2015 | 2015 (52 Weeks) £'000 | 2014 (52 Weeks) £'000 |
|--|-----------------------------|-----------------------------|
| Retained surplus for the year | 13,863 | 11,875 |
| Unrealised surplus on revaluation of trading properties | 56 | 373 |
| Unrealised (deficit)/surplus on revaluation of investment properties | (4,122) | 5,850 |
| Share interest (net of tax) | (51) | (56) |
| Actuarial loss on pension scheme (net of deferred tax) | (7,285) | (3,051) |
| Total gains and losses relating to the year | 2,461 | 14,991 |

Note on Historical Cost Profits and Losses

| Year ended 5th September 2015 | 2015 (52 Weeks) £'000 | 2014 (52 Weeks) £'000 |
|---|-----------------------------|-----------------------------|
| Surplus for the year before taxation | 17,701 | 15,261 |
| Realisation of property revaluation gains of previous years | 598 | 405 |
| Difference between a historical depreciation charge and the actual depreciation charge for the year calculated on the revalued amount | (60) | (43) |
| Historical cost surplus before taxation | 18,239 | 15,623 |
| Historical cost surplus for the year retained after taxation | 14,401 | 12,237 |

The accounting policies on pages 11 to 12 and the notes on pages 17 to 28 form part of these accounts

Notes to the Financial Statements

1. Segmental analysis

The Group has two principal segments, which are retail and investment property. The results of the two segments are:

| | 2015 (52 Weeks) £'000 | 2014 (52 Weeks) £'000 |
|--|-----------------------------|-----------------------------|
| Turnover (including agency turnover) | | |
| Retail | 256,646 | 250,541 |
| Investment property | 13,237 | 12,767 |
| Total | <u>269,883</u> | <u>263,308</u> |
| Gross profit | | |
| Retail | 76,793 | 73,095 |
| Investment property | 13,237 | 12,767 |
| | <u>90,030</u> | <u>85,862</u> |
| Common costs | <u>(70,784)</u> | <u>(67,722)</u> |
| Trading surplus | <u>19,246</u> | <u>18,140</u> |
| Net assets | | |
| Retail | 89,468 | 85,764 |
| Investment property | 192,542 | 194,130 |
| Total | <u>282,010</u> | <u>279,894</u> |
| | 2015 (52 Weeks) £'000 | 2014 (52 Weeks) £'000 |
| 2. Expenses – ordinary trading | | |
| Personnel costs | 43,168 | 40,708 |
| Occupancy costs | 8,470 | 8,097 |
| Hire of plant – operating leases | 73 | 74 |
| Depreciation | 5,019 | 4,898 |
| Deficit/(Surplus) on sale of fixed assets | 142 | (32) |
| Amortisation of intangible fixed assets | 1,360 | 1,243 |
| Auditors' remuneration: | | |
| - Audit of these financial statements | 34 | 34 |
| Amounts receivable by auditors and their associates in respect of: | | |
| - Audit of financial statements of subsidiaries pursuant to legislation | 42 | 41 |
| - Other services including taxation advice | 2 | 2 |
| Directors' fees | 50 | 51 |
| Other expenses | 11,109 | 11,427 |
| Total expenses – ordinary trading | <u>69,469</u> | <u>66,543</u> |

Notes to the Financial Statements

3. Employees

The average number employed by the Group in the year ended 5th September 2015

| | 2015 Number | 2014 Number |
|-----------|----------------|----------------|
| Part-time | 1,706 | 1,705 |
| Full-time | 1,064 | 1,061 |
| | <u>2,770</u> | <u>2,766</u> |

The costs incurred in respect of these employees were:

| | 2015 (52 Weeks) £'000 | 2014 (52 Weeks) £'000 |
|------------------------------|-----------------------------|-----------------------------|
| Wages and salaries | 37,585 | 35,789 |
| Social security costs | 2,306 | 2,215 |
| Other pension costs | 3,277 | 2,704 |
| Total personnel costs | <u>43,168</u> | <u>40,708</u> |

4. a) Expenses – member benefits and grants

| | | |
|---|--------------|--------------|
| Donations to charity and community groups | 240 | 315 |
| Forfeits on shares | 10 | (151) |
| Member and community activities | 1,065 | 1,015 |
| | <u>1,315</u> | <u>1,179</u> |

b) Payments to and on behalf of members

| | | |
|--------------------------------------|--------------|--------------|
| Dividend issued in the year | 1,833 | 1,770 |
| Further dividend approved by members | 1,330 | 1,680 |
| | <u>3,163</u> | <u>3,450</u> |
| Funeral benefit | 14 | 13 |
| Total | <u>3,177</u> | <u>3,463</u> |

Dividend of £1,833,000 (2014: £1,770,000) has been accounted for during the year. Member purchases qualifying for such distribution are determined by the Board of Directors, from time to time, as is the rate of distribution. A recommendation to allocate a further £1,567,000 (2014: £1,330,000) will be made at the forthcoming members meeting making a total of £3,400,000 (2014: £3,100,000).

A dividend bonus of 85p (2014 75p) for every £1 of qualifying dividend distributed has been recommended by the Board of Directors, which will be paid to members in proportion to the dividend already distributed in the year under review.

Notes to the Financial Statements

5. Taxation

| | 2015 (52 weeks) £'000 | 2014 (52 weeks) £'000 |
|--|-----------------------------|-----------------------------|
| a) Analysis of tax charge in year | | |
| Current tax | | |
| UK corporation tax at 20.6% (2014:22.1%) | 3,460 | 3,573 |
| Overprovision in prior years | (29) | (665) |
| Current tax charge for the year | <u>3,431</u> | <u>2,908</u> |
| Deferred tax | | |
| Taxation on FRS17 pension adjustments | 418 | 471 |
| Taxation provided in the year | <u>3,849</u> | <u>3,379</u> |

b) Factors affecting tax charge for the year

The current tax charge for the period is lower (2014: lower) than the standard rate of corporation tax in the UK 20.6% (2014: 22.1%). The differences are explained below.

| | 2015 (52 weeks) £'000 | 2014 (52 weeks) £'000 |
|---|-----------------------------|-----------------------------|
| Surplus on ordinary activities before taxation | <u>17,701</u> | <u>15,261</u> |
| Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.6% (2014 : 22.1%) | 3,646 | 3,373 |
| Effects of: | | |
| Permanent differences between items affecting tax and accounting surplus | (186) | 200 |
| Overprovision in prior years | (29) | (665) |
| Current tax charge for the year | <u>3,431</u> | <u>2,908</u> |

The standard rate of corporation tax in the UK is expected to reduce to 19% in April 2017 and then 18% in 2020. These reductions will change the Group's future tax charge accordingly.

6. Intangible fixed assets – goodwill

| | Goodwill £'000 |
|---------------------------------|-------------------|
| Cost | |
| As at 6th September 2014 | 25,213 |
| Additions | 40 |
| As at 5th September 2015 | <u>25,253</u> |
| Amortisation | |
| As at 6th September 2014 | 10,050 |
| Charged in the Year | 1,360 |
| As at 5th September 2015 | <u>11,410</u> |
| Net book value | |
| As at 5th September 2015 | <u>13,843</u> |
| As at 6th September 2014 | <u>15,163</u> |

Notes to the Financial Statements

7. Tangible Fixed Assets – Trading

| | Land & buildings £'000 | Fixtures, fittings & plant £'000 | Transport £'000 | Total £'000 |
|-------------------------------------|---------------------------|--|--------------------|----------------|
| Market value/original cost | | | | |
| As at 6th September 2014 | 65,432 | 33,833 | 5,673 | 104,938 |
| Transfer from investment properties | 2,945 | - | - | 2,945 |
| Additions | 3,195 | 5,047 | 1,301 | 9,543 |
| Disposals | (51) | (1,643) | (857) | (2,551) |
| Revaluation | (817) | - | - | (817) |
| As at 5th September 2015 | 70,704 | 37,237 | 6,117 | 114,058 |
| Depreciation | | | | |
| As at 6th September 2014 | - | 24,138 | 3,437 | 27,575 |
| Charged in the Year | 873 | 3,283 | 699 | 4,855 |
| Disposals | - | (1,509) | (549) | (2,058) |
| Revaluation | (873) | - | - | (873) |
| As at 5th September 2015 | - | 25,912 | 3,587 | 29,499 |
| Net book value | | | | |
| As at 5th September 2015 | 70,704 | 11,325 | 2,530 | 84,559 |
| As at 6th September 2014 | 65,432 | 9,695 | 2,236 | 77,363 |

The value of land and buildings includes £2,854,000 (2014: £2,862,000) of long leaseholds, the remainder being freehold.

The value of Buildings depreciated was £41,400,000 (2014: £36,857,000). A valuation of Trading Properties was carried out by Banks, Long & Co., Chartered Surveyors, of 15 St. Mary's Street, Lincoln as at 5th September 2015 which valued all of the Group's trading land and buildings at current market value on an existing use basis at £70,704,000 (2014: £65,432,000). This valuation has been incorporated within the Group Balance Sheet.

8. Fixed Assets – Investment Properties

| | Land & buildings | | Landlords | Total |
|-----------------------------------|-------------------|--------------------|-------------------|----------------|
| | Freehold £'000 | Leasehold £'000 | Fixtures £'000 | £'000 |
| Market value/original cost | | | | |
| As at 6th September 2014 | 196,605 | 1,295 | 777 | 198,677 |
| Transfers | (2,945) | - | - | (2,945) |
| Additions | 7,455 | - | 24 | 7,479 |
| Disposals | (1,880) | - | (9) | (1,889) |
| Revaluation | (3,295) | (960) | - | (4,255) |
| As at 5th September 2015 | 195,940 | 335 | 792 | 197,067 |
| Depreciation | | | | |
| As at 6th September 2014 | - | - | 694 | 694 |
| Charged in the Year | 133 | - | 31 | 164 |
| Revaluation | (133) | - | - | (133) |
| As at 5th September 2015 | - | - | 725 | 725 |
| Net book value | | | | |
| As at 5th September 2015 | 195,940 | 335 | 67 | 196,342 |
| As at 6th September 2014 | 196,605 | 1,295 | 83 | 197,983 |

Notes to the Financial Statements

8. Fixed assets – investment properties (continued)

A valuation of investment properties was carried out by Banks, Long & Co., Chartered Surveyors, 15 St. Mary's Street, Lincoln as at 5th September 2015. The valuation was carried out in accordance with RICS valuation standards on an open market basis. The historical cost of Land and Buildings included in notes 7 and 8 is £204,224,000 (2014: £195,981,000).

| 9. a) Investments | Fixed assets | | Current assets | | Interest and dividend | |
|-----------------------------|---------------|---------------|----------------|---------------|-----------------------|---------------|
| | 2015 £'000 | 2014 £'000 | 2015 £'000 | 2014 £'000 | 2015 £'000 | 2014 £'000 |
| Co-operative Group Ltd. | 290 | 290 | - | - | 12 | 15 |
| - Corporate investor shares | - | - | - | - | - | 1 |
| Other investments | 118 | 118 | - | - | 12 | 10 |
| Funeral bonds | 16,715 | 14,323 | 1,000 | 1,000 | - | - |
| Short term deposits | - | - | - | - | 195 | 112 |
| Totals | 17,123 | 14,731 | 1,000 | 1,000 | 219 | 138 |

Funeral Bonds

Bonds have been invested as individual life policies with the Royal London (CIS) Limited. Surpluses are not recognised until such time as the plan is invoked.

b) Subsidiaries

The principal business activities of the Society's active subsidiaries are:-

- (i) Lincoln Corn Exchange and Markets (1991) Ltd. – Property Investment
- (ii) Lincoln Co-operative Chemists Ltd. – Retail Chemist Shops
- (iii) L.C.S. Property Ltd. – Property Holding Company
- (iv) Lincoln Shop Equipment Ltd. – Cash Register Sales & Service
- (v) LCS Retail Ltd. – Food and Petrol Retail
- (vi) F Maltby & Sons Ltd. – Wholesale Chemists
- (vii) Greetwell Developments Ltd. – Property Investment
- (viii) Gadsby's of Southwell Ltd. – Bakery
- (ix) Lincoln Science and Innovation Park Ltd. – Science Park Development (75%)
- (x) South Lincolnshire Crematorium Ltd. - Crematorium

c) Joint venture

LC Community Projects Ltd (50%) - Property Development

Notes to the Financial Statements

10. Debtors

| | Falling due within one year | | Falling due after one year | |
|-------------------------------|-----------------------------|---------------|----------------------------|---------------|
| | 2015 £'000 | 2014 £'000 | 2015 £'000 | 2014 £'000 |
| Trade Debtors | 9,312 | 8,548 | - | - |
| VAT | 1,022 | 1,090 | - | - |
| Other Debtors and Prepayments | 2,468 | 2,410 | - | - |
| Owed by Joint Venture | 405 | - | - | - |
| Total debtors | 13,207 | 12,048 | - | - |

11. a) Creditors

| | Falling due within one year | | Falling due after one year | |
|-------------------------------------|-----------------------------|---------------|----------------------------|---------------|
| | 2015 £'000 | 2014 £'000 | 2015 £'000 | 2014 £'000 |
| Trade creditors | 23,082 | 19,872 | - | - |
| Accrued charges and deferred income | 8,744 | 8,056 | 1,300 | 1,400 |
| Other taxation and social security | 1,015 | 983 | - | - |
| Member benefits and grants | 80 | 332 | 100 | 150 |
| Corporation tax | 2,714 | 3,086 | - | - |
| Funeral bonds | 1,000 | 1,000 | 17,045 | 14,545 |
| | 36,635 | 33,329 | 18,445 | 16,095 |

b) Dividend

| | Falling due within one year | | Falling due after one year | |
|---------------------------------------|-----------------------------|---------------|----------------------------|---------------|
| | 2015 £'000 | 2014 £'000 | 2015 £'000 | 2014 £'000 |
| Dividend approved not yet distributed | 595 | 584 | - | - |
| Dividend balances on dividend cards | 3,165 | 3,106 | - | - |
| | 3,760 | 3,690 | - | - |
| Total creditors | 40,395 | 37,019 | 18,445 | 16,095 |

Notes to the Financial Statements

12. Provisions for liabilities and charges

Deferred tax

| | 2015 £'000 | 2014 £'000 |
|--|---------------|---------------|
| An analysis of the amounts provided are set out below: | | |
| Accelerated capital allowances | (189) | (294) |
| Other timing differences | 189 | 294 |
| Deferred tax provisions at the end of the year | - | - |

Deferred tax on chargeable gains rolled over has not been provided in the accounts. Included in 'other timing differences' are amounts relating to differing treatment of member benefits and provisions between the accounts and the current tax provision. A deferred tax asset of £973,000 (2014: £1,098,000) has not been recognised in these accounts.

13. Share capital

| | 2015 £'000 | 2014 £'000 |
|---|---------------|---------------|
| Balance to begin the year | 8,757 | 9,609 |
| Contributions | 1,110 | 1,346 |
| Dividend bonus credited to accounts in the year | 43 | 49 |
| Interest | 64 | 73 |
| | 9,974 | 11,077 |
| Withdrawals | (1,551) | (2,320) |
| Balance to end the year | 8,423 | 8,757 |

i) The whole of the share capital comprises £8,423,061 non-equity shares of £1 attracting interest at the rates below:

| Balance | Interest Rate |
|------------------|---------------|
| £0 - £20 | Nil |
| £20 - £5,000 | 0.5% |
| £5,000 - £20,000 | 1.0% |

- ii) Shares are withdrawable on periods of notice from demand to two weeks depending on the amount.
- iii) Every member who has been a member of the Society for not less than six months and holds a minimum of one share is entitled to one vote.
- iv) In the event of a winding up, any balance remaining, after meeting all liabilities will be distributed subject to the Society's rules.
- v) Dividends to members are paid by way of issue of dividend onto cards and by payments of dividend into members' share accounts.
- vi) The Society has in place a scheme covering total share capital, guaranteed by partners of Andrew & Co., the Society's Solicitors, and underpinned by a fixed charge on property.

Notes to the Financial Statements

14. Revaluation reserve

| | Trading property | Investment property | Total |
|---|---------------------|------------------------|---------------|
| | 2015 £'000 | 2015 £'000 | 2015 £'000 |
| Balance to begin the year | 48,323 | 19,028 | 67,351 |
| Revaluation during the year | 56 | (4,122) | (4,066) |
| Transfer on disposal | - | (598) | (598) |
| Transfer of amount equivalent to additional depreciation on revalued assets | 60 | - | 60 |
| Minority interest | - | 8 | 8 |
| Balance to end the year | 48,439 | 14,316 | 62,755 |

15. Revenue reserve

| | 2015 £'000 |
|---|----------------|
| Balance to begin the year | 203,771 |
| Transfer from revaluation reserve | 538 |
| Retained surplus for the year | 13,863 |
| Actuarial loss on pension scheme (net of tax) | (7,285) |
| Share interest (net of tax) | (51) |
| Balance to end the year | 210,836 |

The cumulative total of goodwill written off directly against the Group Revenue Reserve amounts to £6,254,000 (2014 £6,254,000).

16. Reconciliation of movements in members' funds

| | 2015 £'000 | 2014 £'000 |
|--|----------------|----------------|
| Retained surplus for the year | 13,863 | 11,875 |
| Other recognised gains and losses relating to the year | (11,394) | 3,116 |
| Movement on share capital | (334) | (852) |
| Net additions to members' funds | 2,135 | 14,139 |
| Opening members' funds | 279,879 | 265,740 |
| Closing members' funds | 282,014 | 279,879 |

17. Minority interests

Lincoln Science and Innovation Park Limited is a 75% subsidiary. The remaining 25% is owned by The University of Lincoln.

| | 2015 £'000 | 2014 £'000 |
|--------------------------------|---------------|---------------|
| Balance to begin the year | 15 | - |
| Share of (deficit)/surplus | (11) | 7 |
| Share of revaluation movement | (8) | 8 |
| Balance to end the year | (4) | 15 |

Notes to the Financial Statements

| 18. Reconciliation of trading surplus to cash inflow from operating activities | 2015 (52 Weeks) £'000 | 2014 (52 Weeks) £'000 |
|--|-----------------------------|-----------------------------|
| Trading surplus | 19,246 | 18,140 |
| Non cash pension costs | 914 | 313 |
| Additional pension contribution | (2,060) | (2,000) |
| Depreciation charges | 5,019 | 4,898 |
| Deficit/(surplus) on sale of fixed assets | 142 | (32) |
| Amortisation of goodwill | 1,360 | 1,243 |
| Decrease in stocks | 363 | 657 |
| Increase in debtors | (1,371) | (734) |
| Increase in creditors | 6,404 | 4,647 |
| Cash inflow from operating activities | 30,017 | 27,132 |

| 19. Analysis of net funds | At 6 September 2014 £'000 | Cash flow £'000 | At 5 September 2015 £'000 |
|---------------------------|------------------------------|--------------------|------------------------------|
| Cash in hand and at bank | 21,647 | 6,091 | 27,738 |
| Current asset investments | 1,000 | - | 1,000 |
| Totals | 22,647 | 6,091 | 28,738 |

| 20. Reconciliation of net cash flow to net funds | 2015 (52 weeks) £'000 | 2014 (52 weeks) £'000 |
|--|-----------------------------|-----------------------------|
| Increase in cash in the year | 6,091 | 5,482 |
| Cash inflow from liquid resources | - | (332) |
| Change in net funds resulting from cash flows | 6,091 | 5,150 |
| Net Funds at the start of the year | 22,647 | 17,497 |
| Net Funds at the end of the year | 28,738 | 22,647 |

21. Acquisitions and disposals

During the year the Group acquired the assets and goodwill of various retail businesses. The associated costs are as follows:

| | £'000 |
|-----------------------|-------|
| Tangible fixed assets | 1,351 |
| Goodwill | 40 |
| Satisfied by cash | 1,391 |

22. Defined benefit pension scheme

The Society operates a pension scheme providing benefits based on final pensionable pay. The latest full actuarial valuation was carried out at 30th September 2012 and was updated for FRS17 purposes to 5th September 2015 by a qualified independent actuary. The scheme was closed to new entrants in December 2012.

Amounts recognised in the Group Balance Sheet

| | 2015 £'000 | 2014 £'000 |
|-------------------------------------|-----------------------------|-----------------------------|
| Present value of funded obligations | (128,484) | (117,852) |
| Fair value of plan assets | <u>94,279</u> | <u>90,737</u> |
| Deficit | (34,205) | (27,115) |
| Related deferred tax asset | <u>6,841</u> | <u>5,423</u> |
| Net liability | <u>(27,364)</u> | <u>(21,692)</u> |

Amounts recognised in the Group Revenue Account

| | 2015 £'000 | 2014 £'000 |
|--------------------------------|-----------------------------|-----------------------------|
| Current service cost | 2,818 | 2,304 |
| Interest on obligation | 4,591 | 4,723 |
| Expected return on plan assets | <u>(5,476)</u> | <u>(5,169)</u> |
| Total | <u>1,933</u> | <u>1,858</u> |

The expense is recognised in the following line items in the Group Revenue Account

| | 2015 (52 weeks) £'000 | 2014 (52 weeks) £'000 |
|-----------------------------|--|--|
| Expenses – Ordinary Trading | 2,818 | 2,304 |
| Other Finance Income | <u>(885)</u> | <u>(446)</u> |
| Total | <u>1,933</u> | <u>1,858</u> |

Amounts recognised in the Group Statement of Total Recognised Gains and Losses

| | 2015 £'000 | 2014 £'000 |
|---|-----------------------------|-----------------------------|
| Cumulative amount at beginning of year | (31,776) | (27,907) |
| Recognised during the year | <u>(9,121)</u> | <u>(3,869)</u> |
| Cumulative amount at end of year | <u>(40,897)</u> | <u>(31,776)</u> |

Changes in the present value of scheme obligations

| | 2015 £'000 | 2014 £'000 |
|---------------------------|-----------------------------|-----------------------------|
| Opening obligation | 117,852 | 102,771 |
| Service cost | 2,818 | 2,304 |
| Interest cost | 4,591 | 4,723 |
| Employees contributions | 885 | 826 |
| Actuarial losses | 5,565 | 9,900 |
| Benefits paid | <u>(3,227)</u> | <u>(2,672)</u> |
| Closing obligation | <u>128,484</u> | <u>117,852</u> |

22. Defined benefit pension scheme (continued)

| Changes in the fair value of plan assets | 2015 £'000 | 2014 £'000 |
|--|---------------|---------------|
| Opening fair value of scheme assets | 90,737 | 77,392 |
| Expected return | 5,476 | 5,169 |
| Actuarial (losses)/gains | (3,556) | 6,031 |
| Contributions by employer | 3,964 | 3,991 |
| Contributions by employees | 885 | 826 |
| Benefits paid | (3,227) | (2,672) |
| | <u>94,279</u> | <u>90,737</u> |
| Actual return on scheme assets | <u>1,920</u> | <u>11,200</u> |

Assets in the plan as a percentage of total plan assets

| | 2015 | 2014 |
|----------|------|------|
| Bonds | 25% | 24% |
| Equities | 72% | 73% |
| Other | 3% | 3% |

The overall expected rate of return of the scheme assets has been based on the average expected return for each asset class, weighted by the amount of assets in each class.

The scheme holds quoted securities and these have been valued at current bid-price.

Principal actuarial assumptions at the balance sheet date

| | 2015 | 2014 |
|--|------|------|
| Discount rate | 3.6% | 3.9% |
| Expected return on scheme assets | 6.0% | 6.6% |
| Rate of increase in salaries | 4.4% | 4.4% |
| Rate of increase in payment of pre 1997 pension in excess of GMP | 0.0% | 0.0% |
| Rate of increase in payment of post 1997 Pensions | 3.4% | 3.4% |
| Rate of revaluation of deferred pensions in excess of the GMP | 3.4% | 3.4% |
| Inflation assumption | 3.4% | 3.4% |

The employer expects to contribute at 15.8% of pensionable payroll. In addition it is to contribute £2,122,000 pa to the scheme.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date were based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65 year old to live for a number of years as follows:

| | |
|----------------------------------|--|
| Current pensioner aged 65: | 21.7 years (male) 24.1 years (female) |
| Future retiree upon reaching 65: | 23.5 years (male) 26 years (female) |

22. Defined benefit pension scheme (continued)

History of experience gains and losses

| | 2015 £'000 | 2014 £'000 | 2013 £'000 | 2012 £'000 | 2011 £'000 |
|--|---------------|---------------|---------------|---------------|---------------|
| Defined benefit obligation | (128,484) | (117,852) | (102,771) | (91,158) | (79,844) |
| Plan assets | 94,279 | 90,737 | 77,392 | 67,052 | 58,982 |
| Deficit | (34,205) | (27,115) | (25,379) | (24,106) | (20,862) |
| Experience adjustments on plan liabilities | 1,501 | 1,071 | (301) | 353 | 347 |
| Experience adjustments on plan assets | (3,556) | 6,031 | 4,766 | 2,828 | (1,628) |

23. Defined Contribution Pension Scheme

Following the closure of the Final Salary Pension Scheme to new entrants in December 2012, the Society also operates a Defined Contribution Scheme. The assets of this scheme are held separately from those of the Group in an independently administered fund. During the year contributions of £471,000 (2014: £384,000) were paid by the Group.

24. Capital Commitments

Outstanding contracts for capital expenditure not provided for in the accounts amounted to £5,685,000 (2014: £6,589,000) and capital expenditure and acquisitions authorised by the Directors for which no contracts have been placed totalled £33,828,000 (2014: £31,588,000).

25. Commitments Under Operating Leases

At 5th September 2015 the Group had annual commitments under non-cancellable operating leases on land and buildings as follows:

| | 2015 £'000 | 2014 £'000 |
|---------------------------------|---------------|---------------|
| Within one year | 146 | 89 |
| In two to five years | 195 | 101 |
| Over five years | 297 | 405 |
| Total Annual Commitments | 638 | 595 |

These leases are subject to rent reviews.

26. Related Party Transactions

Ursula Lidbetter, Chief Executive of the Society, served as Chairman of the Co-operative Group Limited from November 2013 to February 2015. The Co-operative Group Limited administers the collective food buying arrangements on behalf of the consumer co-operatives in the UK. Purchases from the Co-operative Group Limited in the period to the 6 September 2014 were £40m and from 7 September 2014 to 19 February 2015 were £22m. The balance owed to the Co-operative Group Limited at 6 September 2014 was £4m. These goods were acquired on normal trading terms.

Historical Comparative Statement

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 52 Weeks | 52 Weeks | 53 Weeks | 52 Weeks | 52 Weeks |
| Membership | 205,130 | 211,168 | 228,292 | 231,435 | 241,536 |
| Revenue Account | £'000 | £'000 | £'000 | £'000 | £'000 |
| Gross Sales | 285,208 | 282,950 | 288,057 | 285,892 | 292,541 |
| Depreciation | 4,835 | 5,380 | 5,375 | 4,898 | 5,019 |
| Trading Surplus | 19,311 | 18,081 | 17,970 | 18,140 | 19,246 |
| Members' Benefits | 2,314 | 1,250 | 1,266 | 1,179 | 1,315 |
| Dividend | 3,034 | 3,657 | 4,083 | 3,113 | 3,414 |
| Transfer to reserve | 10,475 | 11,586 | 11,015 | 11,875 | 13,863 |
| Balance Sheet | | | | | |
| Intangible Assets | 16,854 | 15,943 | 15,761 | 15,163 | 13,843 |
| Total Tangible Assets | 257,183 | 268,046 | 263,151 | 275,346 | 280,901 |
| Total Fixed Investments | 9,767 | 11,566 | 13,256 | 14,731 | 17,123 |
| Net Current Assets | 8,570 | 6,702 | 6,981 | 12,441 | 15,952 |
| Long Term Creditors | (9,477) | (11,477) | (13,106) | (16,095) | (18,445) |
| Net Assets Before Pension | 282,897 | 290,780 | 286,043 | 301,586 | 309,374 |
| Pension Liability | (15,634) | (18,562) | (20,303) | (21,692) | (27,364) |
| Net Assets | 267,263 | 272,218 | 265,740 | 279,894 | 282,010 |
| Share Capital | 10,045 | 10,234 | 9,609 | 8,757 | 8,423 |
| Reserves | 257,218 | 261,984 | 256,131 | 271,122 | 273,591 |
| Minority Interest | - | - | - | 15 | (4) |

Comparative amounts have been restated where appropriate. Dividend includes amounts proposed for approval at forthcoming members meetings and members funeral benefit.

Agenda of the Annual Members' Meeting

1. To confirm the minutes of the Annual Members' Meeting held in November 2014 (half yearly meeting held on 6th June 2015 for Lincoln meeting only)
2. To receive the Directors' Report, Auditor's Report and Financial Statements.
3. To consider the recommendations of the Board of Directors:-
 - (a) that £3,400,000 is allocated to dividend from which interim dividends of £1,833,000 have already been paid; and
 - (b) for a dividend bonus of 85p for every £1 of dividend distributed in the year to 5 September 2015; and
4. To consider the recommendation of the Board of Directors that the basic rate of issue of dividend continues at the rate of 1% of the value of qualifying purchases.
5. To ratify the appointments of the Society directors appointed under Rule 60 (b).
6. To consider the resolution that KPMG LLP be re-appointed Auditors of the Society to hold office from the conclusion of the Lincoln Annual Members' Meeting until the conclusion of the next annual members' meeting at which the accounts are laid before the Society, at a remuneration to be fixed by the Directors.

Questions on the Directors' Report, Auditor's Report or the Financial Statements must be submitted in accordance with Rule 41. See standing orders inside the back cover of this Annual Report.

Members must produce their share book or dividend card to gain entry to these meetings. Any member who is entitled to vote at meetings of the Society and has been a member for at least 6 months shall have one vote.

At the conclusion of the meeting members are invited to remain for a question and answer session with management and a buffet featuring products available in our food stores. There will also be an opportunity to talk to Directors on an informal basis.

Tuesday 17 November

The Weston Rooms, Hickman Street, Gainsborough

Wednesday 18 November

South Holland Centre, 23 Market Place, Spalding

Thursday 19 November

The Stanhope Hall, Boston Road, Horncastle

Monday 23 November

The Everyday Champions Centre, Jessop Close, Brunel Business Park, Newark

Tuesday 24 November

Grimsby Town Hall, Town Hall Square, Grimsby

Wednesday 25 November

Lincolnshire Epic Centre, Showground, Lincoln

All meetings begin at 7.00pm.

Standing Orders

1. The order of business at every members' meeting of the Society shall be in accordance with the printed agenda of business issued with the notice of the meeting.
2. Except in the case of a special members' meeting called on the requisition of members, the agenda of every meeting shall be made out in the form and order approved by the directors and shall include only such business as is decided on by the directors.
3. All notices of motion for consideration at any members' meeting must first be submitted to the Secretary in writing, signed by the member giving the notice, not later than twenty one days prior to the date of the first district meeting. Any amendments to any proposal on the agenda at the members' meeting must be received by the Society at least seven clear days prior to the first district meeting.
4. No member shall be allowed to speak more than once on any motion except the mover of resolutions, motions and amendments, who shall be allowed a reply and no member shall speak after the reply, immediately after which the question shall be put from the chair.
5. No member shall be allowed to speak for more than five minutes, except the mover, who may speak for ten minutes and take five minutes in reply.
6. The same agenda shall be put before the members at the district and the central meetings. Where the agenda contains a motion and an amendment(s), voting shall take place as if both the motion and amendment(s) were substantive motions and on consolidation of the votes at all the meetings if both motion and an amendment or amendments are carried, the motion or amendments which has the greater number of votes recorded in its favour shall be declared carried. If the votes in favour are equal, the motion or amendment with the largest majority shall be declared carried.
7. Any member who has not spoken to the question before the meeting may at any time during the course of the debate move 'That the question now be put'. Such motion must be made without any accompanying speech and must be forthwith put without amendment or debate, and should such motion be adopted the chair shall, subject to the right of reply of the mover of the question under discussion, at once put the question.
8. Any member choosing to speak on any question must stand and address himself to the chair. When two or more members stand at the same time, the chair shall indicate the member who is to speak first.
9. Whenever the chair rises to speak no member shall continue standing, nor shall any member rise until the chair resumes his seat.

10. A member shall confine his speech strictly to the motion under discussion, or to the amendment or to a question of order.

11. The chair may call attention to continued irrelevance, tedious repetition, or any breach of order on the part of a member and may direct such member to discontinue his speech.

12. Any one or more of these standing orders may be suspended at any meeting by the vote of a two-thirds majority of members present at the meeting. The decision of the chair on any point of order shall be final.

RULE 41 Members wishing to ask a question at any members' meeting of the Society must submit the question in writing to the Secretary at least 48 hours before the relevant meeting.

RULE 52 How Votes Shall be Taken – the minimum number of members required to demand a ballot vote at meetings shall be 40 or at least 50 percent of members present and entitled to vote if less than 80 members are in attendance.



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