



Directors' Report and Financial Statements

for the year to 4th September 2010



Our mission

Our mission - to be a successful co-operative business

Lincolnshire Co-operative

- **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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DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

BOARD OF DIRECTORS

	Julia Romney	President
	Stephen Hughes <i>Bpharm, MR Pharm S</i>	Vice President
•*+	Stuart Parker <i>BSc (Eng)</i>	Chair of Pension Scheme Trustees and Remuneration Committee
*	Sue Neal	
•*+	Margaret Tranter	
•*+	John Levine <i>FCA</i>	Chair of of Audit Committee
•*	Carol Bratton <i>MIBC</i>	
•	Malcolm Hoskins	
	Barbara Hutchinson	
	Amy Morley	
•	Audit Committee	
+	Board Nominated Trustee of the Pension Scheme	
*	Remuneration Committee	

SENIOR MANAGEMENT TEAM

+ Ursula Lidbetter <i>BSc Hons, FCIS</i>	Chief Executive Officer
Jane Powell <i>LLB Hons, MBA</i>	Group Secretary
David Dernley <i>Dip.F.D. MBIE, MBIFD</i>	Head of Funeral Services
Alastair Farquhar <i>BSc, MR Pharm S</i>	Head of Pharmacy
Stephen Galjaard <i>BA Hons, ACA</i>	Chief Financial Officer
Heather Lee <i>BA Hons, MCIPD, MBA</i>	Head of People and Performance
Jim Thomson <i>BA Hons</i>	Chief Retail Officer
Andrew Turner	Head of Information Systems
Ray Yeardley	Head of Retail Operations

AUDITORS

KPMG LLP
St James' Square, Manchester M2 6DS

BANKERS

Co-operative Bank Plc
16 Saltergate, Lincoln LN2 1DG

SOLICITORS

Andrew & Co,
St Swithin's Court, 1 Flavian Road, Nettleham Road, Lincoln, LN2 4GR

REGISTERED OFFICE

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

DIRECTORS' REPORT FOR THE YEAR ENDED 4 SEPTEMBER 2010

The Society's trading activities include food stores, pharmacies, home stores, filling stations, post offices, travel agents, coffee shops, funeral services, a florist, bakery, Jaguar car dealership, a pharmaceutical wholesaler and a portfolio of commercial and residential properties.

TRADING REVIEW

Total sales for the year increased by 16.1% to £277.8 million. The most significant increase was as a result of the purchase of F Maltby and Sons Ltd and F Maltby Ltd, which comprised 10 retail pharmacies and a pharmaceutical wholesaler. In addition strong growth in our core pharmacy business helped offset a cut in the NHS income we receive per prescription.

We have also delivered a strong sales increase in Food, Travel, Holland Brothers Jaguar and in petrol stations where a small increase in volume was flattered by a significant increase in fuel prices generally. Despite the falling death rate, sales moved forward modestly in our funeral business and funeral bond sales remained strong.

Sales in Gadsbys' bakery fell due to changed terms with one of our major customers. Income from our 40 Post Offices continued to decline, with further erosion of the viability of this important service. We continue to make strong representations to Post Office Ltd to try to secure a better deal for the network.

Our Home stores at Lincoln and Gainsborough underwent refurbishment and sales were affected by the consequent disruption. We took the decision to scale down our electrical sales operations, due to intense competition from the internet making our prices uncompetitive, and an unsustainable fixed cost base.

This year we made a one-off contribution of £1.6 million to assist our food buying group in relation to the integration of Somerfield and in the expectation of improved buying terms. Despite this, group trading surplus rose 4.9% to £20.4 million, boosted by the strong performance of Food and Pharmacy.

21,119 new members joined the Society and at the year-end membership stood at 187,124.

The board is recommending that £4,291,000 is allocated to dividend, from which dividend points of £2,188,000 have already been paid during the year and that a dividend bonus is awarded equal to 75p for every £1 of dividend points distributed in the year.

DEVELOPMENTS

As well as the major acquisition of Maltby's, we continued unabated with a comprehensive capital programme. Our total capital expenditure for the year was £21.2 million. Many food stores, pharmacies and funeral outlets have been extended or refurbished. We have a strong pipeline of new stores. We acquired properties in Newark, Louth, Boston and Morton near Bourne for foodstore developments, and have been on site at Witham St Hughs and Caistor with those new stores opening in Autumn 2010.

We have made good progress on two developments in Lincoln, the major extension and upgrading of both our Birchwood Shopping Centre and the Maltings office block on Brayford Wharf East. Our plans are well advanced for the development of a doctors' surgery in Boston, further units at Carlton Centre in Lincoln and vacant property on Wragby Road in Lincoln. Significant additional work has been done on the Lindogate scheme for Lincoln City Centre and we are now waiting for outline planning consent in order to take the project forward.

We sold our former pharmacy warehouse on Sadler Road in Lincoln and a small number of former trading properties. The value of our current asset investments and cash at the year-end was £20.2 million. This is invested principally in Co-operative Group Ltd investor shares and the Co-operative Bank plc.

Commercial property values have fallen again this year and our annual revaluation showed a deficit of £3.4 million, leaving the value of our land and buildings at £238.5 million. Rents received have however held up well.

The pension scheme deficit has increased significantly to £14.8 million, due to weak past investment returns and changes to assumptions principally on future investment returns. Following the triennial valuation of the scheme's assets and liabilities at 30 September 2009, the Board of Directors has agreed a funding recovery plan with the Pension scheme trustees, which will add to our cost base in future years.

The pension fund deficit has had a significant impact on the Society's balance sheet so despite our strong trading year, reserves have decreased by £1.8 million.

We have made good progress on the integration of Maltby's and expect further synergy benefits to be realised in the new financial year. This will help to offset a further national cut in pharmacy income from October 2010. We expect further benefit in our food business as a result of better prices from our co-operative buying group.

Our strong capital base and trading performance allow us to make appropriate decisions for the long-term success of the Society and as we enter our 150th year, we look forward with optimism.

EMPLOYEES AND PENSIONERS

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

Catherine Ison	Customer Services Assistant, Metheringham Foodstore.
Mick Pollard	Health & Safety Adviser
Jim Thomson	Chief Retail Officer
Ursula Lidbetter	Chief Executive Officer
Alan Bean	Goods In Supervisor, Food Distribution Centre, Lincoln
Moira Dunlop	Delivery Driver, Food Distribution Centre, Lincoln
Julie Moon	Dispensing Assistant, Sincil Street Pharmacy
Julie Dolby	Clerk, Butchery Warehouse
Stephen Hughes	Pharmacist, The Forum Pharmacy, Lincoln
Karen Moore	Duty Manager, Heckington Foodstore
Julia Romney	Security, Lincoln
Anita Siddy	Supervisor, Sleaford Foodstore
Deborah Allett	Supervisor, Sleaford Foodstore
Jane Norton	Customer Services Assistant, Burton Road Foodstore, Lincoln
Barrie Coaton	Manager, Heckington Foodstore
Jacqueline Allbones	Clerk, Gainsborough Home Store
Patricia Robertson	Customer Services Assistant, Waltham Foodstore
Janet Astin	Customer Services Assistant, City Square Coffee Shop

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:-

Tracey Francis	Lincoln North Funeral Home	Age 45 years
Beverley Rawding	Spalding Travel	Age 54 years
Joseph Potts	Dairy	Age 71 years
Alan Harvey		Age 72 years
Alan Dalton	Shoe Department in Lincoln	Age 84 years

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 by the Society would not be possible without their efforts.

For and on behalf of the Board,

Julia Romney	President
Stephen Hughes	Vice President
Ursula Lidbetter	Chief Executive Officer
Jane Powell	Group Secretary

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 utilise the ten indicators which have been produced by Co-operatives^{UK} for this purpose.

	Description	Measure	Performance in 2009/10
1.	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 53.9% of total sales. This figure is a small increase on last year's figure of 51.9%
2.	Member democratic participation	Number of members voting in elections and as a percentage of total membership	A contested election was held for the board with 5 candidates for 4 places. The ballot produced 6,666 votes equating to 3.56% of members. Last year 6,150 members voted amounting to 3.54% of members.
3.	Participation of employees and members in training and education	Hours of training undertaken	On average 17.06 hours were spent per employee on training and we delivered over 433 hours training to members. Last year 9.5 hours training were given to employees and 584 hours to members.
4.	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 285. The number reported to the health and safety executive was 27. The average number of absence days was 6.4. Last year 247 incidents were reported internally with 29 reported to the health and safety executive. The average number of absence days was 6.3.
5.	Staff profile – gender and ethnicity	Gender split and % employees from different ethnic groups	72.6% of our employees are female and 27.4% are male. We also monitor the diversity of our staff and currently about 0.4% have an ethnic minority background. The proportion of male and female staff was equivalent to last year (73% F and 27% M). The percentage of ethnic minority staff was at 0.5%.
6.	Customer satisfaction	% of customers being satisfied with service	The Society has measured how satisfied Home and Travel customers were with friendliness of service. Over 98% of customers were either satisfied or very satisfied with the friendliness of service provided when they visited a Home store or Travel outlet. Last year we reported that 94% of customers were satisfied with the friendliness of service in our foodstores.
7.	Consideration of ethical issues and procurement and investment decisions	Evidence of ethical issues in decision making	As we reported last year the majority of our procurement is done through the membership of the Co-operative Retail Trading Group. We have supported the ethical buying policies of CRTG, which has stated that it's committed to principles of sound sourcing and to addressing worker conditions in the supply chain.
8.	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 £695,748 in community initiatives and £50,000 in co-operatives and their development. This equates to about 4.5% of our pre-tax profits. Last year we invested £679,000 in community initiatives and £70,000 in co-operatives equating to about 4% of pre-tax profits.
9.	Net CO2 emissions arising from operations	Net tonnes of CO2 emissions from energy used for all on-site operations (but excluding transport)	We produced 2,493 tonnes of CO2 from onsite operations this year, which is slightly more than last year's figure of 2,224 tonnes. We continue to buy all our electricity from renewable sources, and the small increase can be accounted for by the addition of Maltby's to our operations this year.
10.	Waste recycled	% of waste recycled/re-used as % of total waste	We are always looking at ways to increase the amount of waste which is recycled. This year we are pleased to report that we have recycled 57.88% of waste produced, which is an increase on last year's figure of 51.5%.

As an Industrial and Provident Society Lincolnshire Co-operative Ltd is not subject to the provisions of the Combined Code¹. However Co-operativesUK (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 is available from the Group Secretary.

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 2009 and August 2010.

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 ten directors. Nine directors are elected by and from the members of the Society. 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, Mrs Julia Romney was elected as President of the Society.

21 meetings of the Board were held during the year. The individual directors' attendance was as follows:-

Names of Directors	Type of Meeting and Number of Meetings Attended by Directors During the year			
	Board	Exceptional Board	Audit Committee	Remuneration Committee
Margaret Tranter	16 (18)	2(3)	4(4)	1(1)
Julia Romney	18 (18)	1(3)		
+ Alan Middleton	12 (13)	2(3)	3(3)	1(1)
Stuart Parker	18 (18)	2(3)	4(4)	1(1)
Susan Neal	17 (18)	1(3)		0(1)
John Levine	18 (18)	1(3)	4(4)	1(1)
Carol Bratton	18 (18)	1(3)	3(4)	
Stephen Hughes	15 (18)	2(3)		
Malcolm Hoskins	17 (18)	3(3)	1(1)	
Barbara Hutchinson	16 (18)	0(3)		
*Amy Morley	4 (5)	0(0)		

() possible attendance + ceased to be a director during the year

* became a director during the year

¹The 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.

Some directors hold positions on group or associated companies. In addition Malcolm Hoskins is a director of Fenland Green Power Co-operative Limited and Margaret Tranter sits on the board of the Co-operative Press Ltd.

A programme of continuing development and training is in place for the board. A skills audit and performance evaluation of the whole board, conducted by the independent organisation EFP Ltd, commenced during the year. This is part of an ongoing process to ensure the board operates effectively. In addition the assessment is used to identify any significant skills gaps and areas where the functioning of the board can be improved. This includes a review of each director's personal development plan, which is used to target individual training needs.

On an annual basis, the Board evaluates its performance in respect of Corporate Governance. The results are contained within this report.

BOARD ELECTIONS

In May 2010, elections for 4 positions on the Board took place. This was a contested election as there were 5 candidates for the vacancies. The successful candidates and terms of office gained are as set out below. 6,666 votes were cast with 94 spoilt papers.

Julia Romney	3 years	Stuart Parker	3 years
Amy Morley	3 years	Barbara Hutchinson	2 years

Mark Bowen was unsuccessful on this occasion.

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 a member services committee 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.

The Board has delegated the management of the Society's activities to the Chief Executive and her Management Team.

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.

No director over the age of 68 may continue to serve in office and will stand down at the half yearly meeting after his 68th birthday. The Board is able to appoint up to 3 directors. This year John Levine (who was first appointed to the board in 2007) was re-appointed until May 2011 subject to ratification by the members as required by the rules.

During the year Alan Middleton retired as a director of the Society after more than 40 years service. He was President of Co-operative Congress in Lincoln in 1998, the highest honour any individual co-operator can receive. He was also a member of the Co-operative Commission in 2000. Alan is currently working on a very special history book which has been commissioned to mark the Society's 150th anniversary in 2011. The Board of Directors would like to thank Alan for his dedication and service over the years and wish him a very happy and healthy retirement.

BOARD BALANCE AND INDEPENDENCE

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

Julia Romney	Security
Stuart Parker	Engineer
Margaret Tranter	Retired Accounts Supervisor
Carol Bratton	Business Adviser
Stephen Hughes	Pharmacist
John Levine	Retired Chartered Accountant
Susan Neal	Medical Records Admin Data Clerk & Phlebotomist
Malcolm Hoskins	Retired Health and Safety Manager
Barbara Hutchinson	Reverend
Amy Morley	Senior Account Manager

Ursula Lidbetter is a Director and Deputy Chair of the Co-operative Group Ltd, Chair of the Co-operative Food Limited and a Director of CRS Properties Ltd.

No other member of the Management Executive holds any significant directorship.

The Secretary maintains a register of directors' interests in order to ensure that 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. The current President is an employee of the Society, but as she has only been appointed for a year and a new election for President takes place each year, this is deemed sufficient to ensure she acts independently of management.

AUDIT COMMITTEE

The Audit Committee of the Board currently comprises four elected directors (who are not employees of the Society) and one appointed director. The chair of the committee is John Levine who is a recently retired 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 of the external auditor and the scope of the audit subject to confirmation by the members.
2. Review of the financial statements and the auditors' report.
3. Review of the internal audit programme and all internal audit reports and
4. Review of the Society's statement on internal control systems.
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.

This year the Board invited a number of new providers to tender for the provision of internal audit work for the Society. Following conclusion of this process the board were pleased to re-appoint Streets LLP as internal auditors to the Society.

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. Each trading division has reviewed the key risks facing their business during the year and they have also provided their views on the key corporate risks which affect the Society.

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 the policy documents and instruction manuals, key information and reporting forms.

Whistleblowing

A documented whistleblowing procedure is in place and communicated to employees. To compliment this, a detailed anti-fraud policy has been developed. This policy is reviewed by the Audit Committee.

Monitoring

The outsourced provision of internal audit services continues to be a success. 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 2009/10. The internal auditors overall assurance statement is set out on page 9.

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 4 September 2010 were 21 days compared to 23 days last year.

COMPLIANCE STATEMENT

The Society complies with the Corporate Governance Code of Best Practice issued in May 2005 except as set out below.

A2.4 Acquisitions and Disposals

The Code requires that a Board proposing transactions, acquisitions or disposals involving 25% or more of the Society's fixed tangible assets 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.

B3.1 Employees on the Board

Employees are eligible to serve as President of the Society and therefore as Chair of the Board. However no President (or Chair) may serve for more than one year at a time and this is considered to be adequate protection.

D1.1 Disclosure – The Annual Report and Financial Statements

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

D1.2 Interim Report

A half yearly statement of trading activities is made available to members. The statement includes summary financial information which is not subject to an external audit review. A legislative reform order is currently passing through Parliament which will permit the publication of unaudited interim accounts. In light of this a separate external audit of interim financial statements is not considered a justifiable use of members' funds.

D2.1 Audit Committee

During the year the President of the Society Margaret Tranter was a member of the Audit Committee. The President only served in office for a period of one year and handed over to a new President who was not a member of the Audit Committee prior to the year end.

The corporate governance compliance statement set out above is hereby signed on behalf of the Board of Directors pursuant to paragraph F1.3 of the Corporate Governance Code of Best Practice issued by Co-operatives^{UK} in 2005.

Julia Romney	President
Ursula Lidbetter	Chief Executive Officer
Jane Powell	Group Secretary

REMUNERATION REPORT

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 in annual or special meetings. 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. Co-operatives^{UK} also regularly circulates details of directors' fees, on an anonymous basis and this is monitored by the Group Secretary.

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	£5,084
Vice-President	£4,206
Directors	£3,824

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	£9.06
For delegations over four hours	£18.12

Delegation fees are not paid in respect of attendance at an organisation which itself pays fees, if the director concerned receives such a fee. For the year ended 4 September 2010 individual directors' total gross remuneration (including expenses and delegation fees) was as follows:-

Julia Romney	£4,920
Stephen Hughes	£4,263
*Alan Middleton	£3,357
Stuart Parker	£4,009
Susan Neal	£5,026
Margaret Tranter	£5,230
John Levine	£4,887
Carol Bratton	£4,566
Malcolm Hoskins	£5,400
Barbara Hutchinson	£4,124
+Amy Morley	£1,476
<i>*ceased to be a director during the year</i>	
<i>+became a director during the year</i>	

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.

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 contained within this report as this is not a requirement under current financial reporting standards. Unlike most plc's and in common with most consumer co-operatives the Chief Executive and the Group Secretary at Lincolnshire Co-operative are not members of the Board and under the arrangements outlined in this report, do not therefore 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. The Remuneration Committee currently comprises:-

Stuart Parker (Chair)

Sue Neal

Margaret Tranter

John Levine

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 the Co-operative Employers' Association, who themselves have access to industry data worldwide, but the Society has in the past also received advice from the international recruitment consultants, Korn Ferry.

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

Industrial and Provident 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. The Group financial statements are required by law to give a true and fair view of the state of affairs 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 Society and enable them to ensure that its financial statements comply with the Industrial and Provident Society Acts. 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 Society'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 10 to 28 are hereby signed on behalf of the Board of Directors pursuant to the Friendly and Industrial and Provident Society Act 1968

Julia Romney President

Stephen Hughes Vice President

Jane Powell Group Secretary

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LINCOLNSHIRE CO-OPERATIVE LTD

We have audited the financial statements of Lincolnshire Co-operative for the year ended 4th September 2010 which comprise the Group Revenue Account, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Society's members, as a body, in accordance with section 9 of the Friendly and Industrial and Provident Societies Act 1968. 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 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 AUDITORS

The Society's directors responsibility for the preparation of the Annual Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 8.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Act 1965 to 2003 and the Industrial and Provident Societies (Group Accounts) Regulations 1969. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the society has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We review whether the statements on page 7 reflect the society's compliance with paragraphs D1.1 (paragraph 5), D2.1, D2.4, D3.1 (paragraph 3) and D3.2 of the Co-operatives^{UK} Limited's Corporate Governance Code of Best Practice issued in May 2005, and we report if it does not. We are not required to consider whether the Board's statements of internal control cover all risks and controls, or form an opinion on the effectiveness of the society's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Directors' Report and Financial Statements and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the group 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 4th September 2010 and of its surplus for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2003 and Industrial and Provident Societies (Group Accounts) Regulations 1969.

Mick Davies (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants, Registered Auditor, St James' Square
Manchester, M2 6DS 25th October 2010

INTERNAL AUDITORS' OVERALL ASSURANCE STATEMENT

In our opinion, for the year 2009/10, 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. This is based on management's responses to our findings and our recommendation tracking procedures and follow up work which have confirmed that actions have been taken or are proposed to be taken in accordance with the agreed action plans as previously reported to the audit committee.

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 £258,393,000 at 4th September 2010, the Group had no borrowings, trading surplus remains robust and the Society has adequate resources to continue in operation and 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:-

Lincoln Co-operative Chemists Ltd.
LCS Retail Ltd.
Lincoln Shop Equipment Ltd.
LCS Property Ltd.
Lincoln Corn Exchange & Markets (1991) Ltd
Greetwell Developments Ltd.
52 weeks to 4th September 2010

Holland Brothers Ltd.
12 months to 31st August 2010
F Matlby & Sons Ltd.
10 months to 31st August 2010

Majority Owned:-

Gadsby's of Southwell Ltd. (60% owned)
12 months to 31st August 2010

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.

Negative goodwill is capitalised and amortised to the Group Revenue Account in the periods in which the non-monetary assets of the acquisition are recovered whether through sales or depreciation.

GROSS SALES

Gross sales includes cash sales, goods sold on credit, equipment rental 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 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.
Rental assets	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.

ASSETS LEASED TO CUSTOMERS

Assets leased to customers under operating leases are included in the Group Balance Sheet as rental assets at cost of acquisition less depreciation based on the Group's normal accounting policy. Rental income from these leases is credited to the Group Revenue Account on an accruals 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 POINTS AND DIVIDEND BONUS

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

The provision for unredeemed dividend points in the Group Balance Sheet is based on the full redemption value of the dividend points 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

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.

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.

GROUP REVENUE ACCOUNT

Year Ended 4th September 2010

	Notes	2010 (52 weeks) £'000	2009 (52 Weeks) £'000
GROSS SALES (INCLUDING VAT)		277,830	239,405
Less: Value Added Tax		(20,944)	(16,273)
TURNOVER (INCLUDING AGENCY TURNOVER)	1	256,886	223,132
Less: Agency Share of Turnover		(13,347)	(12,131)
TURNOVER		243,539	211,001
Less: Cost of Sales		(162,905)	(136,669)
GROSS PROFIT	1	80,634	74,332
Less: Expenses – Ordinary Trading	2	(59,042)	(53,641)
		21,592	20,691
Less : Expenses – Member Benefits and Grants	4	(1,176)	(1,220)
GROUP TRADING SURPLUS	1	20,416	19,471
Share of Trading (Loss)/ Surplus in Joint Venture	9	(82)	19
SURPLUS BEFORE INTEREST		20,334	19,490
Net Interest Received	9	84	553
Other Finance Income	22	154	548
SURPLUS FOR THE YEAR BEFORE PAYMENTS TO AND ON BEHALF OF MEMBERS		20,572	20,591
Less: Payments To and On Behalf of Members	4	(4,001)	(3,903)
SURPLUS FOR THE YEAR BEFORE TAXATION		16,571	16,688
Taxation	5	(5,188)	(5,067)
SURPLUS FOR THE YEAR AFTER TAXATION		11,383	11,621
Equity Minority Interest	17	(58)	(89)
SURPLUS FOR THE YEAR TRANSFERRED TO RESERVES	15	11,325	11,532

All amounts in the current and prior year relate to continuing operations.
The notes on pages 16 to 28 form part of these accounts

GROUP BALANCE SHEET

As at 4th September 2010

	Notes	2010 £'000	2009 £'000
FIXED ASSETS			
Intangible Assets	6	16,452	8,619
Tangible Assets	7	74,735	71,275
Investment Properties	8	173,658	173,923
Investments	9	8,338	7,220
Share of Joint Venture	9	-	268
		273,183	261,305
CURRENT ASSETS			
Stocks		15,622	13,167
Debtors	10	10,619	5,803
Investments	9	16,948	25,165
Cash at Bank and In Hand	19	3,293	3,074
		46,482	47,209
CREDITORS: AMOUNTS DUE WITHIN ONE YEAR			
Creditors	11	34,299	32,346
Dividend	11	4,301	3,830
		38,600	36,176
NET CURRENT ASSETS		7,882	11,033
TOTAL ASSETS LESS CURRENT LIABILITIES		281,065	272,338
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	11	(7,847)	(6,713)
NET ASSETS EXCLUDING PENSION LIABILITY		273,218	265,625
Pension Liability	22	(14,825)	(5,772)
NET ASSETS		258,393	259,853
FINANCED BY:			
Share Capital	13	10,384	10,150
Revaluation Reserve	14	81,860	85,341
Revenue Reserve	15	166,120	164,392
MEMBERS' FUNDS	16	258,364	259,883
Equity Minority Interest	17	29	(30)
TOTAL FUNDS EMPLOYED		258,393	259,853

The notes on pages 16 to 28 form part of these accounts

GROUP CASH FLOW STATEMENT

Year Ended 4th September 2010	Notes	2010 (52 weeks) £'000	2009 (52 Weeks) £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	18	24,197	28,692
Dividends Received from Associates	9	-	50
Dividends Received from Joint Ventures	9	200	-
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest Received – Group	9	148	547
Interest Paid – Group		(49)	(4)
		99	543
TAXATION			
UK Corporation Tax Paid		(5,081)	(4,908)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchase of Tangible Fixed Assets		(12,119)	(15,445)
Purchase of Fixed Asset Investments		(1,118)	(1,304)
Sale of Tangible Fixed Assets		1,673	108
Sale of Fixed Asset Investments		-	4
		(11,564)	(16,637)
ACQUISITIONS AND DISPOSALS			
Acquisition of Businesses	21	(13,853)	(578)
PAYMENTS TO AND ON BEHALF OF MEMBERS		(3,611)	(3,962)
CASH OUTFLOW/(INFLOW) BEFORE USE OF LIQUID RESOURCES AND FINANCING		(9,613)	3,200
MANAGEMENT OF LIQUID RESOURCES			
Sale/(Purchase) of Current Asset Investments		8,217	(3,846)
FINANCING			
Issue of Shares	13	2,410	2,705
Redemption of Shares	13	(2,176)	(2,205)
		234	500
DECREASE IN CASH DURING THE YEAR	19	(1,162)	(146)

The notes on pages 16 to 28 form part of these accounts

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year Ended 4th September 2010

	2010 (52 weeks) £'000	2009 (52 Weeks) £'000
Retained Surplus for the Year	11,325	11,532
Unrealised Surplus on Revaluation of Trading Properties	652	1,652
Unrealised Deficit on Revaluation of Investment Properties	(4,023)	(2,641)
Share Interest (net of tax)	(58)	(94)
Actuarial Loss on Pension Scheme (net of deferred tax)	(9,649)	(2,743)
TOTAL GAINS AND LOSSES RELATING TO THE YEAR	(1,753)	7,706

NOTE ON HISTORICAL COST PROFITS AND LOSSES

Year Ended 4th September 2010

	2010 (52 Weeks) £'000	2009 (52 Weeks) £'000
Surplus for the year before taxation	16,571	16,688
Realisation of property revaluation gains of previous years	147	-
Difference between a historical depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	(37)	(33)
HISTORICAL COST SURPLUS BEFORE TAXATION	16,681	16,655
HISTORICAL COST SURPLUS FOR THE YEAR RETAINED AFTER TAXATION AND MINORITY INTERESTS	11,435	11,499

The notes on pages 16 to 28 form part of these accounts

1. Segmental Analysis

The Group has two principal segments, which are Retail and Investment Property. The results of the two segments are:

	2010 (52 Weeks) £'000	2009 (52 Weeks) £'000
Turnover (including agency turnover)		
Retail	245,177	211,503
Investment Property	11,709	11,629
Total	256,886	223,132
Gross Profit		
Retail	68,925	62,703
Investment Property	11,709	11,629
	80,634	74,332
Common Costs		
	(60,218)	(54,861)
Group Trading Surplus	20,416	19,471
Net Assets		
Retail	86,735	88,243
Investment Property	171,658	171,610
Total	258,393	259,853

No indication can be given of the contribution to turnover and trading surplus of F Maltby & Sons Limited and F Maltby Limited, which were acquired in the year. This is because the business and assets of those companies were divided up between and integrated into the Group's existing subsidiaries after the acquisition and it is not now possible to identify the separate results or turnover of each of the separate parts of the business.

2. Expenses – Ordinary Trading

	2010 (52 Weeks) £'000	2009 (52 Weeks) £'000
Personnel Costs	35,294	30,621
Occupancy Costs	7,496	7,580
Hire of Plant – Operating Leases	83	72
Depreciation	5,292	4,723
Deficit on Sale of Fixed Assets	53	50
Amortisation of Intangible Fixed Assets		
- Positive goodwill	1,238	954
- Negative goodwill	(1,407)	-
Auditors' Remuneration:		
- Audit of these financial statements	30	29
Amounts receivable by auditors and their associates in respect of:		
- Audit of financial statements of subsidiaries pursuant to legislation	39	32
- Other services including taxation advice	27	41
Directors' Fees	40	42
Other Expenses	10,857	9,497
Total Expenses – Ordinary Trading	59,042	53,641

3. Employees

The average number employed by the group in the year ended 4th September 2010 was 2,655 (2009: 2,518) of which 1,757 (2009: 1,671) were part-time and the remaining 898 (2009: 847) were full-time.

The Costs Incurred in Respect of these Employees were:

	2010 (52 weeks) £'000	2009 (52 weeks) £'000
Wages and Salaries	31,731	27,470
Social Security Costs	2,155	1,920
Other Pension Costs	1,408	1,231
Total Personnel Costs	35,294	30,621

4. Expenses – Member Benefits and Grants

a) Individual

New Member Packs/Members Mailout	232	221
Member Distribution General Expenses	341	352
Total Individual	573	573

Community

Bereavement Support Service	35	40
Health Care Grants	70	70
Member Services Grant	291	292
Charity and Community Groups	121	122
Forfeits on shares	(24)	3
Co-operative Development Fund	50	70
Education	60	50
Total Community	603	647

Total Expenses – Member Benefits and Grants

1,176	1,220
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b) Payments To and on Behalf of Members

Dividend Points	2,188	2,158
Further Dividend Approved by Members	1,777	1,605
	3,965	3,763
Funeral benefit	36	140
Total	4,001	3,903

Dividend points of £2,188,000 (2009: £2,158,000) have 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 £2,103,000 (2009: £1,777,000) will be made at the forthcoming members meeting making a total of £4,291,000 (2009: £3,935,000).

A dividend bonus of 75p (2009: 75p) for every £1 of qualifying dividend points distributed has been recommended by the Board of Directors, which will be paid to members in proportion to the dividend points already distributed in the year under review.

5. Taxation

	2010 (52 weeks) £'000	2009 (52 weeks) £'000
a) Analysis of tax charge in year		
Current tax		
UK corporation tax at 28% (2009 : 28%) on surplus for the year	4,972	4,937
Share of taxation in Joint Ventures	(16)	6
Current tax charge for the year	4,956	4,943
Deferred tax		
Taxation on FRS17 pension adjustments	232	124
Taxation provided in the year	5,188	5,067

b) Factors affecting tax charge for the year

The current tax charge for the period is higher (2009: higher) than the standard rate of corporation tax in the UK 28% (2009: 28%). The differences are explained below.

	2010 (52 weeks) £'000	2009 (52 weeks) £'000
Surplus on ordinary activities before taxation	16,571	16,688
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 : 28%)	4,640	4,673
Effects of:		
Permanent differences between items affecting tax and accounting surplus	316	270
Current tax charge for the year	4,956	4,943

6. Intangible Fixed Assets – Goodwill

	Positive Goodwill £'000	Negative Goodwill £'000	Total £'000
Cost			
As at 5th September 2009	12,671	-	12,671
Additions	9,071	(1,407)	7,664
As at 4th September 2010	21,742	(1,407)	20,335
Amortisation			
As at 5th September 2009	4,052	-	4,052
Charged in the Year	1,238	(1,407)	(169)
As at 4th September 2010	5,290	(1,407)	3,883
Net Book Value			
As at 4th September 2010	16,452	-	16,452
As at 5th September 2009	8,619	-	8,619

7. Tangible Fixed Assets – Trading

	Land & Buildings	Fixtures Fittings & Plant	Transport	Rental Assets	Total
	£'000	£'000	£'000	£'000	£'000
Market Value/Original Cost					
As at 5th September 2009	62,331	26,842	3,727	105	93,005
Transfer from Investment Properties	(411)	-	-	-	(411)
Additions	2,203	3,193	1,015	18	6,429
Acquisitions	1,081	1,093	273	-	2,447
Disposals	-	(1,203)	(835)	(35)	(2,073)
Revaluation	(125)	-	-	-	(125)
As at 4th September 2010	65,079	29,925	4,180	88	99,272
Depreciation					
As at 5th September 2009	-	19,692	1,979	59	21,730
Charged in the Year	722	3,081	551	29	4,383
Acquisitions	56	690	216	-	962
Disposals	-	(1,108)	(623)	(29)	(1,760)
Revaluation	(778)	-	-	-	(778)
As at 4th September 2010	-	22,355	2,123	59	24,537
Net Book Value					
As at 4th September 2010	65,079	7,570	2,057	29	74,735
As at 5th September 2009	62,331	7,150	1,748	46	71,275

The value of land and buildings includes £5,744,000 (2009: £5,501,000) of long leaseholds, the remainder being freehold. The value of Buildings depreciated was £32,333,000 (2009: £30,071,000). A valuation of Trading Properties was carried out by Banks, Long & Co., Chartered Surveyors, of 15 St. Mary's Street, Lincoln as at 4th September 2010 which valued all of the Group's trading land and buildings at current market value on an existing use basis at £65,079,000 (2009: £62,331,000). This valuation has been incorporated within the Group Balance Sheet.

8. Fixed Assets – Investment Properties

	Land & Buildings		Landlords	Total
	Freehold	Leasehold	Fixtures	Total
	£'000	£'000	£'000	£'000
Market Value/Original Cost				
As at 5th September 2009	163,105	10,460	857	174,422
Transfers from trade	411	-	-	411
Additions	5,064	530	76	5,670
Disposals	(1,410)	-	(40)	(1,450)
Revaluation	(4,775)	(9)	-	(4,784)
As at 4th September 2010	162,395	10,981	893	174,269
Depreciation				
As at 5th September 2009	-	-	499	499
Charged in the Year	761	-	148	909
Disposals	-	-	(36)	(36)
Revaluation	(761)	-	-	(761)
As at 4th September 2010	-	-	611	611
Net Book Value				
As at 4th September 2010	162,395	10,981	282	173,658
As at 5th September 2009	163,105	10,460	358	173,923

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 4th September 2010. 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 £156,595,000 (2009: £150,555,000).

9. a) Investments	Fixed Assets		Current Assets		Interest and Dividend	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Co-operative Group Ltd.	290	290	-	-	17	20
- Corporate Investor Shares	-	-	16,348	24,765	112	314
Unquoted Companies	254	254	-	-	6	6
Local Authorities	3	3	-	-	-	-
Mortgages	96	117	-	-	3	4
Funeral Bonds (ii)	7,695	6,556	600	400	-	-
Short term Deposits	-	-	-	-	10	203
Totals	8,338	7,220	16,948	25,165	148	547
Joint Venture						
Short Term Deposits	-	-	-	-	5	10
Interest Paid	-	-	-	-	(69)	(4)
Total Investments	8,338	7,220	16,948	25,165	84	553

(i) The Group sold its interest in LAGAT Limited during 2006, but received a dividend of £50,000 during 2009.

(ii) **Funeral Bonds**

Bonds are invested as individual life policies with the Co-operative Insurance Society Limited (CIS). Surpluses are not recognised until such time as the plan is invoked.

b) Joint Ventures	2010 £'000	2009 £'000
Balance Brought Forward	268	245
Share of Trading Losses	(82)	19
Share of Net Interest Received	5	10
Share of Tax Charged	16	(6)
Dividends Remitted	(200)	-
Reserves at consolidation	(7)	-
Total Balance Sheet Values	-	268

During the year the Group acquired the remaining shares of Greetwell Developments Limited and consolidated the year end balances as a subsidiary.

9. Investments (continued)

c) Subsidiaries

The principal business activities of the Society's 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) Holland Brothers Ltd. – Motor Dealership
- (vi) LCS Retail Ltd. – Food and Petrol Retail
- (vii) F Maltby & Sons Ltd – Wholesale Chemists
- (viii) Greetwell Developments Ltd – Property Investment
- (ix) Gadsby's of Southwell Ltd. – Bakery (60%)
- (x) Wrights Lincoln Ltd. – Does not trade
- (xi) Lincoln Carlton & Newark Dairies (1983) Ltd. – Does not trade
- (xii) Onyxbridge Ltd. – Does not trade
- (xiii) F Maltby Ltd – Ceased trading 31st January 2010
- (xiv) Blueprint Developments – Does not trade
- (xv) Figurefirst Ltd – Does not trade
- (xvi) F Maltby Holdings Ltd – Does not trade

10. Debtors

	Falling Due Within One year		Falling Due After One Year	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Credit Sales	470	538	-	-
Trade Debtors	8,186	3,890	-	-
VAT	580	359	-	-
Other Debtors and Prepayments	1,383	1,016	-	-
Total Debtors	10,619	5,803	-	-

11a) Creditors

	Falling Due Within One Year		Falling Due After One Year	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Trade Creditors	16,408	14,637	-	-
Accrued Charges	7,960	6,913	-	-
Other Taxation and Social Security	592	616	-	-
Member Benefits and Grants	363	294	150	150
Corporation Tax	8,376	8,508	-	-
Funeral Bonds	600	400	7,697	6,563
Owing to Joint Venture	-	978	-	-
	34,299	32,346	7,847	6,713

b) Dividend

	Falling Due Within One Year		Falling Due After One Year	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Dividend Approved Not Yet Distributed	1,794	1,621	-	-
Dividend Points Balances on Dividend Cards	2,507	2,209	-	-
	4,301	3,830	-	-
Total Creditors	38,600	36,176	7,847	6,713

12. Provisions for Liabilities and Charges

	2010 £'000	2009 £'000
Deferred Tax		
An analysis of the amounts provided are set out below:		
Accelerated capital allowances	(117)	(390)
Other timing differences	117	390
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 in the current tax provision.

13. Share Capital

	2010 £'000	2009 £'000
Balance to begin the year	10,150	9,650
Contributions	2,223	2,426
Dividend Bonus Credited to Accounts in the Year	106	148
Interest	81	131
	12,560	12,355
Withdrawals	(2,176)	(2,205)
Balance to end the year	10,384	10,150

i) The whole of the share capital comprises £10,384,414 non equity shares of £1 attracting interest at the rates below:

Balance	Interest Rate
£0 - £20	Nil
£20 - £1,000	0.5%
£1,000 - £5,000	1.0%
£5,000 - £20,000	1.5%

13. Shared Capital (continued)

- 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 redemption of dividend points 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 floating charge on property.

14. Revaluation Reserve

	Trading Property	Investment Property	Total
	2010 £'000	2010 £'000	2010 £'000
Balance to begin the year	46,924	38,417	85,341
Revaluation during the year	653	(4,023)	(3,370)
Transfer of amount equivalent to additional depreciation on revalued assets	37	-	37
Transfer on disposal	(56)	(91)	(147)
Minority Interest	(1)	-	(1)
Balance to end the year	47,557	34,303	81,860

15. Revenue Reserve

Balance to begin the year	2010 £'000
	164,392
Transfer to Revaluation Reserve	110
Retained Surplus for the Year	11,325
Actuarial Loss on Pension Scheme	(9,649)
Share interest	(58)
Balance to end the year	166,120

The cumulative total of goodwill written off directly against the Group Revenue Reserve amounts to £6,254,000 (2009 £6,254,000).

16. Reconciliation of Movements in Members' Funds

	2010 £'000	2009 £'000
Retained Surplus for the year	11,325	11,532
Other recognised Gains and Losses relating to the year	(13,077)	(3,824)
Minority share of Group Revaluation Surplus	(1)	(2)
Movement on Share Capital	234	500
Net (deductions)/ additions to Members' Funds	(1,519)	8,206
Opening Members' Funds	259,883	251,677
Closing Members' Funds	258,364	259,883

17. Minority Interests

	2010 (52 Weeks) £'000	2009 (53 Weeks) £'000
Balance to begin the year	(30)	(121)
Share of surplus for the year	58	89
Share of revaluation	1	2
Balance to end the year	29	(30)

18. Reconciliation of Operating Surplus to Cash Inflow from Operating Activities

	2010 (52 Weeks) £'000	2009 (52 Weeks) £'000
Trading Surplus	20,416	19,471
Non cash Pension Costs	326	104
Additional Pension Contribution	(1,000)	-
Depreciation Charges	5,292	4,723
Deficit on Sale of Fixed Assets	53	50
Amortisation of goodwill	(169)	954
Decrease in Stocks	310	57
(Increase)/Decrease in Debtors	(444)	274
(Decrease)/Increase in Creditors	(587)	3,059
Cash Inflow from Operating Activities	24,197	28,692

19. Analysis of Net Funds

	At 5 September 2009 £'000	Acquisitions £'000	Cash Flow £'000	At 4 September 2010 £'000
Cash in hand and at bank	3,074	1,381	(1,162)	3,293
Current asset investments	25,165	-	(8,217)	16,948
Totals	28,239	1,381	(9,379)	20,241

20. Reconciliation of Net Cash Flow to Net Funds

	2010 (52 weeks) £'000	2009 (52 weeks) £'000
Decrease in cash in the year	(1,162)	(146)
Cash (inflow)/outflow (from)/to liquid resources	(8,217)	3,846
Cash acquired with subsidiaries	1,381	-
Change in Net Funds resulting from cash flows	(7,998)	3,700
Net Funds at the start of the year	28,239	24,539
Net Funds at the end of the year	20,241	28,239

21. Acquisitions and Disposals

During the year, the Group acquired 100% of the ordinary share capital of the F Maltby Holdings Limited and F Maltby & Sons Limited. It also acquired a further 50% of the ordinary shares of Greetwell Developments Limited making it a 100% owned subsidiary. The analysis of the net assets acquired and the fair value to the Group is as follows:

	F Maltby & Sons £'000	F Maltby Holdings £'000	Greetwell D'ments £'000	Fair value adj's £'000	Total £'000
Tangible fixed assets	349	1,384	-	(248)	1,485
Investments	9	-	-	(9)	-
Stocks	2,098	667	-	-	2,765
Debtors	9,107	1,135	598	-	10,840
Cash	823	550	8	-	1,381
Creditors	(2,892)	(6,784)	(599)	-	(10,275)
	<u>9,494</u>	<u>(3,048)</u>	<u>7</u>	<u>(257)</u>	<u>6,196</u>
Reserves at consolidation	-	-	(7)	-	(7)
Positive goodwill	-	9,071	-	-	9,071
Negative Goodwill	(1,664)	-	-	257	(1,407)
Satisfied by cash	<u>7,830</u>	<u>6,023</u>	<u>-</u>	<u>-</u>	<u>13,853</u>

Tangible fixed assets and investments were revalued at acquisition to their fair value utilising the Group's accounting policies. Negative goodwill arising on the acquisition of F Maltby & Sons has been fully amortised in the current year.

22. 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 2009 and was updated for FRS17 purposes to 4th September 2010 by a qualified independent actuary.

Amounts recognised in the Group Balance Sheet

	2010	2009
	£'000	£'000
Present value of funded obligations	(75,743)	(58,598)
Fair value of plan assets	56,016	50,581
Deficit	(19,727)	(8,017)
Related deferred tax asset	4,902	2,245
Net liability	(14,825)	(5,772)

Amounts recognised in the Group Revenue Account

	2010	2009
	£'000	£'000
Current service cost	1,408	1,231
Interest on obligation	3,387	3,569
Expected return on plan assets	(3,541)	(4,117)
Total	1,254	683

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

	2010	2009
	£'000	£'000
Expenses – Ordinary Trading	1,408	1,231
Other Finance Income	(154)	(548)
Total	1,254	683

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

	2010	2009
	£'000	£'000
Cumulative amount at beginning of year	(6,685)	(2,875)
Recognised during the year	(12,538)	(3,810)
Cumulative amount at end of year	(19,223)	(6,685)

Changes in the present value of scheme obligations

	2010	2009
	£'000	£'000
Opening obligation	58,598	58,821
Service cost	1,408	1,231
Interest cost	3,387	3,569
Employees contributions	705	734
Actuarial losses/(gains)	14,166	(3,179)
Benefits paid	(2,521)	(2,578)
Closing obligation	75,743	58,598

22. Pension Scheme (continued)

Changes in the fair value of plan assets	2010 £'000	2009 £'000
Opening fair value of scheme assets	50,581	54,170
Expected return	3,541	4,117
Actuarial gains/(losses)	1,628	(6,989)
Contributions by employer	2,082	1,127
Contributions by members	705	734
Benefits paid	(2,521)	(2,578)
	56,016	50,581
Actual return on scheme assets	5,169	(2,872)

Assets in the plan as a percentage of total plan assets	2010	2009
Bonds	26%	26%
Equities	69%	71%
Other	5%	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

	2010	2009
Discount rate	5.2%	5.8%
Expected return on scheme assets	7.04%	7.65%
Rate of increase in salaries	4.2%	4.1%
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	3.2%	3.1%
Rate of revaluation of deferred pensions in excess of the GMP	3.2%	3.1%
Inflation assumption	3.2%	3.1%

In addition to the above discretionary increases on the pre April 1997 and post April 2006 accrued pensions have been valued until September 2014 at 3.2% p.a. After this period no further allowances have been made for discretionary increases.

The employer expects to continue contributing not less than an amount equal to the members' contributions plus 3.8% of pensionable payroll. In addition it is to contribute £2,438,000 p.a 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:	20.1 years (male)
	23.0 years (female)
Future retiree upon reaching 65:	22.0 years (male)
	24.9 years (female)

22. Pension Scheme (continued)

History of experience gains and losses	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Defined benefit obligation	(75,743)	(58,598)	(58,821)	(53,766)	(63,156)
Plan assets	56,016	50,581	54,170	57,224	51,976
(Deficit)/Surplus	(19,727)	(8,017)	(4,651)	3,458	(11,180)
Experience adjustments on plan liabilities	(3,247)	42	71	2,099	187
Experience adjustments on plan assets	1,628	(6,989)	(6,787)	2,088	3,094

23. Capital Commitments

Outstanding contracts for capital expenditure not provided for in the accounts amounted to £7,192,000 (2009: £5,935,000) and capital expenditure and acquisitions authorised by the Directors for which no contracts have been placed totalled £16,628,000 (2009: £28,169,000).

24. Commitments Under Operating Leases

At 4th September 2010 the Group had annual commitments under non-cancellable operating leases on land and buildings, as follows:

	2010 £'000	2009 £'000
Within one year	105	77
In two to five years	99	196
Over five years	531	443
Total Annual Commitments	735	716

These Leases are subject to rent reviews.

25. Contingent Liability

No provision has been made for corporation tax on the capital gain estimated at £13,000,000 (2009: £14,000,000) which would arise if the trading and investment properties were sold at the revalued amounts.

26. Related Party Transactions

During the year, the Group had transactions with Gadsby's of Southwell Limited, in which it holds less than 90% of the share capital.

The net sales conducted during the year were £1,660,000 (2009: £1,623,000) and the balance owing to the Group as at 4th September 2010 was £647,000 (2009: £705,000).

HISTORICAL COMPARATIVE STATEMENT

	2006 52 Weeks	2007 52 Weeks	2008 53 Weeks	2009 52 Weeks	2010 52 Weeks
Membership	145,662	149,247	161,124	173,853	187,124
Revenue Account	£'000	£'000	£'000	£'000	£'000
Gross Sales	200,452	215,434	235,624	239,405	277,830
Depreciation	4,085	4,508	4,697	4,723	5,292
Trading Surplus	14,749	17,362	17,757	19,471	20,416
Members' Benefits	904	1,019	1,120	1,220	1,176
Dividend	3,093	3,909	3,874	4,075	4,327
Transfer to reserve	14,760	11,968	11,268	11,532	11,325
Balance Sheet					
Intangible Assets	6,375	10,080	9,101	8,619	16,452
Total Tangible Assets	196,866	208,617	235,622	245,198	248,393
Total Fixed Investments	6,308	5,721	6,161	7,488	8,338
Net Current Assets	21,978	23,287	9,547	11,033	7,882
Long Term Creditors	(4,238)	(4,869)	(5,526)	(6,713)	(7,847)
Net Assets Before Pension Assets/(Liability)	227,289	242,836	254,905	265,625	273,218
Pension Assets/(Liability)	(7,826)	2,421	(3,349)	(5,772)	(14,825)
Net Assets	219,463	245,257	251,556	259,853	258,393
Share Capital	9,971	9,628	9,650	10,150	10,384
Reserves	209,748	235,820	242,027	249,733	247,980
Minority Interest	(256)	(191)	(121)	(30)	29

Comparative amounts have been restated where appropriate.

Dividend includes amounts proposed for approval at forthcoming members meetings and members funeral benefit.

1. To confirm the minutes of the Annual General Meeting held in November 2009 (half yearly meeting held on 20 May 2010 for Lincoln AGM only)
2. To receive the Directors' Report, Auditor's Report and Annual Accounts.
3. To consider the recommendations of the Board of Directors:-
 - (a) that £4,291,000 is allocated to dividend from which interim dividends of £2,188,000 have already been paid and
 - (b) for a dividend bonus of 75p for every £1 of dividend points distributed in the year to 4 September 2010.
4. To consider the recommendation of the Board of Directors that the basic rate of issue of dividend points continues at 24 points per £1 spent with a value of £1 for every 2,400 points redeemed.
5. To ratify the appointment of the Society director appointed under Special Rule XI.
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 General Meeting until the conclusion of the next annual general meeting at which the accounts are laid before the Society, at a remuneration to be fixed by the Directors.

Questions must be submitted in accordance with Special Rule VII (d) and General Rule 73. See standing orders inside back cover of Annual Report.

Members must produce their share book or dividend card to gain entry to these meetings. Any member present who holds a minimum of £1 share capital and has been a member of the Society for 6 months shall have one vote. Please note: To use a dividend card as proof of voting entitlement the minimum balance of £1 must have been in the member's share account on 6 November 2010.

At the conclusion of the meeting members are invited to remain for a buffet and to take the opportunity to talk to Directors on an informal basis.

Date	Location	
Tuesday 16 November	The Weston Rooms, Hickman Street.	Gainsborough
Wednesday 17 November	Tollbar Business and Conference Centre.	Grimsby
Thursday 18 November	South Holland Centre, 23 Market Place, Town Centre.	Spalding
Monday 22 November	The Everyday Champion Church Jessop Close Brunel Business Park.	Newark
Tuesday 23 November	Horncastle College, Mareham Road.	Horncastle
Wednesday 24 November	The Lincoln Suite, The Lawn, Union Road.	Lincoln

All meetings begin at 7.00pm.

1. The Order of business at every general or special meeting of the Society shall be in accordance with the printed agenda of business issued with the notice of the respective meeting.
 2. Except in the case of a special general meeting called upon 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 upon by the directors.
 3. All notices of motion for consideration at any general meeting must first be submitted to the Directors 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 general meeting must be received by the Society at least seven 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 or amendments thereto, voting shall take place as if both the motion and amendments 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, and if the votes in favour are equal to such one of those receiving such equal votes as the largest majority shall be declared.
 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 upon any question whatsoever must rise in his place and address himself to the chair. When two or more members rise 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 upon any point of order shall be final.
- SPECIAL RULE VII(d)** 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.
- SPECIAL RULE X** 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 be in attendance.
- GENERAL RULE 73** Complaints by Members – a member who has any complaint to make as to the quality, quantity, or price of any goods or services supplied by the Society, or the conduct of any officer or employee of the Society, shall send the particulars of such complaint to the Board who shall inquire into and decide upon them, subject to an appeal from any such decision to an ordinary meeting of members; but no such complaint shall be brought before any such meeting except on appeal.



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