



Directors' Report & Financial Statements

For the year to 7th September 2013



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BOARD OF DIRECTORS 2013



Back left to right: Ursula Lidbetter - Chief Executive, Stephen Hughes, Margaret Tranter, John Levine, Amy Morley, David Maltby, Stuart Parker, Julia Romney, Carol Bratton, Jane Powell - Group Secretary
front: Sue Neal, Malcolm Hoskins - President, Barbara Hutchinson - Vice President.

BOARD OF DIRECTORS

- **Malcolm Hoskins** President
- **Barbara Hutchinson** Vice President
- *+ **Stuart Parker** BSc (Eng) Chair of Pension Scheme Trustees and Remuneration Committee

- *+ **Margaret Tranter**
- *+ **Julia Romney**
- *+ **John Levine** FCA Chair of Audit Committee
- * **Carol Bratton** MIBC
- * **Stephen Hughes** Bpharm
- * **Sue Neal**
- **Amy Morley**
- **David Maltby**

- Audit Committee
- + Board Nominated Trustee of the Pension Scheme
- * Remuneration Committee

Auditors

KPMG LLP,
St James' Square, Manchester M2 6DS

Registered Office

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

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, MRPharm S
Head of Pharmacy
- Stephen Galjaard** BA Hons, ACA
Chief Financial Officer
- Heather Lee** BA Hons, MCIPD, MBA
Head of People and Performance
- Jim Thomson** BA Hons
Chief Retail Officer
- Andrew Turner**
Head of Group Services
- Ray Yeardley**
Head of Retail Operations

The Society's trading activities include food stores, pharmacies, filling stations, post offices, travel agencies, funeral services, florist, bakery, butchery, a pharmaceutical wholesaler and a portfolio of commercial and residential properties. We were pleased that, working in partnership, we were able to secure the future of our Home stores in Lincoln and Gainsborough through a transfer to local firm Oldrids Downtown during the year.

Trading Review

There were 53 trading weeks in this financial year compared to 52 in the previous year.

As expected, customer spending has been subdued while general business costs have been rising. Despite this, we have been encouraged by sales growth in some sectors. Comparing the first 52 weeks of this year with our last financial year, we've seen sales increases of 3% in our foodstores and of 14.1% in our travel agencies. Our funeral division has also moved forward by 3.6%.

Branch Pharmacy income has increased by 1.8%. Cuts in NHS funding were mitigated by prescription growth of 3.5% and buying benefits through our wholesale function.

Filling station volumes moved forward by 7.1% over the 52 weeks following a depressed year in 2012.

The volume of our own prepared local meat increased by 16.3% as customers were re-assured by our local sourcing scheme and sales of our Love Local range also moved forward by 12.4%.

Total group sales were up over the full 53 weeks of the year by 1.8% at £288 million despite being suppressed by the transfer of our Jaguar dealership during the previous year and of our two Home stores in February 2013.

Group trading surplus held up well at £18 million compared to £18.1 million in 2011/12.

Significant work was done in relation to changes to our pension provision. Our Final Salary Scheme was closed to new entrants in December and we introduced Honeypot, a defined contribution scheme which matches employee contributions up to 10% of pensionable pay. We commenced Auto Enrolment into Honeypot in September 2013 at a contribution rate of 5% for both the Society and the employee.

Advisor fees for the various pension scheme changes were a significant extra cost this year, as was the decrease in dividend received from our co-operative buying arrangements. The buying group for travel ceased in the year and that for fuel ceases in 2013/14. With the continued weakness in the property market there was a decrease on revaluation of £14,155,000. Net assets at the year end were £265,740,000 a decrease of £6,478,000.

During the year 19,847 new members joined the Society and at the year-end membership stood at 228,292.

The Board is recommending that £4,050,000 is allocated to dividend, from which dividend points of £2,370,000 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

This year we've continued with a strong capital programme. Our total capital expenditure for the year was £18.1million. Many food stores, pharmacies and funeral outlets have been relocated or refurbished.

We exchanged contracts to run a new crematorium at Surfleet in the south of the county. Building work is underway and we plan to open in November 2013. We are working in partnership with the University of Lincoln to create a new school of pharmacy and a science park on a site adjacent to the University. We are also spending £3 million on the development of a health care hub at Parkside Doctors Surgery in Boston. In addition we opened a library in our pharmacy in Waddington.

During the year we've opened four new foodstores; at Haxey, Tattershall, Burgh Le Marsh and Albert Street in Newark. We opened a new funeral branch at Bracebridge Heath and relocated our funeral homes in Louth, Grimsby and Sutton on Sea. We opened new travel agencies in Grantham and Market Rasen and took over a pharmacy in Barrowbygate, Grantham. We are continuing to roll out our healthy living pharmacy concept across our branches.

We launched Community Champions. This is a new way of sharing our profits in each community and enables members to pick their own charities. During the year we donated £114,726 to local good causes and charities through the scheme. We also won several awards, including the national Real IT award for this innovative approach to community donations. One of our apprentices was awarded Apprentice of the Year and we also received an award from Co-operatives UK for member engagement.

EMPLOYEES AND PENSIONERS

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

| | |
|--------------------------|--|
| June Boddy | Supervisor in Credit |
| Nigel Coates | Graphic Designer in Marketing |
| Chris Cocking | Retail Operations Manager in Food |
| Nicholas Dart | Delivery Driver from the Food Distribution Centre |
| Alastair Farquhar | Head of Pharmacy |
| Sandra Ferraby | Manager of Collingham Foodstore |
| Phyllis Hobson | Customer Services Assistant from Brant Road Foodstore |
| Maxine Johnson | Duty Manager at Birchwood Foodstore |
| Deborah Mann | Supervisor at Outer Circle Filling Station |
| Terry McCoy | Butchers Cutter from the Butchery Warehouse |
| Pete Motley | Information Systems Projects and Development Manager |
| Joy Norris | Senior Customer Services Assistant from City Square Pharmacy |
| Michael Saint | Pharmacist from Brant Road Pharmacy |
| Paula Taylor | Supervisor in Wages |

| | |
|----------------------|--|
| Judith Toop | Information Systems Projects Administrator in Food |
| Andrew Turner | Head of Group Services |

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:-

| | |
|-----------------------|--|
| Gillian Harley | Customer Service Assistant from Otters Bridge Filling Station, Lincoln. Aged 52 |
| Pamela Green | Customer Service Assistant from City Square Foodstore, Lincoln. Aged 55 |
| Stephen Mumby | Customer Service Assistant from Long Sutton Foodstore. Aged 53 |
| Ruth Hutson | Customer Service Assistant from the Butchery Department in Alford Foodstore. Aged 73 |
| Patricia Smith | Duty Manager from Wybers Wood Foodstore Aged 59 |

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,

Malcolm Hoskins **President**

Barbara Hutchinson **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 2012/13 |
|-----|--|---|---|
| 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 55.4% of total sales. This figure is a small increase on last year's figure of 55.2%. |
| 2. | Member democratic participation | Number of members voting in elections and as a percentage of total membership | An election was held for 3 places on the board with 3 candidates standing. The ballot produced 6,099 votes equating to 2.67% of members. Last year 6,245 members voted amounting to 2.96% of members. |
| 3. | Participation of employees and members in training and education | Hours of training undertaken | On average 27 hours were spent per employee on training and we delivered over 252 hours training to members. Last year 25 hours training were given to employees and 513 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 242. The number reported to the health and safety executive was 17. The average number of absence days was 7.8. Last year 270 incidents were reported internally with 21 reported to the health and safety executive. The average number of absence days was 7.2. |
| 5. | Staff profile – gender and ethnicity | Gender split and % employees from different ethnic groups | 72.7% of our employees are female and 27.3% are male. We also monitor the diversity of our staff and currently about 0.9% declare an ethnic minority background. The proportion of male and female staff was equivalent to last year (72.5% F and 27.5% M). The percentage of ethnic minority staff declared was 0.8%. |
| 6. | Customer satisfaction | % of customers being satisfied with service | We asked customers of our funeral division whether they were confident to recommend the service and 98.8% were. Last year we asked customers of our food division how satisfied they were with 15 different aspects of the shopping experience. 86.4% were either very satisfied or satisfied overall. |
| 7. | Consideration of ethical issues and procurement and investment decisions | Evidence of ethical issues in decision making | Over 98% of our food and 100% of fuel procurement is done through the Co-operative Retail Trading Group which is managed by the Co-operative Group. We have supported the ethical buying policies of the Co-operative Group which has stated that it's committed to developing fair and sustainable relationships with suppliers across its supply chain. The remainder of our food is sourced locally from verified local suppliers. |
| 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 £842,879 in community initiatives and £45,000 in co-operatives and their development. This equates to about 6.2% of our pre-tax profits. Last year we invested £871,551 in community initiatives and a further £50,000 in co-operatives equating to around 6.3% 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 2,080 tonnes of CO2 from onsite operations this year, which is small increase on last year's figure of 2,040 tonnes. |
| 10. | Waste recycled | % of waste recycled/re-used as % of total waste | We are continuing to monitor the amount of waste which is recycled. This year we have recycled 92.7% of waste produced, which is just short of last year's figure of 93.7%. |

GOVERNANCE

As an Industrial and Provident Society, Lincolnshire Co-operative Ltd is not subject to the provisions of the Combined Code*. However Co-operatives UK (which is the representative body for co-operatives in the UK) has issued a voluntary code for consumer co-operatives. This code is based on the principles contained in the Combined Code but is tailored to the particular governance characteristics found within co-operative societies. A copy of the code 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 2012 and August 2013.

SOCIETY STRUCTURE

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

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

In accordance with Society Rules, Malcolm Hoskins was elected as President of the Society.

19 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 | Audit Committee | Remuneration Committee |
| Margaret Tranter | 18(19) | 3(3) | 9(9) |
| Julia Romney | 18(19) | | |
| David Maltby | 17(19) | 3(3) | |
| Stuart Parker | 19(19) | 3(3) | 9(9) |
| Susan Neal | 19 (19) | | 9(9) |
| John Levine | 18(19) | 3(3) | 9(9) |
| Carol Bratton | 18(19) | | 8(9) |
| Stephen Hughes | 17(19) | | |
| Malcolm Hoskins | 18(19) | 3(3) | |
| Barbara Hutchinson | 17(19) | | |
| Amy Morley | 18(19) | | |

() possible attendance

*The UK Code on corporate governance, which applies to listed companies, is a voluntary code rather than a regulatory requirement. However, the UK Listing Rules require listed companies to disclose in their annual report the extent of their compliance or non-compliance with the code.

Some directors hold positions on group or associated companies. In addition 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. In addition a skills audit and performance evaluation of the Board, is undertaken biennially. During the year the Co-operative College completed a full Board skills audit and their assessment was used to identify any significant skills gaps and areas where the functioning of the Board could be improved.

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

Board Elections

In May 2013 elections for 3 positions on the board took place. 6,099 votes were cast with 25 spoilt papers. The successful candidates named below were all re-elected for three years.

| | |
|---------------|-------------|
| Stuart Parker | 2,138 votes |
| Julia Romney | 3,185 votes |
| Amy Morley | 2,562 votes |

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.

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 additional directors and this year John Levine and David Maltby were re-appointed as directors until May 2014. These appointments are subject to ratification by the members as required by the rules.

BOARD BALANCE AND INDEPENDENCE

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

| | |
|---------------------------|--|
| Stephen Hughes | Pharmacist |
| Susan Neal | Phlebotomist |
| Julia Romney | Security |
| Stuart Parker | Engineer |
| Margaret Tranter | Retired Accounts Supervisor |
| Carol Bratton | Business Development Advisor |
| John Levine | Retired Chartered Accountant |
| Malcolm Hoskins | Retired Health and Safety Manager |
| Barbara Hutchinson | Hospital Chaplain |
| Amy Morley | Senior Account Manager |
| David Maltby | Retired Company Director |

The Chief Executive Officer, Ursula Lidbetter is a Director and Deputy Chair of the Co-operative Group Ltd, Director and Chair of Co-operative Food Holdings Limited and a Director of Co-operative Group Holdings (2011) Ltd formerly CRS (Properties) Ltd.

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

THE PRESIDENT

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

AUDIT COMMITTEE

The Audit Committee of the Board currently comprises three elected directors (who are not employees of the Society) and two appointed directors. The chair of the committee is John Levine who is a 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 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 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.

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 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 2012/13. The internal auditor's overall assurance statement is set out on page 8.

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 7 September 2013 were 22 days compared to 21 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.

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 6.

D2.1 The Audit Committee

The Code provides that the Chair should not be a member of the Audit Committee. The current Chair is a member of the Audit Committee. Under rule 64 of the Society's rules the President may not serve as such for more than one year before standing down. This is considered to be sufficient to protect the Society.

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.

Malcolm Hoskins **President**

Ursula Lidbetter **Chief Executive Officer**

Jane Powell **Group Secretary**

RENUMERATION 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. 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 | £5,434 |
| Vice-President | £4,497 |
| Directors | £4,090 |

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 | £9.68 |
| For delegations over four hours | £19.36 |

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 7 September 2013 individual directors' total gross remuneration (including expenses and delegation fees) was as follows:-

| | |
|---------------------------|------------------|
| Stephen Hughes | £5,094.94 |
| Susan Neal | £6,345.21 |
| Julia Romney | £4,279.29 |
| Stuart Parker | £4,259.93 |
| Margaret Tranter | £5,138.39 |
| John Levine | £5,804.80 |
| Carol Bratton | £5,308.98 |
| Malcolm Hoskins | £6,792.24 |
| Barbara Hutchinson | £5,586.53 |
| Amy Morley | £4,985.90 |
| David Maltby | £4,582.08 |

EXECUTIVES

The remuneration package of the Chief Executive and the Group Secretary are determined by the Board on the recommendation of the Remuneration Committee. Their remuneration is not set out in this report as this is not a requirement under current financial reporting standards. Unlike most plc's and in common with other 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.

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 THE MEMBERS OF LINCOLNSHIRE CO-OPERATIVE LTD

We have audited the financial statements of Lincolnshire Co-operative Limited for the period ended 7th September 2013 set out on pages 9 to 26. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards UK Generally Accepted Accounting Practice.

This report is made solely to the Society's members, as a body, in accordance with section 9 of the Friendly and Industrial and Provident Societies Act 1968 and, in respect of the reporting on corporate governance, on terms that have been agreed. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and, in respect of the reporting on corporate governance, those matters we have agreed to state to them in our report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members, as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As more fully explained in the Statement of Directors' Responsibilities set out on page 8 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 Group's affairs as at 7 September 2013 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 the Industrial and Provident Societies (Group Accounts) Regulations 1969.

Matters on which we are required to report by exception

We have nothing to report in respect of the following.

Under the Industrial and Provident Societies Acts 1965 to 2003 we are required to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the Society has not kept proper accounting records; or
- the financial statements are not in agreement with the 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 4 to 6 as regards 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 ('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 five provisions of the Code specified for our review.

Mick Davies (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants, St James' Square
Manchester M2 6DS

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

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 of the Group and of the surplus of the Group for that period.

In preparing the Group financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its financial statements comply with the Industrial and Provident Society Acts 1965 to 2003. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

BOARD CERTIFICATION

The financial statements on pages 11 to 27 are hereby signed on behalf of the Board of Directors pursuant to the Friendly and Industrial and Provident Society Act 1968.

Malcolm Hoskins **President**

Barbara Hutchinson **Vice President**

Jane Powell **Group Secretary**

INTERNAL AUDITORS' OVERALL ASSURANCE STATEMENT

In our opinion, for the year 2012/13, 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

STATEMENT OF ACCOUNTING POLICIES

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 £265,740,000 at 7th September 2013, 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

53 weeks to 7th September 2013

Lincoln Co-operative Chemists Ltd.

F Maltby & Sons Ltd.

12 months to 31st August 2013

Majority Owned:-

Lincoln Science and Innovation Park Ltd.

Period to 31st August 2013

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, post office income and property rental income, inclusive of value added tax.

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

TANGIBLE FIXED ASSETS AND DEPRECIATION

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

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

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

ASSETS LEASED TO THE GROUP

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

TAXATION

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

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

STOCKS

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

REPAIRS

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

DIVIDEND 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

Defined Benefits Scheme

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

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

Defined Contribution Scheme

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

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

GROUP REVENUE ACCOUNT

Year Ended 7th September 2013

| | Notes | 2013 (53 weeks) £'000 | 2012 (52 Weeks) £'000 |
|---|-------|-----------------------------|-----------------------------|
| GROSS SALES (INCLUDING VAT) | | 288,057 | 282,950 |
| Less: Value Added Tax | | (23,643) | (23,442) |
| TURNOVER (INCLUDING AGENCY TURNOVER) | 1 | 264,414 | 259,508 |
| Less: Agency Share of Turnover | | (15,811) | (14,345) |
| TURNOVER | | 248,603 | 245,163 |
| Less: Cost of Sales | | (162,073) | (161,481) |
| GROSS PROFIT | 1 | 86,530 | 83,682 |
| Less: Expenses – Ordinary Trading | 2 | (67,294) | (64,351) |
| | | 19,236 | 19,331 |
| Less: Expenses – Member Benefits and Grants | 4 | (1,266) | (1,250) |
| TRADING SURPLUS | 1 | 17,970 | 18,081 |
| Net Interest Received | 9 | 133 | 272 |
| Other Finance Expense | 22 | (1) | (103) |
| SURPLUS FOR THE YEAR BEFORE PAYMENTS TO AND ON BEHALF OF MEMBERS | | 18,102 | 18,250 |
| Less: Payments To and On Behalf of Members | 4 | (3,714) | (3,540) |
| SURPLUS FOR THE YEAR BEFORE TAXATION | | 14,388 | 14,710 |
| Taxation | 5 | (3,373) | (3,124) |
| SURPLUS FOR THE YEAR TRANSFERRED TO RESERVES | 15 | 11,015 | 11,586 |

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

The notes on pages 15 to 26 form part of these accounts

GROUP BALANCE SHEET

As At 7th September 2013

| | Notes | 2013 £'000 | 2012 £'000 |
|--|-------|-----------------|---------------|
| FIXED ASSETS | | | |
| Intangible Assets | 6 | 15,761 | 15,943 |
| Tangible Assets | 7 | 74,828 | 80,079 |
| Investment Properties | 8 | 188,323 | 187,967 |
| Investments | 9 | 13,256 | 11,566 |
| | | 292,168 | 295,555 |
| CURRENT ASSETS | | | |
| Stocks | | 15,422 | 14,746 |
| Debtors | 10 | 11,347 | 7,409 |
| Investments | 9 | 1,332 | 18,925 |
| Cash at Bank and In Hand | 19 | 16,165 | 3,118 |
| | | 44,266 | 44,198 |
| CREDITORS: AMOUNTS DUE WITHIN ONE YEAR | | | |
| Creditors | 11 | 33,473 | 33,385 |
| Dividend | 11 | 3,812 | 4,111 |
| | | 37,285 | 37,496 |
| NET CURRENT ASSETS | | | |
| | | 6,981 | 6,702 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | |
| | | 299,149 | 302,257 |
| CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR | | | |
| | 11 | (13,106) | (11,477) |
| NET ASSETS EXCLUDING PENSION LIABILITY | | | |
| | | 286,043 | 290,780 |
| Pension Liability | 22 | (20,303) | (18,562) |
| NET ASSETS | | | |
| | | 265,740 | 272,218 |
| FINANCED BY: | | | |
| Share Capital | 13 | 9,609 | 10,234 |
| Revaluation Reserve | 14 | 61,490 | 75,619 |
| Revenue Reserve | 15 | 194,641 | 186,365 |
| MEMBERS' FUNDS | | | |
| | | 265,740 | 272,218 |

The notes on pages 15 to 26 form part of these accounts.

GROUP CASH FLOW STATEMENT

Year Ended 7th September 2013

| | Notes | 2013 (53 weeks) £'000 | 2012 (52 Weeks) £'000 |
|--|-------|-----------------------------|-----------------------------|
| NET CASH FLOW FROM OPERATING ACTIVITIES | 18 | 20,979 | 26,682 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest Received | 9 | 138 | 289 |
| Interest Paid | | (5) | (7) |
| | | 133 | 282 |
| TAXATION | | | |
| UK Corporation Tax Paid | | (4,679) | (5,208) |
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | | |
| Purchase of Tangible Fixed Assets | | (15,978) | (19,387) |
| Purchase of Fixed Asset Investments | | (1,690) | (1,799) |
| Sale of Tangible Fixed Assets | | 2,033 | 187 |
| | | (15,635) | (20,999) |
| ACQUISITIONS AND DISPOSALS | | | |
| Acquisition of Businesses | 21 | (1,172) | (418) |
| Disposal of Businesses | 21 | 547 | 516 |
| | | (625) | 98 |
| PAYMENTS TO AND ON BEHALF OF MEMBERS | | (4,094) | (4,617) |
| CASH OUTFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING | | (3,921) | (3,762) |
| MANAGEMENT OF LIQUID RESOURCES | | | |
| Sale of Current Asset Investments | | 17,593 | 2,786 |
| FINANCING | | | |
| Issue of Shares | 13 | 1,877 | 2,406 |
| Redemption of Shares | 13 | (2,502) | (2,217) |
| | | (625) | 189 |
| INCREASE/(DECREASE) IN CASH DURING THE YEAR | 19 | 13,047 | (787) |

The notes on pages 15 to 26 form part of these accounts

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year Ended 7th September 2013

| | 2013 (53 Weeks) £'000 | 2012 (52 Weeks) £'000 |
|---|-----------------------------|-----------------------------|
| Retained Surplus for the Year | 11,015 | 11,586 |
| Unrealised Surplus/(Deficit) on Revaluation of Trading Properties | 144 | (85) |
| Unrealised Deficit on Revaluation of Investment Properties | (14,299) | (2,644) |
| Share Interest (net of tax) | (62) | (61) |
| Actuarial Loss on Pension Scheme (net of deferred tax) | (2,651) | (4,030) |
| TOTAL GAINS AND LOSSES RELATING TO THE YEAR | (5,853) | 4,766 |

NOTE ON HISTORICAL COST PROFITS AND LOSSES

Year Ended 7th September 2013

| | 2013 (53 Weeks) £'000 | 2012 (52 Weeks) £'000 |
|---|-----------------------------|-----------------------------|
| Surplus for the year before taxation | 14,388 | 14,710 |
| Realisation of property revaluation losses of previous years | (10) | - |
| Difference between a historical depreciation charge and the actual depreciation charge for the year calculated on the revalued amount | (16) | (47) |
| HISTORICAL COST SURPLUS BEFORE TAXATION | 14,362 | 14,663 |
| HISTORICAL COST SURPLUS FOR THE YEAR RETAINED AFTER TAXATION | 10,989 | 11,539 |

The notes on pages 15 to 26 form part of these accounts

NOTES TO THE FINANCIAL STATEMENTS

1. Segmental Analysis

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

| | 2013 (53 Weeks) £'000 | 2012 (52 Weeks) £'000 |
|---|--------------------------------------|-----------------------------|
| Turnover (including agency turnover) | | |
| Retail | 252,104 | 247,638 |
| Investment Property | 12,310 | 11,870 |
| Total | 264,414 | 259,508 |
| Gross Profit | | |
| Retail | 74,020 | 71,812 |
| Investment Property | 12,510 | 11,870 |
| | 86,530 | 83,682 |
| Common Costs | (68,560) | (65,601) |
| Trading Surplus | 17,970 | 18,081 |
| Net Assets | | |
| Retail | 79,546 | 86,061 |
| Investment Property | 186,194 | 186,157 |
| Total | 265,740 | 272,218 |

2. Expenses – Ordinary Trading

| | 2013 (53 Weeks) £'000 | 2012 (52 Weeks) £'000 |
|---|--------------------------------------|-----------------------------|
| Personnel Costs | 40,434 | 38,500 |
| Occupancy Costs | 8,154 | 7,910 |
| Hire of Plant – Operating Leases | 70 | 63 |
| Depreciation | 5,375 | 5,380 |
| Deficit on Sale of Fixed Assets | 217 | 50 |
| Amortisation of Intangible Fixed Assets | 1,193 | 1,130 |
| Auditors' Remuneration: | | |
| - Audit of these financial statements | 33 | 32 |
| Amounts receivable by auditors and their associates in respect of: | | |
| - Audit of financial statements of subsidiaries pursuant to legislation | 40 | 39 |
| - Other services including taxation advice | 27 | 89 |
| Directors' Fees | 43 | 45 |
| Other Expenses | 11,708 | 11,113 |
| Total Expenses – Ordinary Trading | 67,294 | 64,351 |

3. Employees

The average number employed by the Group in the year ended 7th September 2013

| | 2013 Number | 2012 Number |
|-----------|------------------------|----------------|
| Part-time | 1,726 | 1,697 |
| Full-time | 1,083 | 1,101 |
| | 2,809 | 2,798 |

The Costs Incurred in Respect of these Employees were:

| | 2013 (53 Weeks) £'000 | 2012 (52 Weeks) £'000 |
|------------------------------|--------------------------------------|-----------------------------|
| Wages and Salaries | 35,693 | 34,321 |
| Social Security Costs | 2,201 | 2,177 |
| Other Pension Costs | 2,540 | 2,002 |
| Total Personnel Costs | 40,434 | 38,500 |

4. a) Expenses – Member Benefits and Grants

| | | |
|---|--------------|-------|
| Donations to Charity and Community Groups | 220 | 255 |
| Forfeits on Shares | 8 | (92) |
| Member and Community Activities | 1,038 | 1,087 |
| | 1,266 | 1,250 |

b) Payments To and on Behalf of Members

| | | |
|--------------------------------------|--------------|-------|
| Dividend Points | 2,370 | 2,308 |
| Further Dividend Approved by Members | 1,311 | 1,194 |
| | 3,681 | 3,502 |
| Funeral benefit | 33 | 38 |
| Total | 3,714 | 3,540 |

Dividend points of £2,370,000 (2012: £2,308,000) 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 £1,680,000 (2012: £1,311,000) will be made at the forthcoming members meeting making a total of £4,050,000 (2012: £3,619,000).

A dividend bonus of 75p (2012: 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 | 2013 (53 weeks) £'000 | 2012 (52 weeks) £'000 |
|--|--------------------------------------|-----------------------------|
| a) Analysis of tax charge in year | | |
| Current tax | | |
| UK corporation tax at 23.6% (2012 : 25%) on surplus for the year | 3,798 | 3,931 |
| Overprovision in prior years | (706) | (1,178) |
| Current tax charge for the year | 3,092 | 2,753 |
| Deferred tax | | |
| Taxation on FRS17 pension adjustments | 281 | 371 |
| Taxation provided in the year | 3,373 | 3,124 |

b) Factors affecting tax charge for the year

The current tax charge for the period is lower (2012: lower) than the standard rate of corporation tax in the UK 23.6% (2012: 25%). The differences are explained below.

| | 2013 (53 weeks) £'000 | 2012 (52 weeks) £'000 |
|---|--------------------------------------|-----------------------------|
| Surplus on ordinary activities before taxation | 14,388 | 14,710 |
| Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.6% (2012 : 25%) | 3,453 | 3,678 |
| Effects of: | | |
| Permanent differences between items affecting tax and accounting surplus | 345 | 253 |
| Overprovision in prior years | (706) | (1,178) |
| Current tax charge for the year | 3,092 | 2,753 |

The standard rate of corporation tax in the UK will reduce to 21% in April 2014. This reduction will change the Group's future tax charge accordingly.

6. Intangible Fixed Assets – Goodwill

| | Goodwill £'000 |
|---------------------------------|---------------------------|
| Cost | |
| As at 1st September 2012 | 23,557 |
| Additions | 1,011 |
| As at 7th September 2013 | 24,568 |
| Amortisation | |
| As at 1st September 2012 | 7,614 |
| Charged in the Year | 1,193 |
| As at 7th September 2013 | 8,807 |
| Net Book Value | |
| As at 7th September 2013 | 15,761 |
| As at 1st September 2012 | 15,943 |

7. Tangible Fixed Assets – Trading

| | Land & Buildings £'000 | Fixtures Fittings & Plant £'000 | Transport £'000 | Total £'000 |
|-----------------------------------|---|--|----------------------------|------------------------|
| Market Value/Original Cost | | | | |
| As at 1st September 2012 | 69,342 | 30,057 | 5,000 | 104,399 |
| Transfer to Investment Properties | (7,785) | - | - | (7,785) |
| Additions | 2,867 | 3,678 | 1,094 | 7,639 |
| Disposals | (76) | (2,786) | (560) | (3,422) |
| Revaluation | (676) | - | - | (676) |
| As at 7th September 2013 | 63,672 | 30,949 | 5,534 | 100,155 |
| Depreciation | | | | |
| As at 1st September 2012 | - | 21,514 | 2,806 | 24,320 |
| Charged in the Year | 820 | 3,129 | 809 | 4,758 |
| Disposals | - | (2,542) | (389) | (2,931) |
| Revaluation | (820) | - | - | (820) |
| As at 7th September 2013 | - | 22,101 | 3,226 | 25,327 |
| Net Book Value | | | | |
| As at 7th September 2013 | 63,672 | 8,848 | 2,308 | 74,828 |
| As at 1st September 2012 | 69,342 | 8,543 | 2,194 | 80,079 |

The value of land and buildings includes £2,872,000 (2012: £2,762,000) of long leaseholds, the remainder being freehold.

The value of Buildings depreciated was £36,550,000 (2012: £34,800,000). A valuation of Trading Properties was carried out by Banks, Long & Co., Chartered Surveyors, of 15 St. Mary's Street, Lincoln as at 7th September 2013 which valued all of the Group's trading land and buildings at current market value on an existing use basis at £63,672,000 (2012: £69,342,000). This valuation has been incorporated within the Group Balance Sheet.

8. Fixed Assets – Investment Properties

| | Land & Buildings Freehold £'000 | Leasehold £'000 | Landlords Fixtures £'000 | Total £'000 |
|-----------------------------------|--|----------------------------|---|------------------------|
| Market Value/Original Cost | | | | |
| As at 1st September 2012 | 182,184 | 5,614 | 878 | 188,676 |
| Transfers | 11,951 | (4,166) | - | 7,785 |
| Additions | 9,323 | 157 | 11 | 9,491 |
| Disposals | (1,995) | - | (77) | (2,072) |
| Revaluation | (14,625) | (235) | - | (14,860) |
| As at 7th September 2013 | 186,838 | 1,370 | 812 | 189,020 |
| Depreciation | | | | |
| As at 1st September 2012 | - | - | 709 | 709 |
| Charged in the Year | 561 | - | 56 | 617 |
| Disposals | - | - | (68) | (68) |
| Revaluation | (561) | - | - | (561) |
| As at 7th September 2013 | - | - | 697 | 697 |
| Net Book Value | | | | |
| As at 7th September 2013 | 186,838 | 1,370 | 115 | 188,323 |
| As at 1st September 2012 | 182,184 | 5,614 | 169 | 187,967 |

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 7th September 2013. 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 £190,390,000 (2012: £181,521,000).

| 9. a) Investments | Fixed Assets | | Current Assets | | Interest and Dividend | |
|-----------------------------|---------------|---------------|----------------|---------------|-----------------------|---------------|
| | 2013 £'000 | 2012 £'000 | 2013 £'000 | 2012 £'000 | 2013 £'000 | 2012 £'000 |
| Co-operative Group Ltd. | 290 | 290 | - | - | 18 | 17 |
| - Corporate Investor Shares | - | - | 332 | 18,125 | 109 | 162 |
| Other Investments | 139 | 150 | - | - | 3 | 3 |
| Funeral Bonds | 12,827 | 11,126 | 1,000 | 800 | - | - |
| Short term Deposits | - | - | - | - | 8 | 107 |
| Totals | 13,256 | 11,566 | 1,332 | 18,925 | 138 | 289 |
| Interest Paid | - | - | - | - | (5) | (17) |
| Total Investments | 13,256 | 11,566 | 1,332 | 18,925 | 133 | 272 |

Funeral Bonds

Bonds have been 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. During the year CIS was acquired by The Royal London Mutual Insurance Society Limited. CIS has now changed its name to Royal London (CIS) Limited.

b) Subsidiaries

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

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

| 10. Debtors | Falling Due Within One year | | Falling Due After One Year | |
|-------------------------------|-----------------------------|---------------|----------------------------|---------------|
| | 2013 £'000 | 2012 £'000 | 2013 £'000 | 2012 £'000 |
| Credit Sales | 157 | 297 | - | - |
| Trade Debtors | 7,819 | 4,977 | - | - |
| VAT | 1,246 | 968 | - | - |
| Other Debtors and Prepayments | 2,125 | 1,167 | - | - |
| Total Debtors | 11,347 | 7,409 | - | - |

| 11. a) Creditors | Falling Due Within One Year | | Falling Due After One Year | |
|------------------------------------|-----------------------------|---------------|----------------------------|---------------|
| | 2013 £'000 | 2012 £'000 | 2013 £'000 | 2012 £'000 |
| Trade Creditors | 18,555 | 16,675 | - | - |
| Accrued Charges | 8,031 | 8,569 | - | - |
| Other Taxation and Social Security | 731 | 574 | - | - |
| Member Benefits and Grants | 352 | 357 | 150 | 150 |
| Corporation Tax | 4,804 | 6,410 | - | - |
| Funeral Bonds | 1,000 | 800 | 12,956 | 11,327 |
| | 33,473 | 33,385 | 13,106 | 11,477 |

b) Dividend

| | Falling Due Within One Year | | Falling Due After One Year | |
|--|-----------------------------|---------------|----------------------------|---------------|
| | 2013 £'000 | 2012 £'000 | 2013 £'000 | 2012 £'000 |
| Dividend Approved Not Yet Distributed | 663 | 1,073 | - | - |
| Dividend Points Balances on Dividend Cards | 3,149 | 3,038 | - | - |
| | 3,812 | 4,111 | - | - |
| Total Creditors | 37,285 | 37,496 | 13,106 | 11,477 |

| | | |
|--|--------------|-------|
| 12. Provisions for Liabilities and Charges | 2013 | 2012 |
| | £'000 | £'000 |
| Deferred Tax | | |
| An analysis of the amounts provided are set out below: | | |
| Accelerated capital allowances | (413) | (236) |
| Other timing differences | 413 | 236 |
| Deferred tax provisions at the end of the year | - | - |

Deferred tax on chargeable gains rolled over has not been provided in the accounts. Included in 'other timing differences' are amounts relating to differing treatment of member benefits and provisions between the accounts and the current tax provision.

| | | |
|---|----------------|---------|
| 13. Share Capital | 2013 | 2012 |
| | £'000 | £'000 |
| Balance to begin the year | 10,234 | 10,045 |
| Contributions | 1,730 | 2,225 |
| Dividend Bonus Credited to Accounts in the Year | 66 | 100 |
| Interest | 81 | 81 |
| | 12,111 | 12,451 |
| Withdrawals | (2,502) | (2,217) |
| Balance to end the year | 9,609 | 10,234 |

i) The whole of the share capital comprises £9,608,716 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% |

- 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 fixed charge on property.

| 14. Revaluation Reserve | Trading Property | Investment Property | Total |
|---|-----------------------------|--------------------------------|-----------------------|
| | 2013 £'000 | 2013 £'000 | 2013 £'000 |
| Balance to begin the year | 47,830 | 27,789 | 75,619 |
| Revaluation during the year | 144 | (14,299) | (14,155) |
| Transfer of amount equivalent to additional depreciation on revalued assets | 26 | - | 26 |
| Balance to end the year | 48,000 | 13,490 | 61,490 |

| 15. Revenue Reserve | 2013 £'000 |
|----------------------------------|-----------------------|
| Balance to begin the year | 186,365 |
| Transfer to Revaluation Reserve | (26) |
| Retained Surplus for the Year | 11,015 |
| Actuarial Loss on Pension Scheme | (2,651) |
| Share interest | (62) |
| Balance to end the year | 194,641 |

The cumulative total of goodwill written off directly against the Group Revenue Reserve amounts to £6,254,000 (2012 £6,254,000).

| 16. Reconciliation of Movements in Members' Funds | 2013 £'000 | 2012 £'000 |
|--|-----------------------|---------------|
| Retained Surplus for the year | 11,015 | 11,586 |
| Other recognised Gains and Losses relating to the year | (16,868) | (6,820) |
| Movement on Share Capital | (625) | 189 |
| Net (deductions)/additions to Members' Funds | (6,478) | 4,955 |
| Opening Members' Funds | 272,218 | 267,263 |
| Closing Members' Funds | 265,740 | 272,218 |

17. Minority Interests

During the year the Society transferred property to Lincoln Science and Innovation Park Limited, a 75% subsidiary. The remaining 25% is owned by The University of Lincoln. The value of this minority interest at 31st August 2013 was £534.

| 18. Reconciliation of Trading Surplus to Cash Inflow from Operating Activities | 2013 (53 Weeks) £'000 | 2012 (52 Weeks) £'000 |
|---|--------------------------------------|-----------------------------|
| Trading Surplus | 17,970 | 18,081 |
| Non cash Pension Costs | 808 | 424 |
| Additional Pension Contribution | (2,000) | (2,000) |
| Depreciation Charges | 5,375 | 5,380 |
| Deficit on Sale of Fixed Assets | 217 | 50 |
| Amortisation of goodwill | 1,193 | 1,130 |
| (Increase)/Decrease in Stocks | (1,163) | 1,472 |
| (Increase)/Decrease in Debtors | (3,693) | 1,497 |
| Increase in Creditors | 2,272 | 648 |
| Cash Inflow from Operating Activities | 20,979 | 26,682 |

| 19. Analysis of Net Funds | At 1 September 2012 £'000 | Cash Flow £'000 | At 7 September 2013 £'000 |
|----------------------------------|--------------------------------------|----------------------------|--------------------------------------|
| Cash in hand and at bank | 3,118 | 13,047 | 16,165 |
| Current asset investments | 18,925 | (17,593) | 1,332 |
| Totals | 22,043 | (4,546) | 17,497 |

| 20. Reconciliation of Net Cash Flow to Net Funds | 2013 (53 weeks) £'000 | 2012 (52 weeks) £'000 |
|---|--------------------------------------|-----------------------------|
| Increase/(Decrease) in cash in the year | 13,047 | (787) |
| Cash inflow from to liquid resources | (17,593) | (2,786) |
| Change in Net Funds resulting from cash flows | (4,546) | (3,573) |
| Net Funds at the start of the year | 22,043 | 25,616 |
| Net Funds at the end of the year | 17,497 | 22,043 |

21. Acquisitions and Disposals

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

| | £'000 |
|-----------------------|--------------|
| Tangible fixed assets | 101 |
| Stocks | 60 |
| | 161 |
| Goodwill | 1,011 |
| Satisfied by cash | 1,172 |

The Group also disposed of business with associated values as follows:

| | £'000 |
|-------------------|--------------|
| Stocks | 547 |
| Satisfied by cash | 547 |

22. Defined Benefit Pension Scheme

The Society operates a pension scheme providing benefits based on final pensionable pay. The latest full actuarial valuation was carried out at 30th September 2012 and was updated for FRS17 purposes to 7th September 2013 by a qualified independent actuary. The scheme was closed to new entrants in December 2012.

Amounts recognised in the Group Balance Sheet

| | 2013 | 2012 |
|-------------------------------------|------------------|----------|
| | £'000 | £'000 |
| Present value of funded obligations | (102,771) | (91,158) |
| Fair value of plan assets | 77,392 | 67,052 |
| Deficit | (25,379) | (24,106) |
| Related deferred tax asset | 5,076 | 5,544 |
| Net liability | (20,303) | (18,562) |

Amounts recognised in the Group Revenue Account

| | 2013 | 2012 |
|--------------------------------|----------------|---------|
| | £'000 | £'000 |
| Current service cost | 2,484 | 2,002 |
| Interest on obligation | 4,016 | 4,129 |
| Expected return on plan assets | (4,015) | (4,026) |
| Total | 2,485 | 2,105 |

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

| | 2013 | 2012 |
|-----------------------------|-------------------|------------|
| | (53 weeks) | (52 weeks) |
| | £'000 | £'000 |
| Expenses – Ordinary Trading | 2,484 | 2,002 |
| Other Finance Expense | 1 | 103 |
| Total | 2,485 | 2,105 |

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

| | 2013 | 2012 |
|---|-----------------|----------|
| | £'000 | £'000 |
| Cumulative amount at beginning of year | (25,443) | (20,726) |
| Recognised during the year | (2,464) | (4,717) |
| Cumulative amount at end of year | (27,907) | (25,443) |

Changes in the present value of scheme obligations

| | 2013 | 2012 |
|---------------------------|----------------|---------|
| | £'000 | £'000 |
| Opening obligation | 91,158 | 79,844 |
| Service cost | 2,484 | 2,002 |
| Interest cost | 4,016 | 4,129 |
| Employees contributions | 781 | 729 |
| Actuarial losses | 7,230 | 7,545 |
| Benefits paid | (2,898) | (3,091) |
| Closing obligation | 102,771 | 91,158 |

22. Defined Benefit Pension Scheme (Continued)

| Changes in the fair value of plan assets | 2013 | 2012 |
|---|----------------|---------|
| | £'000 | £'000 |
| Opening fair value of scheme assets | 67,052 | 58,982 |
| Expected return | 4,015 | 4,026 |
| Actuarial gains | 4,766 | 2,828 |
| Contributions by employer | 3,676 | 3,578 |
| Contributions by employees | 781 | 729 |
| Benefits paid | (2,898) | (3,091) |
| | 77,392 | 67,052 |
| Actual return on scheme assets | 8,781 | 6,854 |

Assets in the plan as a percentage of total plan assets

| | 2013 | 2012 |
|----------|-------------|------|
| Bonds | 23% | 25% |
| Equities | 74% | 72% |
| Other | 3% | 3% |

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

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

Principal actuarial assumptions at the balance sheet date

| | 2013 | 2012 |
|--|-------------|------|
| Discount rate | 4.6% | 4.4% |
| Expected return on scheme assets | 5.9% | 6.8% |
| Rate of increase in salaries | 4.6% | 4.0% |
| Rate of increase in payment of pre 1997 pension in excess of GMP | 0.0% | 0.0% |
| Rate of increase in payment of post 1997 Pensions | 3.6% | 3.0% |
| Rate of revaluation of deferred pensions in excess of the GMP | 3.6% | 3.0% |
| Inflation assumption | 3.6% | 3.0% |

The employer expects to contribute at 17.8% of pensionable payroll. In addition it is to contribute £2,000,000 pa to the scheme.

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

| | |
|----------------------------------|---------------------|
| Current pensioner aged 65: | 21.6 years (male) |
| | 23.9 years (female) |
| Future retiree upon reaching 65: | 23.3 years (male) |
| | 25.9 years (female) |

22. Pension Scheme (Continued)

History of experience gains and losses

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|------------------|----------|----------|----------|----------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Defined benefit obligation | (102,771) | (91,158) | (79,844) | (75,743) | (58,598) |
| Plan assets | 77,392 | 67,052 | 58,982 | 56,016 | 50,581 |
| Deficit | (25,379) | (24,106) | (20,862) | (19,727) | (8,017) |
| Experience adjustments on plan liabilities | (301) | 353 | 347 | (3,247) | 42 |
| Experience adjustments on plan assets | 4,766 | 2,828 | (1,252) | 1,628 | (6,989) |

23. Defined Contribution Pension Scheme

Following the closure of the Final Salary Pension Scheme to new entrants in December 2012, the Society also operates a Defined Contribution Scheme. The assets of this scheme are held separately from those of the Group in an independently administered fund. During the year contributions of £56,000 were paid by the Group.

24. Capital Commitments

Outstanding contracts for capital expenditure not provided for in the accounts amounted to £4,981,000 (2012: £6,078,000) and capital expenditure and acquisitions authorised by the Directors for which no contracts have been placed totalled £21,118,000 (2012: £26,081,000).

25. Commitments Under Operating Leases

At 7th September 2013 the Group had annual commitments under non-cancellable operating leases on land and buildings as follows:

| | 2013 | 2012 |
|---------------------------------|--------------|-------|
| | £'000 | £'000 |
| Within one year | 94 | 48 |
| In two to five years | 11 | 40 |
| Over five years | 319 | 499 |
| Total Annual Commitments | 424 | 587 |

These Leases are subject to rent reviews.

26. Contingent Liability

No provision has been made for corporation tax on the capital gain estimated at £7,000,000 (2012: £9,000,000) which would arise if the trading and investment properties were sold at the revalued amounts.

HISTORICAL COMPARATIVE STATEMENT

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 52 Weeks | 52 Weeks | 52 Weeks | 52 Weeks | 53 Weeks |
| Membership | 173,853 | 187,124 | 205,130 | 211,168 | 228,292 |
| Revenue Account | £'000 | £'000 | £'000 | £'000 | £'000 |
| Gross Sales | 239,405 | 277,830 | 285,208 | 282,950 | 288,057 |
| Depreciation | 4,723 | 5,292 | 4,835 | 5,380 | 5,375 |
| Trading Surplus | 19,471 | 20,416 | 19,311 | 18,081 | 17,970 |
| Members' Benefits | 1,220 | 1,176 | 2,314 | 1,250 | 1,266 |
| Dividend | 4,075 | 4,327 | 3,034 | 3,657 | 4,083 |
| Transfer to reserve | 11,532 | 11,325 | 10,475 | 11,586 | 11,015 |
| Balance Sheet | | | | | |
| Intangible Assets | 8,619 | 16,452 | 16,854 | 15,943 | 15,761 |
| Total Tangible Assets | 245,198 | 248,393 | 257,183 | 268,046 | 263,151 |
| Total Fixed Investments | 7,488 | 8,338 | 9,767 | 11,566 | 13,256 |
| Net Current Assets | 11,033 | 7,882 | 8,570 | 6,702 | 6,981 |
| Long Term Creditors | (6,713) | (7,847) | (9,477) | (11,477) | (13,106) |
| Net Assets Before Pension | 265,625 | 273,218 | 282,897 | 290,780 | 286,043 |
| Pension Liability | (5,772) | (14,825) | (15,634) | (18,562) | (20,303) |
| Net Assets | 259,853 | 258,393 | 267,263 | 272,218 | 265,740 |
| Share Capital | 10,150 | 10,384 | 10,045 | 10,234 | 9,609 |
| Reserves | 249,733 | 247,980 | 257,218 | 261,984 | 256,131 |
| Minority Interest | (30) | 29 | - | - | - |

Comparative amounts have been restated where appropriate.

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

AGENDA OF THE ANNUAL GENERAL MEETING

1. To confirm the minutes of the Annual General Meeting held in November 2012 (half yearly meeting held on 23 May 2013 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 £4,050,000 is allocated to dividend from which interim dividends of £2,370,000 have already been paid; and
 - (b) for a dividend bonus of 75p for every £1 of dividend points distributed in the year to 7 September 2013; and
4. To consider the recommendation of the Board of Directors that the basic rate of issue of dividend points continues at the rate of 1 percent of the value of qualifying purchases.
5. To ratify the appointments of the Society directors appointed under Rule 53 (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 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 Rule 36. See standing orders inside back cover of this Annual Report.

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

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

| Date | Location |
|------------------------------|---|
| Tuesday 19 November | The Weston Rooms, Hickman Street, Gainsborough |
| Wednesday 20 November | South Holland Centre, 23 Market Place, Spalding |
| Thursday 21 November | The Stanhope Hall, Boston Road, Horncastle |
| Tuesday 26 November | The Everyday Champions Church, Jessop Close, Brunel Business Park, Newark |
| Wednesday 27 November | Grimsby Town Hall, Town Hall Square, Grimsby |
| Thursday 28 November | Lincolnshire Events Centre, Showground, Lincoln |

All meetings begin at 7.00pm.

STANDING ORDERS

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 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 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.

RULE 36 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 47 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.

Lincolnshire Co-operative

Our mission

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**

Lincolnshire



