



Directors' Report and
Financial Statements



For the year to
3rd September 2016



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.

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Your Board of Directors and Managers

Top row, left to right: **Margaret Tranter, Carol Bratton, Stephen Hughes, Peter Gault, David Maltby, Mark Bowen, Kevin Shaw, Reverend Barbara Hutchinson, Sue Neal**
 Bottom row, left to right: **Jane Powell (Group Secretary), Stuart Parker, Julia Romney, Ursula Lidbetter (Chief Executive Officer)**

Directors, Senior Management and Auditors

Board of Directors

- +* **Stuart Parker** BSc (Eng)
President, Chair of Pension Scheme Trustees and Remuneration Committee
- Julia Romney**
Vice President
- * **Carol Bratton** MIC
- * **Stephen Hughes** BPharm
- * **Sue Neal**
- + **David Maltby**
Chair of Audit Committee
- * **Reverend Barbara Hutchinson**
- **Mark Bowen** MSc PgCert, DipCG, FCMI, CMgr
Peter Gault MBA
- + **Kevin Shaw** BSc (Hons) ACA
Vice Chair of Audit Committee
- **Margaret Tranter**

- **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, FCIPD, 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 3 September 2016

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

Trading review

The grocery market has been fiercely competitive and customers' shopping needs are changing rapidly. We have been active in responding with lower prices and new ranges, with a focus on food to go, food for tonight, in store bakery and fresh fruit and veg. Customers have responded positively, with transaction numbers up 6.8%. Our bakery Gadsby's also performed strongly with sales up 7.3%. In total our food store sales rose strongly by 6.8%, which helped to offset higher pay rates. Sales of our locally sourced range grew 9%. Volume through our filling stations grew by 5% like for like, but total fuel sales decreased by 16.2% on last year, due to the closure of two filling stations and a decrease in average fuel prices.

We have refurbished 26 of our post offices and adapted our model to work with the new post office contract. Income continues to fall and we encourage members to use their local post office to help keep this important service. Our travel agencies did a good job suggesting new destinations for customers as world events changed the dynamics of the market. Sales grew by 4.6%.

Strong like for like prescription growth of 3.4% in our pharmacies, and good buying disciplines, mitigated cuts to the NHS income we receive. Significant further planned cuts to pharmacy income nationally will put more pressure on our branches and we have been campaigning for this important community service to be fully recognised as a vital part of the NHS. Thank you to our members who have supported us with this work.

After last year's busy winter period, funeral numbers fell by 2.5%, returning to a more normal level this year. Funeral plan sales were particularly strong as customers are increasingly preferring to make their arrangements with us at a time of their choosing.

Property rental income declined slightly as some properties became vacant due to planned developments.

The Society's total sales moved forward by £8.6 million to £301 million. Our sound trading results created a trading surplus of £20 million an increase of 4%. Our staff have shared in this success with a bonus worth 155% of a weeks' pay in the year.

We recruited 25,407 new members including 551 under 16s. Membership now stands at 259,771, over a quarter of a million for the first time in our history. The board is recommending to members that £3,500,000 is allocated to dividend from which £1,925,000 has already been paid during the year, and that a dividend bonus of 85p is awarded for every pound of dividend distributed in the year. We devoted £1.5 million to member benefits and community support this year in addition to dividend.

The Society's reserves were strengthened by our good trading result but once again offset by a greater pension scheme deficit, which grew by £27.3 million despite asset growth of £17.1 million, due to a significant reduction in bond yields which are used to value pension scheme liabilities. Property valuations were generally stable although we recorded some reductions totalling £1.3 million this year. The Society's net assets decreased to £270 million.

For the first time we have prepared our accounts under the new accounting standard called FRS 102. Some aspects of the accounts will therefore appear in a revised format and last year's numbers have been restated to aid comparison.

Developments

We have brought to fruition five new food stores built to replace those where sales had outgrown the facility, in Collingham, Wragby, Heapham Road Gainsborough, Woodville Road Boston and Old Leake. We also opened a store in the village of Long Bennington. New stores are being planned at Scawby, Newark Road North Hykeham and Whaplode and we are on site building a store in Goxhill. We were pleased to take over the Heckington pharmacy and are planning a move to new premises. We have made good progress with the final stages of our rebrand of stores and outlets, generating favourable response to the smart new look.

In addition to our own services we use our resources to improve prospects for our communities. We've been working with the University of Lincoln on our Lincoln Science and Innovation Park which will welcome its first new science and technology related businesses to our newly constructed Boole Technology Centre in the new year.

We've also started on site with our long-awaited Cornhill Quarter development in Lincoln's city centre. The first phase will rejuvenate the Corn Exchange building originally built in 1879, and its new tenants will be opening their doors in summer 2017. We would like to thank everyone who has helped to bring this about, especially our current tenants who have worked with us to ensure that this important regeneration of the area could commence.

Member and community engagement are vital to our aims. We've revitalised our membership programme to include new opportunities for members to meet and contribute ideas. Our community work is focussed on health, environment, local communities and the economy. Our activities are wide ranging and include raising £275,000 for community groups which included fundraising and the money raised through the carrier bag levy. We donated £50,000 to the Boston Woodland Trust to help them buy some land. 104 volunteers went out to various locations for a Big Co-op Clean. Our community health pod has attended 15 events giving advice and health checks from our expert pharmacists. We also gave 13,473 pieces of free fruit to our junior members throughout the summer. We've taken on our third library and with the help of our volunteers will be moving into our new store development in Holbeach.

Employees and Pensioners

The following staff have received awards for:-
25 years' service

Rosemary Bayly, *Butchery/Deli Assistant*
Long Sutton Food Store

Jeanette Beardsley *Customer Service Assistant*
Westcliff Food Store Scunthorpe

John Berry, *IS Projects Administrator*
Food team

Nicola Berry, *Supply Chain Manager*
Food team

Garry Brown, *Assistant Warehouse Manager*
Food Warehouse, Lincoln

Danny Doherty, *Area Manager*
Funeral Division

Ann Fowkes, *Learning & Development Advisor*
People and Performance team

Angela Holmes, *Senior Administrator*
Membership accounts team, Lincoln

Susan Kitchen, *Customer Service Assistant*
Saxilby Food Store

Bryan McFadyen, *Customer Services Assistant*
City Square Food Store, Lincoln

Katharine Mcghie, *Health Champion*
Vanessa Drive Pharmacy, Gainsborough

Yvonne Petch, *Member Accounts Clerk*
Membership accounts team, Lincoln

Mark Robinson, *Funeral Director*
Newark Funeral Service

Gary Robinson, *Senior Warehouse Assistant*
Pharmacy Warehouse, Lincoln

Sandra Seymour, *Team Leader*
Albert Street Food Store, Newark

Susan West, *Dispensing Technician*
Parkside Pharmacy, Boston

40 years' service

Sharon North, *Customer Service Assistant*
City Square Coffee Shop, Lincoln

50 years' service

Malcolm Wray, *Pharmacy Warehouse Assistant*
Pharmacy Warehouse, Lincoln

Employees

Our apprenticeship programme is very popular and this year we've recruited 10 apprentices in our retail, pharmacy and travel divisions. Former pharmacy apprentice Lauren Taylor was a finalist in Retail Week's Rising Star Award – Apprentice of the Year. Our "Get into Retail" programme arranged in partnership with the Prince's Trust successfully saw 11 new colleagues join the Society at the end of the programme.

Our volunteering initiatives enabled colleagues and members to donate 10,000 hours of volunteering to a variety of community projects.

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:-

Paul Spencer, aged 63
Baker/confectioner with Gadsby's

Jacqueline Adams, aged 66
Stocktake team

Linda Whitehead, aged 62
Credit office

Peter Croft, aged 66
Sleaford dairy

Malcolm Hoskins, aged 69
Health safety and environment manager and former director and President of the Society

David Herrick, aged 71
Boultham Park dairy, Lincoln

Evelyn Swallow, aged 75
Moorland Centre, Lincoln

Peter Deller, aged 75
Food distribution centre, Lincoln

Robin Clay, aged 81
Electrician, works department, Lincoln

Henry Walker, aged 83
Gainsborough dairy

Raymond Dickinson, aged 88
Pinchbeck dairy

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,

Stuart Parker, *President*

Julia Romney, *Vice President*

Ursula Lidbetter, *Chief Executive Officer*

Jane Powell, *Group Secretary*

As a co-operative the Society seeks to operate its business in accordance with co-operative values and principles. It uses a number of different tools to measure and monitor performance and some of the indicators used are recognised by Co-operatives UK.

Member Economic Involvement

This is a measure of the amount of our trade which is conducted with adult members as a proportion of our turnover. In divisions where members use their dividend card for purchases we use that data to calculate the proportion of our turnover with members. In other divisions that data is not readily available so we use pro rata estimates. Taking all that information into account this year we conducted 52.5% of trade with members, slightly up on last year (51.3%).

Member Democratic Participation

As a co-operative it's important our members are engaged with us at a democratic level, so we measure the proportion of our members who vote in the elections for the board. This year there were four candidates in an election for three places and 5,576 members voted, equating to 2.2% of members slightly down on last year's figure of 2.7%.

Participation of Employees in Training and Education

Each year we calculate how much time on average each employee has spent on training away from their normal workplace. Last year we recorded an average of 12.1 training hours for each employee, this year there was a small increase to 12.4 hours.

Staff Injury and Absentee Rates

We measure and record the total number of accidents and reportable accidents which occur each year. There were 246 incidents involving staff during the year. Although the total number of incidents were up on last year's figure of 222 there were fewer reportable incidents; 10 occurred this year as against 15 in the year ended September 2015. We also record the average number of days employees take off due to sickness. The average number of days lost through injury, illness or unplanned absence was 7.3 slightly up on last year's comparable of 6.8 days per employee.

Staff profile – gender and ethnicity

The Society records the gender and ethnicity of its employees. This tends to be fairly stable year on year due to the low level of staff turnover. This year 71.5% of our staff are female and 28.5% male as against 72% female and 28% male last year. We also monitor the diversity of our staff and currently 1.6% of those who tell us about their ethnicity have an ethnic minority background compared to 1.4% last year.

Investment in Community and Co-operative Initiatives

We report on the percentage of our pre-tax profits which are invested in community or co-operative initiatives. Over the year we have invested £850,000 in community initiatives and £33,000 in co-operatives and their

development. This equates to about 6.1% of our pre-tax profits. These investments were slightly up on last year when we invested £834,000 in community initiatives and £50,000 in co-operatives and their development equating to about 5% of our pre-tax profits.

Net CO2 emissions arising from operations

We record the net tonnes of CO2 which are emitted from energy used by all our on-site operations (excluding transport). This year we produced 1,546 tonnes of CO2 from on-site operations, an improvement of 219 tonnes on last year when we produced 1,765 tonnes of CO2.

Waste recycled or re-used

We measure and report on the percentage of our waste which is diverted from landfill as a percentage of our total waste. This year we recycled, reused or incinerated as energy from waste 93% of our waste as against 92.5% last year.

Statement under the Modern Slavery Act 2015

We have reported on our ethical approach to procurement for a number of years. However this year we are required by law to publish a statement outlining the steps we have taken during the financial year ended 3rd September 2016 to ensure that slavery and human trafficking are not taking place in our business or supply chain.

We are a complex business with a variety of different supply chains. We have initiated a review of the supplier arrangements within all our divisions so we can report more comprehensively in the future.

We have tracked procurement in our food division for many years and can confirm that over 98% of our food procurement is done through membership of Federal Retail Trading Services Ltd which is managed by the Co-operative Group in accordance with their ethical buying policies which we support. The Co-operative Group 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 and we expect them to have systems in place to ensure their employees are not enslaved or forced to work contrary to legislation.

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.

All of our medicine procurement for our pharmacies is from wholesalers who are licensed by the Medicines and Healthcare products Regulatory Agency (MHRA) as being approved in good manufacturing practice and/or good distribution practice.

This statement was approved by the board of directors on 24th October 2016

Signed

Stuart Parker, *President*

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 UK Corporate Governance 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 UK Corporate Governance Code but is tailored to the particular governance characteristics found within co-operative societies. A copy of the code applicable to 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 2015 and August 2016.

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. Any such appointments are ratified by the members at the Society's annual meetings in accordance with the rules. 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. All directors are now subject to a maximum term of office of nine years, although there are transitional provisions which apply to directors who were in place before the changes came into effect.

In accordance with Society rules, Stuart Parker was elected as President of the Society in June 2016. Amy Morley resigned as a director and president of the Society on 7 November 2015.

18 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	4(4)	0(1)	
Julia Romney	18(18)		
David Maltby	16(18)	3(3)	2(2)
Stuart Parker	18(18)	3(3)	2(2)
Susan Neal	15(18)		2(2)
Carol Bratton	16(18)		2(2)
Stephen Hughes	17(18)		1(2)
Reverend Barbara Hutchinson	16(18)		
Kevin Shaw	14(18)	3(3)	
Mark Bowen	14(18)	3(3)	
Peter Gault	16(18)		
Amy Morley	3(3)	1(1)	

Some directors hold positions on group or associated companies. Steve 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 Institute of Chartered Secretaries and Administrators have been commissioned to undertake a performance evaluation of the board and their report and recommendations will be considered during the Society's next financial year.

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 2016 elections for 3 positions on the Board took place. There were 4 candidates and 5,576 votes were cast with 39 spoilt papers. Subject to the rules of the Society the results are set out below:-

Julia Romney	3,584 votes (3 years)
Margaret Tranter	2,013 votes (3 years)
Stuart Parker	1,988 votes (3 years)
Andrew Vaughan	1,951 votes, unsuccessful

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 Corporate Governance Code, which applies to listed companies, is a voluntary code rather than a regulatory requirement. However, the UK Listing Rules require listed companies to report on how they have complied with the code in their annual report and accounts.

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, Hill Holt In The Community Limited and Queen Elizabeth's Grammar School, Horncastle, Stephen Galjaard is a director of Lincolnshire Community Land Trust CIC and Investors In Lincoln Ltd, Alastair Farquhar is a trustee of the Lincolnshire Home Independence Agency, Heather Lee is chair of Sir Robert Pattinson Academy, Beewise Credit Union, Co-operative Employees Association Ltd and Blue Symmetry Ltd and David Dernley is a director of the Lincolnshire Centre for Grief and Loss Ltd.

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 Group Secretary at all times. In addition, external professional advice may be taken if requested by at least 4 directors.

Board Balance and Independence

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

Stephen Hughes	<i>Retired Pharmacist</i>
Susan Neal	<i>Phlebotomist /Health Care Assistant</i>
Julia Romney	<i>Security</i>
Stuart Parker	<i>Engineer</i>
Carol Bratton	<i>Business Development Advisor</i>
Kevin Shaw	<i>Chartered Accountant</i>
Rev Barbara Hutchinson	<i>Hospital Chaplain</i>
David Maltby	<i>Retired Company Director</i>
Peter Gault	<i>Manager</i>
Mark Bowen	<i>Enterprise Development Manager</i>
Margaret Tranter	<i>Retired Accounts Supervisor</i>
Amy Morley	<i>Senior Account Manager</i>

The Chief Executive Officer, Ursula Lidbetter is a director of Investors in Lincoln Ltd, and Federal Retail and Trading Services Ltd she is also a member of the Council of the University of Hull and chairs Lincoln Business Improvement Group Ltd, Lincolnshire Chamber of Commerce and Greater Lincolnshire Local Enterprise Partnership Ltd. Jane Powell is a director of The Priory Federation of Academies and a trustee of the John Robert Halkes Settlement and the Lincoln Diocesan Trust and Board of Finance Ltd. Kevin Shaw is a director of Wright Vigar Ltd and Jericho Investments Ltd and Carol Bratton is a director of Ongo Commercial Ltd, Margaret Tranter is a director of Beewise Credit Union.

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 2015/16. The internal auditor's overall assurance statement is set out on page [xxx].

An annual 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 arrangements 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 3 September 2016 were 30 days compared to 27 days last year.

Compliance Statement

The Society complies with the Corporate Governance Code for Consumer Co-operative Societies launched in November 2013 ('the Code') 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.

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 2017 and only took office in June 2016 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 Code.

Stuart Parker, *President*

Ursula Lidbetter, *Chief Executive Officer*

Jane Powell, *Group Secretary*

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	£5,671
Vice-President	£4,692
Directors	£4,268

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 £10.07

For delegations over four hours £20.20

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 3 September 2016 individual directors' total gross remuneration (including expenses and delegation fees) was as follows:-

Stephen Hughes	£4,604
Susan Neal	£4,906
Julia Romney	£4,657
Stuart Parker	£5,438
Margaret Tranter	£ 902
Carol Bratton	£4,773
Barbara Hutchinson	£4,600
David Maltby	£4,361
Mark Bowen	£4,371
Peter Gault	£4,242
Kevin Shaw	£4,242
Amy Morley	£1,369

Executives

The remuneration packages 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, but note 3 of the financial statements sets out the information required to comply with accounting standard FRS 102.

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 the following members:-

Stuart Parker (Chair)

Sue Neal

Rev Barbara Hutchinson

Stephen Hughes

Carol Bratton

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 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

Independent auditor's report to Lincolnshire Co-operative Limited

We have audited the financial statements of Lincolnshire Co-operative Ltd. for the year ended 3rd September 2016 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), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the Society 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 those matters we are required to state to it in an auditor's report and, in respect of the reporting on corporate governance, those matters we have agreed to state to it 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 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.org.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 Society's affairs as at 3rd September 2016 and of the income and expenditure of the Society 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 and 123 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.

Nicola Quayle

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peters Square
Manchester
M2 3AE

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Directors' Report and the Society financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The financial statements are required by law to give a true and fair view of the state of affairs of the Society and of the income and expenditure of the Society for that period. In preparing the Society 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 Society will continue in business.

The directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Society 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 Society and to prevent and detect fraud and other irregularities.

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.

Stuart Parker President

Julia Romney Vice President

Jane Powell Group Secretary

Internal Auditors' Overall Assurance Statement

In our opinion, for the year 2015/16, 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.

Streets Internal Audit

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (“FRS 102”) as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. In the transition to FRS 102 from old UK GAAP, the Group has made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected the financial position and financial performance of the Group is provided in note 25. The financial statements are prepared on the historical cost basis except that property and funeral plans are stated at their fair value. The net assets of the Society were £269,503,000 at 3rd September 2016, 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 3rd September 2016

Lincoln Co-operative Chemists Ltd.
 12 months to 31st August 2016

Majority Owned:-

Lincoln Science and Innovation Park Ltd.
 12 months to 31st August 2016

Joint Venture:-

LC Community Projects Ltd.
 12 months to 31st August 2016

A subsidiary is an entity that is controlled by the Society. The results of subsidiary undertakings are included in the Group Revenue Account from the date that control commences until the date that control ceases. Control is established when the Society has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities.

Basis of consolidation (continued)

In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

A joint venture is a contractual arrangement in which the Group exercises joint control over the operating and financial policies of the entity. Where the joint venture is carried out through an entity, it is treated as a jointly controlled entity. The Group’s share of the profits of jointly controlled entities is included in the Group Revenue Account and its interest in their net assets is recorded on the Group Balance Sheet using the equity method.

Intangible assets

Purchased goodwill and pharmacy licences are capitalised and amortised over their estimated useful life which is deemed to be a maximum of 20 years.

Gross sales

Gross sales includes cash sales, NHS income, 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 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. 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 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 the 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, other than funeral plans 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.

Debtors

Debtors are measured at amortised cost less any impairment.

Creditors

Creditors, other than funeral plans, are measured at amortised cost.

Funeral plans

Amounts received in advance for funeral plans are recorded at fair value as assets and liabilities. Changes in fair value are included in the Group Revenue Account.

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 defined benefit scheme. 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 comprehensive income, the actuarial gains and losses.

Defined Contribution Scheme

Following the closure of the defined benefit 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 3rd September 2016

	Notes	2016 (52 weeks) £'000	2015 Restated (52 weeks) £'000
Gross sales (including vat)		301,176	292,541
Less: value added tax		(22,846)	(22,658)
Turnover (including agency turnover)	1	278,330	269,883
Less: agency share of turnover		(19,866)	(18,983)
Turnover		258,464	250,900
Less: cost of sales		(164,515)	(160,870)
Gross profit	1	93,949	90,030
Less: expenses – ordinary trading	2	(72,774)	(69,469)
		21,175	20,561
Less: expenses – member benefits and grants	5	(1,150)	(1,315)
Trading surplus	1	20,025	19,246
(Deficit)/Surplus on sale of fixed assets		(376)	528
Deficit on revaluation of investment property		(942)	(4,122)
Operating surplus		18,707	15,652
Group share of surplus in joint ventures	10	212	-
Net finance charges	4	(942)	(812)
Surplus for the year before payments to and on behalf of members		17,977	14,840
Less: Payments to and on behalf of members	5	(3,504)	(3,177)
Surplus for the year before taxation		14,473	11,663
Taxation	6	(3,199)	(3,454)
Surplus for the year		11,274	8,209
Attributed to:			
Non-controlling interests		(39)	(19)
Transferred to reserves		11,313	8,228
		11,274	8,209

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

Group Statement of Comprehensive Income

Year Ended 3rd September 2016

	2016 (52 Weeks) £'000	2015 Restated (52 Weeks) £'000
Retained surplus for the year	11,274	8,209
Unrealised (Deficit)/Surplus on revaluation of trading properties	(342)	56
Share Interest	(44)	(64)
Current tax on share interest	9	13
Actuarial loss on pension scheme	(27,260)	(7,205)
Deferred tax on actuarial loss	4,222	1,441
Total comprehensive (losses)/income for the year	(12,141)	2,450
Attributable to:		
Non-controlling interests	(39)	(19)
(Charged)/Transferred to reserves	(12,102)	2,469
	(12,141)	2,450

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 3rd September 2016

	Notes	2016 £'000	2015 Restated £'000
Fixed assets			
Intangible assets	7	13,366	13,843
Tangible assets	8	92,882	84,559
Investment properties	9	193,192	196,342
Investments	10	26,355	22,742
Share of joint venture	10	170	-
		<u>325,965</u>	<u>317,486</u>
Current assets			
Stocks - goods for resale		14,471	14,402
Debtors			
- amounts falling due within one year	11	14,437	13,631
- amounts falling due after more than one year	11	9,955	6,417
Investments	10	1,300	1,300
Cash at bank and in hand		36,411	27,738
		<u>76,574</u>	<u>63,488</u>
Creditors: amounts due within one year			
Creditors	12	39,813	36,935
Dividend	12	4,124	3,760
		<u>43,937</u>	<u>40,695</u>
Net current assets		<u>32,637</u>	<u>22,793</u>
Total assets less current liabilities		<u>358,602</u>	<u>340,279</u>
Creditors: amounts falling due after more than one year	12	<u>(27,593)</u>	<u>(24,064)</u>
Net assets excluding pension liability		<u>331,009</u>	<u>316,215</u>
Pension liability	18	(61,506)	(34,205)
Net assets		<u>269,503</u>	<u>282,010</u>
Financed by:			
Share capital	14	7,945	8,423
Revaluation reserve		63,171	62,755
Revenue reserve		198,318	210,836
Members' funds		<u>269,434</u>	<u>282,014</u>
Non-controlling interests	15	69	(4)
Total funds employed		<u>269,503</u>	<u>282,010</u>

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 3rd September 2016

	Notes	2016 (52 weeks) £'000	2015 Restated (52 weeks) £'000
Net cash flow from operating activities	16	25,979	23,056
Cash flow from investing activities			
Sale of tangible fixed assets		5,674	2,768
Interest received		278	219
Purchase of tangible fixed assets		(18,744)	(15,835)
Purchase of fixed asset investments		(3,215)	(2,392)
Acquisition of businesses	17	<u>(933)</u>	<u>(1,391)</u>
		(16,940)	(16,631)
Cash flow from financing activities			
Issue of shares	14	1,061	1,217
Redemption of shares	14	(1,539)	(1,551)
Issue of shares to non-controlling interests		<u>112</u>	<u>-</u>
		(366)	(334)
Net increase in cash		<u>8,673</u>	<u>6,091</u>
Cash at start of the year		<u>27,738</u>	<u>21,647</u>
Cash at end of the year		<u>36,411</u>	<u>27,738</u>

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

Group Statement of Changes in Funds Employed

	Share Capital	Revaluation Reserve	Revenue Reserve	Members Funds	Non- controlling Interests	Total Funds
	£'000	£'000	£'000	£'000	£'000	£'000
At September 2014	8,757	67,351	203,771	279,879	15	279,894
Surplus (before restatement)	-	-	13,863	13,863	(11)	13,852
Changes on transition to FRS102 (note 25)	-	-	(5,635)	(5,635)	(8)	(5,643)
Surplus after restatement	-	-	8,228	8,228	(19)	8,209
Other comprehensive losses	-	56	(5,815)	(5,759)	-	(5,759)
Transfer on disposal of properties	-	(598)	598	-	-	-
Transfer between reserves	-	(4,054)	4,054	-	-	-
Total comprehensive income	-	(4,596)	7,065	2,469	(19)	2,450
Share capital contributions	1,153	-	-	1,153	-	1,153
Share capital withdrawals	(1,551)	-	-	(1,551)	-	(1,551)
Share interest	64	-	-	64	-	64
Transactions with members	(334)	-	-	(334)	-	(334)
At September 2015	8,423	62,755	210,836	282,014	(4)	282,010
Surplus	-	-	11,313	11,313	(39)	11,274
Other comprehensive losses	-	(342)	(23,073)	(23,415)	-	(23,415)
Transfer on disposal of properties	-	784	(784)	-	-	-
Transfer between reserves	-	(26)	26	-	-	-
Total comprehensive income	-	416	(12,518)	(12,102)	(39)	(12,141)
Share capital contributions	1,017	-	-	1,017	112	1,129
Share capital withdrawals	(1,539)	-	-	(1,539)	-	(1,539)
Share Interest	44	-	-	44	-	44
Transactions with members	(478)	-	-	(478)	112	(366)
At September 2016	7,945	63,171	198,318	269,434	69	269,503

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:

	2016 (52 Weeks) £'000	2015 (52 Weeks) £'000
Turnover (including agency turnover)		
Retail	265,635	256,646
Investment property	12,695	13,237
Total	<u>278,330</u>	<u>269,883</u>
Gross profit	81,254	76,793
Retail	12,695	13,237
Investment property	93,949	90,030
Common costs	(73,924)	(70,784)
Trading surplus	<u>20,025</u>	<u>19,246</u>
Net assets		
Retail	79,385	89,468
Investment property	190,118	192,542
Total	<u>269,503</u>	<u>282,010</u>

2. Expenses – ordinary trading

	2016 (52 Weeks) £'000	2015 (52 Weeks) £'000
Personnel costs	45,996	43,168
Occupancy costs	8,633	8,470
Hire of plant – operating leases	65	73
Depreciation	5,490	5,019
Deficit on sale of fixed assets	21	142
Amortisation of intangible fixed assets	1,292	1,360
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	43	42
- Other services including taxation advice	7	2
Directors' fees	46	50
Other expenses	11,147	11,109
Total expenses – ordinary trading	<u>72,774</u>	<u>69,469</u>

Notes to the Financial Statements

3. Employees

The average number employed by the Group in the year ended 3rd September 2016.

	2016 Number	2015 Number
Part-time	1,760	1,706
Full-time	1,108	1,064
	<u>2,868</u>	<u>2,770</u>

The costs incurred in respect of these employees were:

	2016 (52 Weeks) £'000	2015 (52 Weeks) £'000
Wages and salaries	40,228	37,585
Social security costs	2,491	2,306
Other pension costs	3,277	3,277
Total personnel costs	<u>45,996</u>	<u>43,168</u>

Included in total personnel costs is an amount of £2,096,000 (2015 £2,416,000) relating to the senior management team. Please see page 8 for further detail of how the remuneration of directors and the senior management team is determined.

4. Net finance charges

a) Interest Receivable

	2016 (52 Weeks) £'000	2015 (52 Weeks) £'000
Funeral plans	342	2,083
Unlisted investments	24	24
Expected return on pension scheme assets	3,408	3,560
Other interest	265	195
	<u>4,039</u>	<u>5,862</u>

b) Interest Payable

Funeral plans	342	2,083
Interest cost on pension scheme obligations	4,628	4,591
Other interest	11	-
	<u>4,981</u>	<u>6,674</u>

Net finance charges

	<u>942</u>	<u>812</u>
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5. a) Expenses – member benefits and grants

	2016 (52 Weeks) £'000	2015 (52 Weeks) £'000
Donations to charity and community groups	256	240
Forfeits on shares	(159)	10
Member and community activities	1,253	1,065
Release of prior year provisions	(200)	-
	<u>1,150</u>	<u>1,315</u>

b) Payments to and on behalf of members

Dividend	1,925	1,833
Further dividend approved by members	1,567	1,330
	<u>3,492</u>	<u>3,163</u>
Funeral benefit	12	14
Total	<u>3,504</u>	<u>3,177</u>

5. b) Payments to and on Behalf of Members (continued)

Dividend of £1,925,000 (2015: £1,833,000) 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 £1,575,000 (2015: £1,567,000) will be made at the forthcoming members meeting making a total of £3,500,000 (2015: £3,400,000).

A dividend bonus of 85p (2015: 85p) 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, if approved by members.

6. Taxation

	2016	2015
	(52 weeks)	Restated
	£'000	(52 weeks)
		£'000
a) Analysis of tax charge in year		
Current tax		
UK corporation tax at 20.0% (2015: 20.6%) on surplus for the year	3,369	3,065
Overprovision in prior years	(204)	(29)
Share of tax in joint venture	42	-
Current tax charge for the year	3,207	3,036
Deferred tax		
Taxation on pension adjustments	(8)	418
Taxation provided in the Group Revenue Account	3,199	3,454
Other comprehensive income items	9	13
Tax on share interest	4,222	1,441
Deferred tax on pension scheme	4,231	1,454

b) Factors affecting tax charge for the year

The current tax charge for the period is higher (2015: higher) than the standard rate of corporation tax in the UK 20.0% (2015: 20.6%). The differences are explained below.

	2016	2015
	(52 weeks)	Restated
	£'000	(52 weeks)
		£'000
Surplus on ordinary activities before taxation	14,473	11,663
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.0% (2015 : 20.6%)	2,895	2,402
Effects of:		
Permanent differences between items affecting tax and accounting surplus	508	1,081
Overprovision in prior years	(204)	(29)
Taxation provided in the Group Revenue Account	3,199	3,454

The standard rate of corporation tax in the UK is expected to reduce to 19% in April 2017 and then 17% in 2020. These reductions will change the Group's future tax charge accordingly.

Notes to the Financial Statements

7. Intangible fixed assets

	Goodwill £'000	Licences £'000	Total £'000
Cost			
As at 5th September 2015 (restated)	7,137	17,971	25,108
Additions	-	815	815
As at 3rd September 2016	7,137	18,786	25,923
Amortisation			
As at 5th September 2015 (restated)	4,653	6,612	11,265
Charged in the Year	358	934	1,292
As at 3rd September 2016	5,011	7,546	12,557
Net Book Value			
As at 3rd September 2016	2,126	11,240	13,366
As at 5th September 2015	2,484	11,359	13,843

8. Tangible fixed assets – trading

	Land & Buildings £'000	Fixtures Fittings & Plant £'000	Transport £'000	Total £'000
Market value/original cost				
As at 5th September 2015 (restated)	70,704	37,505	6,117	114,326
Transfer from investment properties	3,241	-	-	3,241
Additions	3,786	6,656	858	11,300
Disposals	(150)	(2,077)	(470)	(2,697)
Revaluation	(1,300)	-	-	(1,300)
As at 3rd September 2016	76,281	42,084	6,505	124,870
Depreciation				
As at 5th September 2015 (restated)	-	26,180	3,587	29,767
Charged in the Year	958	3,767	742	5,467
Disposals	-	(1,965)	(323)	(2,288)
Revaluation	(958)	-	-	(958)
As at 3rd September 2016	-	27,982	4,006	31,988
Net Book Value				
As at 3rd September 2016	76,281	14,102	2,499	92,882
As at 5th September 2015	70,704	11,325	2,530	84,559

The value of land and buildings includes £1,501,000 (2015: £2,854,000) of leaseholds, the remainder being freehold.

The value of Buildings depreciated was £43,400,000 (2015: £41,400,000). A valuation of Trading Properties was carried out by Banks, Long & Co., Chartered Surveyors, of 15 St. Mary's Street, Lincoln as at 3rd September 2016 which valued all of the Group's trading land and buildings at current market value on an existing use basis at £76,281,000 (2015: £70,704,000). This valuation has been incorporated within the Group Balance Sheet.

Notes to the Financial Statements

9. Fixed assets – Investment properties

	Land & Buildings		Landlords	Total £'000
	Freehold £'000	Leasehold £'000	Fixtures £'000	
Market value/original cost				
As at 5th September 2015 (restated)	193,990	2,285	792	197,067
Transfers	(2,506)	(735)	-	(3,241)
Additions	6,712	-	6	6,718
Disposals	(5,539)	(110)	(180)	(5,829)
Revaluation	(932)	(10)	-	(942)
As at 3rd September 2016	191,725	1,430	618	193,773
Depreciation				
As at 5th September 2015	-	-	725	725
Charged in the Year	-	-	23	23
Disposals	-	-	(167)	(167)
As at 3rd September 2016	-	-	581	581
Net Book Value				
As at 3rd September 2016	191,725	1,430	37	193,192
As at 5th September 2015 (restated)	193,990	2,285	67	196,342

A valuation of investment properties was carried out by Banks, Long & Co., Chartered Surveyors, 15 St. Mary's Street, Lincoln as at 3rd September 2016. 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 8 and 9 is £206,265,000 (2015: £204,224,000).

10. a) Investments

	Fixed Assets		Current Assets	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Co-operative Group Ltd.	290	290	-	-
Other investments	118	118	-	-
Funeral plans	25,947	22,334	1,300	1,300
Totals investments	26,355	22,742	1,300	1,300
		Funeral Plans £'000	Unlisted Investments £'000	Total £'000
Cost or valuation				
At September 2015		23,634	408	24,042
Additions		4,802	-	4,802
Disposals		(1,531)	-	(1,531)
Change in fair value		342	-	342
At September 2016		27,247	408	27,655

Funeral Plans

Monies have been invested as individual life policies with Royal London (CIS) Limited and are recognised at fair value.

Notes to the Financial Statements

10. 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) LCS Property Ltd. – Property Holding Company
- (iv) Lincoln Shop Equipment Ltd. – CCTV Monitoring Services
- (v) LCS Retail Ltd. – Food and Petrol Retail
- (vi) Greetwell Developments Ltd – Property Investment
- (vii) Gadsby's of Southwell Ltd. – Bakery
- (viii) Lincoln Science and Innovation Park Ltd – Science Park Development (75%)
- (ix) South Lincolnshire Crematorium Ltd – Crematorium

c) Joint Venture

LC Community Projects Ltd (50%) - Property Development

	2016 £'000	2015 £'000
Balance brought forward	-	-
Share of trading profit	212	-
Share of tax charged	(42)	-
Total balance sheet value	<u>170</u>	<u>-</u>

11. Debtors

	Falling due within one year		Falling due after one year	
	2016 £'000	2015 Restated £'000	2016 £'000	2015 Restated £'000
Trade debtors	9,723	9,312	-	-
VAT	1,063	1,022	-	-
Deferred tax	1,116	424	9,955	6,417
Other debtors and prepayments	2,535	2,468	-	-
Owed by Joint Venture	-	405	-	-
Total debtors	<u>14,437</u>	<u>13,631</u>	<u>9,955</u>	<u>6,417</u>

12. a) Creditors

	Falling due within one year		Falling due after one year	
	2016 £'000	2015 Restated £'000	2016 £'000	2015 Restated £'000
Trade creditors	26,183	23,082	-	-
Accrued charges and deferred income	8,918	8,744	1,200	1,300
Other taxation and social security	645	1,015	-	-
Member benefits and grants	80	80	100	100
Corporation tax	2,687	2,714	-	-
Funeral plans	1,300	1,300	26,293	22,664
	<u>39,813</u>	<u>36,935</u>	<u>27,593</u>	<u>24,064</u>

Notes to the Financial Statements

12. b) Dividend

	Falling Due Within One Year		Falling Due After One Year	
	2016 £'000	2015 Restated £'000	2016 £'000	2015 Restated £'000
Dividend approved not yet distributed	643	595	-	-
Dividend balances on dividend cards	3,481	3,165	-	-
	<u>4,124</u>	<u>3,760</u>	<u>-</u>	<u>-</u>
Total Creditors	<u>43,937</u>	<u>40,695</u>	<u>27,593</u>	<u>24,064</u>

Included within creditors is an amount of £114,000 held on behalf of Birchwood Big Local as Lincolnshire Co-operative is its Local Trusted Organisation.

13. Provisions for liabilities and charges

Deferred tax

	2016 £'000	2015 Restated £'000
An analysis of the amounts provided are set out below:		
Pension Scheme deficit	(11,071)	(6,841)
Accelerated capital allowances	444	730
Other timing differences	(444)	(730)
Deferred tax provisions at the end of the year	<u>(11,071)</u>	<u>(6,841)</u>

The deferred tax debtor relating to capital losses on property revaluations has not been provided in the accounts as it can't be recovered against future trading surpluses. Included in 'other timing differences' are amounts relating to differing treatment of member benefits and provisions between the accounts and the current tax provision.

14. Share capital

	2016 £'000	2015 £'000
Balance to begin the year	8,423	8,757
Contributions	1,017	1,153
Interest	44	64
	<u>9,484</u>	<u>9,974</u>
Withdrawals	(1,539)	(1,551)
Balance to end the year	<u>7,945</u>	<u>8,423</u>

- i) The whole of the share capital comprises £7,944,957 non-equity shares of £1 attracting interest at the rate of 0.5% on balances of £20 or more.
- 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.

Notes to the Financial Statements

14. Share capital (continued)

- 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.

15. Non-controlling Interests

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

	2016	2015
	£'000	Restated £'000
Balance to begin the year	(4)	15
Share of loss	(8)	(11)
Share of revaluation movement	(31)	(8)
New shares issued	112	-
Balance to end the year	69	(4)

16. Reconciliation of Trading Surplus to Cash Inflow from Operating Activities

	2016	2015
	(52 weeks)	Restated (52 weeks)
	£'000	£'000
Operating Surplus	18,707	15,652
Deficit on revaluations of investment property	942	4,122
Non cash pension costs	943	914
Additional pension contribution	(2,122)	(2,060)
Depreciation charges	5,490	5,019
Deficit/(Surplus) on sale of fixed assets	397	(386)
Amortisation of goodwill	1,292	1,360
Increase/(Decrease) in stocks	(18)	363
Increase in debtors	(6)	(1,371)
Increase in creditors	6,738	6,404
Payments to and on behalf of members	(3,184)	(3,171)
Tax paid	(3,200)	(3,790)
Cash inflow from operating activities	25,979	23,056

17. Acquisitions

During the year the Group acquired the assets and goodwill of various businesses.

The associated costs are as follows:

	£'000
Debtors	108
Creditors	(24)
Tax	(17)
Stock	51
Goodwill	815
Satisfied by cash	933

18. Defined benefit pension scheme

The Society operates a pension scheme providing benefits based on pensionable pay. The latest full actuarial valuation was carried out at 30th September 2012 and was updated to 3rd September 2016 by a qualified independent actuary. The scheme was closed to new entrants in December 2012.

Amounts recognised in the Group Balance Sheet	2016	2015 Restated
	£'000	£'000
Present value of funded obligations	(172,885)	(128,484)
Fair value of plan assets	<u>111,379</u>	<u>94,279</u>
Deficit	<u>(61,506)</u>	<u>(34,205)</u>

Amounts recognised in the Group Revenue Account	2016	2015 Restated
	£'000	£'000
Current service cost	2,673	2,818
Interest on obligation	4,628	4,591
Expected return on plan assets	<u>(3,408)</u>	<u>(3,560)</u>
Total	<u>3,893</u>	<u>3,849</u>

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

	2016	2015 Restated
	(52 weeks)	(52 weeks)
	£'000	£'000
Expenses – Ordinary Trading	2,673	2,818
Other finance expense	<u>1,220</u>	<u>1,031</u>
Total	<u>3,893</u>	<u>3,849</u>

Amounts recognised in the Group Statement of Comprehensive Income

	2016	2015 Restated
	£'000	£'000
Cumulative amount at beginning of year	(38,981)	(31,776)
Recognised during the year	<u>(27,260)</u>	<u>(7,205)</u>
Cumulative amount at end of year	<u>(66,241)</u>	<u>(38,981)</u>

Changes in the present value of scheme obligations	2016	2015 Restated
	£'000	£'000
Opening obligation	128,484	117,852
Service cost	2,673	2,818
Interest cost	4,628	4,591
Employees contributions	961	885
Actuarial losses	39,617	5,565
Benefits paid	<u>(3,478)</u>	<u>(3,227)</u>
Closing obligation	<u>172,885</u>	<u>128,484</u>

18. Defined benefit pension scheme (continued)

Changes in the fair value of plan assets

	2016	2015
	£'000	Restated £'000
Opening fair value of scheme assets	94,279	90,737
Expected return	3,408	3,559
Actuarial gains/(losses)	12,357	(1,639)
Contributions by employer	3,852	3,964
Contributions by employees	961	885
Benefits paid	(3,478)	(3,227)
	<u>111,379</u>	<u>94,279</u>
Actual return on scheme assets	15,765	1,920

Assets in the plan as a percentage of total plan assets

	2016	2015
Bonds	26%	25%
Equities	72%	72%
Other	2%	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

	2016	2015
Discount rate	2.1%	3.6%
Rate of increase in salaries	4.1%	4.4%
Rate of increase in payment of pre1997 pension in excess of GMP	0.0%	0.0%
Rate of increase in payment of post 1997 Pensions	3.1%	3.4%
Rate of revaluation of deferred pensions in excess of the GMP	3.1%	3.4%
Inflation assumption - RPI	3.1%	3.4%

The employer expects to contribute at 14.7% of pensionable payroll. In addition it is to contribute £2,664,000 increasing by 3% pa to the scheme. A further contribution of £3,500,000 is planned in the next year.

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:	21.4 years (male)
	23.4 years (female)
Future retiree upon reaching 65:	23.1 years (male)
	25.3 years (female)

19. Defined benefit pension scheme (continued)

Following the closure of the Defined Benefit 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 £613,000 (2015: £471,000) were paid by the Group.

20. Capital Commitments

Outstanding contracts for capital expenditure not provided for in the accounts amounted to £4,921,000 (2015: £5,685,000) and capital expenditure and acquisitions authorised by the Directors for which no contracts have been placed totalled £29,668,000 (2015: £33,828,000).

21. Commitments Under Operating Leases

At 3rd September 2016 the Group had commitments under non-cancellable operating leases on land and buildings as follows:

	2016 £'000	2015 £'000
Within one year	572	579
In two to five years	1,583	1,767
Over five years	2,501	2,866
Total commitments	4,656	5,212

These Leases are subject to rent reviews.

22. 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 from 7 September 2014 to 19 February 2015 were £22m. These goods were acquired on normal trading terms.

23. Accounting estimates and judgements

The judgements and estimates that have a significant impact on the financial statements are set out below.

Property valuation

Land and buildings are revalued each year by an external Chartered Surveyor. Valuations require the use of judgements that incorporate market conditions which are subject to fluctuations.

Pension assumptions

The defined benefit pension scheme assets are measured at current market value, while the liabilities are estimated on assumptions as detailed in note 18.

Goodwill impairment

The carrying value of goodwill and other intangible assets is assessed each year against the current value of future cashflows expected.

Provisions

Provisions are provided in the financial statements at an estimated amount of the future outflow of economic benefit. These are updated annually.

24. Financial instruments

The Group's financial instruments are as follows:

	2016	2015
	£'000	Restated £'000
Financial assets		
Measured at fair value	27,247	23,634
Measured at amortised cost	<u>47,605</u>	<u>38,885</u>
Financial liabilities		
Measured at fair value	27,593	23,964
Measured at amortised cost	<u>29,515</u>	<u>26,811</u>

Financial assets measured at fair value relate to funeral plan investments.

Financial assets measured at amortised cost comprise cash at bank and in hand, investments (other than funeral plans), trade and VAT debtors together with amounts owed by joint ventures.

Financial liabilities measured at fair value relate to funeral plan obligations.

Financial liabilities measured at amortised cost comprise trade creditors and taxation.

25. Transition to FRS102

This is the first year that the Society has presented its financial statements under Financial Reporting Standard 102 (FRS102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition.

The last financial statements under previous UK GAAP were for the period ended 5 September 2015 and the date of transition to FRS102 was 6 September 2014. As a consequence of adopting FRS102, a number of accounting policies have changed to comply with this standard.

There were no adjustments impacting on the net assets at 6 September 2014.

Under FRS102 interest on pension scheme assets included in the Group Revenue Account is charged using the discount rate assumption rather than the expected growth rate under the previous UK GAAP. The impact on the surplus for 2015 was a reduction of £1,521,000. There was no impact on net assets.

Revaluation surpluses or deficits on investment property should now be shown in the Group Revenue Account. The impact of this is a reduction in surplus for 2015 of £4,122,000. There was no impact on net assets.

Funeral plan assets and liabilities are now stated at fair value. The value of asset and liability was increased by £5,919,000 at September 2015 to reflect this change.

FRS102 grants certain first time adoption exemptions from the full requirements of FRS102. The following exemptions have been taken in these financial statements.

Lease Incentives: for leases commenced before 6 September 2014, the Group continued to account for lease incentives under previous UK GAAP.

Reconciliation of surplus for the year ended September 2015

	Surplus	Non-controlling Interests	Total
	£'000	£'000	£'000
Surplus - before restatement	13,863	(11)	13,852
Defined benefit Pension Scheme interest	(1,916)	-	(1,916)
Tax on above	395	-	395
Deficit on revaluation of investment property	(4,114)	(8)	(4,122)
Surplus - after restatement	<u>8,228</u>	<u>(19)</u>	<u>8,209</u>

Historical Comparative Statement

	2012	2013	2014	2015	2016
	52 Weeks	53 Weeks	52 Weeks	Restated 52 Weeks	52 Weeks
Membership	211,168	228,292	231,435	241,536	259,771
Revenue Account	£'000	£'000	£'000	£'000	£'000
Gross Sales	282,950	288,057	285,892	292,541	301,176
Depreciation	5,380	5,375	4,898	5,019	5,490
Trading Surplus	18,081	17,970	18,140	19,246	20,025
Members' Benefits	1,250	1,266	1,179	1,315	1,150
Dividend	3,657	4,083	3,113	3,414	3,512
Transfer to reserve	11,586	11,015	11,875	8,209	11,274
Balance Sheet					
Intangible Assets	15,943	15,761	15,163	13,843	13,366
Total Tangible Assets	268,046	263,151	275,346	280,901	286,074
Total Fixed Investments	11,566	13,256	14,731	22,742	26,525
Net Current Assets	6,702	6,981	12,441	22,793	32,637
Long Term Creditors	(11,477)	(13,106)	(16,095)	(24,064)	(27,593)
Net Assets Before Pension	290,780	286,043	301,586	316,215	331,009
Pension Liability	(18,562)	(20,303)	(21,692)	(34,205)	(61,506)
Net Assets	272,218	265,740	279,894	282,010	269,503
Share Capital	10,234	9,609	8,757	8,423	7,945
Reserves	261,984	256,131	271,122	273,591	261,489
Minority Interest	-	-	15	(4)	69

2015 comparative amounts have been restated. 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 2015 (half yearly meeting held on 4th June 2016 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 £3,500,000 is allocated to dividend from which dividends of £1,925,000 have already been paid; and
 - (b) for a dividend bonus of 85p for every £1 of dividend distributed in the year to 3 September 2016; 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.

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 informally.

Tuesday 15 November

The Weston Rooms, Hickman Street, Gainsborough

Wednesday 16 November

South Holland Centre, 23 Market Place, Spalding

Thursday 17 November

The Stanhope Hall, Boston Road, Horncastle

Monday 21 November

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

Tuesday 22 November

Grimsby Town Hall, Town Hall Square, Grimsby

Wednesday 23 November

The Epic Centre, Lincolnshire 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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