Investing in the future

Annual Report and Financial Statements 2016

Annual Report and Financial Statements of the East of England Co-operative Society for the year ended 23 January 2016

East of England CO-OP

CONTENTS

All our hard work has been recognised

Fair Tax 2015–16

We are proud to display the Fair Tax Mark. This is awarded to organisations that display a high degree of transparency in their corporation tax affairs. We are fully committed to paying the right amount of tax, in the right place at the right time.

2016

Annual Report and Financial Statements of the East of England Co-operative Society for the year ended 23 January 2016

East of England CO-OP

We are a **consumer co-operative** entirely owned by our members, whether they are customers, colleagues or the local community.

We provide **stores and services** to towns and villages across 2,000 square miles in three counties – **Norfolk, Suffolk and Essex**.

We embrace **co-operative values and principles** and use them to guide the way we work.

Financial Overview

£338.5M

TURNOVER

Down £3.1m from £341.6m last year

£7.8M

PROFIT BEFORE DISTRIBUTIONS AND TAXATION

Up £3.3m from £4.5m last year

£3.8M

UNDERLYING TRADING PROFIT

Down from £4.3m last year

£233.1M

MEMBERS' FUNDS

An increase of £16.2m from last year

*Underlying trading profit represents an adjusted profit measure, full details of which are provided on page 46 of the Annual Report and Financial Statements.

PRESIDENT'S STATEMENT

It has been an energetic year with a £15m investment to improve our business, enhance our members' and customers' overall shopping experience, and ensure we are in a strong position for the future. Whilst trading profits are down, good progress is being made with our strategy for the long-term success of the business.

Jill from our Wickham Market store, proud to support Sourced Locally

How we performed

We invested in a number of new food stores and major refurbishments across the region in order to expand our presence and ensure we have the right stores in the right place. This helped balance some of the difficult decisions we're making with store closures. 46 stores were refurbished during 2015 and we are delighted that these are reporting an average 4% increase in sales.

A key element of our retail offering is the care and support we provide from our funeral business. Trusted by local families since 1925, we opened 14 new funeral branches across the region and can report a £0.6m (4.8%) increase in sales. This year has been pivotal in our plans to maintain and grow our market share; not only have we focused on new branches but we have also repurposed and refitted a number of food store locations to create entirely separate funeral branches. We have signed up to the Fair Funerals pledge and our pre-payment funeral plans, which provide customers with peace of mind, have achieved strong sales this year. Our commitment to bereavement support groups, carol services and 'Tree to Remember' events also increase the support we give our members.

Our colleagues worked especially hard this year coping with unpredictable patterns of trade and the need to keep costs tight, making our results hard won.

We are proud of achieving a number of impressive accolades: receiving the Greenest Business Award at the Creating the Greenest County Awards; and being a finalist in the BITC Awards, the St John Ambulance Everyday Hero Awards and the EADT Business Awards.

In addition, you, our members, enjoyed a share of a £3.1 million dividend payment last year.

Our members

Our members are at the heart of everything we do and this year the Member and Community Team has done a fantastic job recruiting over 16,000 new members to bring the total to 270,000. The team attended more than 120 events. We also removed the need to pay £1 before joining; new members now pay their membership fee out of their first dividend, and we have introduced in-store joining stations and online joining too.

Community engagement

After launching our Dementia Friendly retailer plans in 2014, the scheme has been taken to the hearts of everyone at the East of England Co-op. Over 3,000 colleagues have completed our training courses and are now benefiting from the insights the training provides. We were shortlisted for the Staff Education Award at the 2016 Better Society Awards for our work to become the region's leading Dementia Friendly retailer.

In April 2015 we introduced a token scheme in store to support communities. It's been a great success in giving members the choice of local organisations to support, and so far 252 good causes have benefited from a share of £84,000.

This year we also launched our successful Co-op Cuppa scheme to support good causes and communities throughout Norfolk, Suffolk and Essex. A cup of tea provides a host of benefits, from encouraging conversation and fuelling positive action, to providing comfort in a time of need. To date, Co-op Cuppa has supported over 300 good causes across our region and donated over 208,000 Co-operative Fairtrade 99 tea bags!

Our colleagues

Despite a challenging year with a number of changes, I am pleased to report that our Colleague Engagement Survey hit a new high, revealing our highest engagement score ever.

More colleagues than ever took the time to complete the survey and the results help us work towards making positive changes to working environments across our business. This year more colleagues feel they have received the right training to enable them to do their jobs, whilst 78% of colleagues confirmed they are proud to work for us and a fantastic 82% said they enjoy their job, which is great news.

This year we introduced a 'matched funding' scheme to support the many wonderful things our colleagues do to raise money for great causes, which you can read about on page 16.

When it comes to lending a helping hand, colleagues have been busier than ever and have built some great customer relationships, often going above and beyond the call of duty to help our customers.

I am so proud of all our colleagues. We have an amazing team of people and I would like to say thank you to every one of them for their commitment to the East of England Co-op.

Our governance

We have a strong Board of Directors and following last year's elections there is a great combination of longstanding and new Directors as well as a good gender and age balance. Looking forward, we would welcome candidates for election from a wider range of ethnic groups as we know we fall short of an ideal representation.

Having used our website and email communications to highlight how rewarding the role of Director can be, we have achieved highly contested elections over recent years. We received an all-time high in the number of applicants this year, offering a valuable range of skills and experience.

Last May, three new Directors joined the Board, each bringing with them business expertise. A number of Directors will be retiring in the coming years, so we are keen to retain those who are still serving, as well as welcome new Directors into the vacancies.

A major governance goal this year is to increase participation in online voting.

As we are corporate shareholders in the Co-operative Group and Federal Retail Trading Services (FRTS), we take part in their governance. Roger Grosvenor, Joint Chief Executive, represents the business on the FRTS Board and two of our Directors, Beverley Perkins and Phil Hartwell, were elected to the Group Members' Council last year; Beverley was also elected to the Senate of the Group. We view this participation as an essential part of protecting our Independent Society interests.

Our aspirations

There's no doubt about it, 2016 is going to be tough. We are anticipating a drop in profits due to the introduction of the National Living Wage, the Apprenticeship Levy, the removal of tax breaks for purchasing green energy and other additional costs beyond our control. With the good work being undertaken across the business, we're doing the right things to maximise long-term prosperity for your Co-op.

I would like to thank our colleagues, my fellow Board Directors and the Leadership Team for the continued hard work and difficult decisions they make in order to protect the success of the business. We are all proud of the East of England Co-op and will continue to work hard to build on the achievements and mould your Co-op for the future.

Sally Chicken

Sally Chicken
President

YOUR SOCIETY

New STORE OPENINGS

Continued growth is dependent upon us having the right stores in the right place.

In our quest to increase our presence across the region, and as part of our strategic acquisition programme, we have opened four new food stores in Coggeshall, Ipswich and Hellesdon and Sprowston in Norwich, as well as taking on the village shop in East Bergholt.

Our specialist business interests have also been a major priority. In a bid to keep postal services local and prevent a town or village from losing this vital service, we took on 10 Post Office stores, all of which have been relocated to our nearest food store, bringing the additional Post Office customer benefit of extended opening hours.

For over 80 years, we have provided high quality optical services which this year were expanded to new areas with the opening of two optical branches in Chelmsford and Braintree.

Two new optical branches opened in Chelmsford and Braintree

WE TOOK ON 10 POST OFFICE STORES

New food store in Coggeshall

WELCOMING NEW PARTNERSHIPS

Committed to providing customers with choice and the services they are looking for, as well as helping to make their shopping experience easier, we have entered into new and exciting retail partnerships, **joining forces with Subway and Brantano.**

Five of our food stores now benefit from a Subway sandwich franchise; our Stanway store near Colchester was the first to launch the new venture in early June, and this has been followed by openings in Long Stratton, Woodbridge, Chantry and Handford Road in Ipswich.

We have also teamed up with our very own Sourced Locally producer, Coffeelink, to open a much-frequented in-store coffee shop in our travel branch on Pier Avenue in Clacton, and local business Paddy & Scott's have opened a café in the Hadleigh store.

First to launch, Subway Stanway

Foxhall Road, Ipswich

ACQUISITION, REFURBS & *improvements*

With 132 Co-op food branches across our region, and with no two stores alike, we embarked on our biggest refurbishment plan ever in 2015 to ensure each store has the appropriate layout and is a welcoming environment to shop in.

The project has seen over 46 stores refurbished and revitalised with layouts optimised to ensure an easy, logical shopping experience. In addition the front of every store now reflects our correct branding, reinforcing our status as an independent Co-op.

Refurbishment of our stores will continue throughout 2016 and we're delighted to report that those stores that have been refreshed are reporting on average a 4% increase in sales.

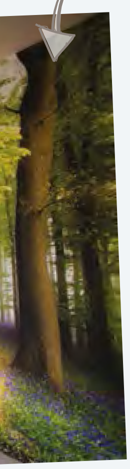
46 EAST OF ENGLAND CO-OP STORES WERE REFURBISHED AND REVITALISED IN 2015

FUNERAL DEVELOPMENT

Undertaking hundreds of funerals across Norfolk, Suffolk and Essex, our Funeral Services are a cornerstone of our community.

This year has been pivotal in our plans to maintain and grow our market share and has seen us open an additional 14 branches in towns including Colchester, Felixstowe, Ipswich, Lowestoft and Norwich.

Our funeral business strategy focuses on new branches and has also seen us refit parts of existing food stores to create entirely separate funeral branches.



"Our funeral branches are a very profitable part of our business and it is crucial we expand to sustain our offering to local communities. The refits of existing food stores allow us to make the very most of our property portfolio and ensure we offer the local services our customers want."

Nick Denny, Joint Chief Executive

Who makes your Co-op work?

Melissa Craig

Funeral Arranger,
Foxhall Road

I opened the new Foxhall Road funeral branch in Ipswich in September after working in the Camden Road food store for two years. Before taking on this role, I had absolutely no experience in funerals and actually worked as a restaurant manager for 10 years but it never really made me happy.

It was the Co-op that suggested my move to funerals and, honestly, I wish I had done it sooner. Funeral arranging is an incredibly rewarding job and it is a lovely thing to be able to give someone their last send off and support a family during what is a very difficult time.

There's no denying that funerals are emotional and there are sometimes tough days, but it's an inevitability and with a growing population across the East of England, there is more need for services like ours; it's a subject I think needs to be talked about more.

"Funerals are the last thing you can do for someone and it really touches my heart when families return to the branch to thank me for making a very sad day easier for them."

What the East of England Co-op offers is a service that takes the stress out of funeral arranging. We take care of everything, from liaising with ministers, celebrants and advisers, to dealing with all third parties, ordering flowers and, where relevant, processing charity donations. We also offer several pre-paid plans to suit all budgets and I have people of all ages coming in to ask about and purchase these.

People trust the Co-op name and I think what we offer over and above other funeral organisations is an invested commitment in the community as we are a business that is run by our members. We know the local ministers and we regularly participate in fundraising initiatives for local charities. We also work with the best team and have access to support that perhaps others don't have. While I am a lone worker at Foxhall Road, there is always someone on hand to offer assistance and answer questions, whether that's within the Co-op or our third parties, and I feel really lucky to be part of such a great network.

SOURCED LOCALLY *Fortnight*

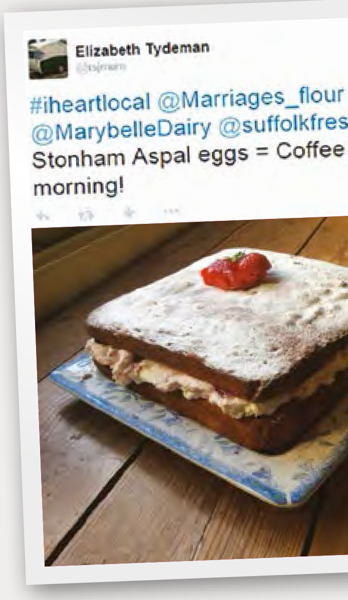
Colchester MP Will Quince backs Sourced Locally Fortnight

Our passion for Sourced Locally was evident across the region during the first two weeks of June 2015 as we hosted our first Sourced Locally Fortnight.

23%
INCREASE IN SOURCED LOCALLY SALES

During the fortnight a host of activities were planned to showcase the quality, provenance and great value of produce included in the scheme. Our producers and demonstrators visited each one of our food stores and print, radio, social media and television advertising spanned the fortnight; we even took over the airwaves for an entire morning.

Between 1 and 14 June we sold an amazing £824,875 of Sourced Locally produce, resulting in over £500,000 being ploughed back to producers and the region's economy. During the fortnight sales of local produce increased by a staggering 23%. In the week following Sourced Locally Fortnight sales increased by 31% and the positive impact of the initiative was still being felt almost a month later.



Roger Grosvenor, Joint Chief Executive, comments:

"We couldn't be happier with the success of our Sourced Locally Fortnight. We achieved what we set out to do, which was to shine a spotlight on local producers and encourage more shoppers to consciously buy local produce. The support of our customers, colleagues, suppliers and regional dignitaries has been second to none. We now have a fantastic platform to build on and are looking forward to an even more successful fortnight in 2016."

New products JOIN RANGE

2015 saw the Sourced Locally team welcome a number of new products to the initiative, demonstrating that the passion for local produce is thriving across the region. Here's a taster of the diversity of products introduced in the last twelve months.

Launched in-store in May, Stoke Farm Orchards' cloudy lemonade proved an instant hit. Hand zested, bottled and labelled on the farm in Stowmarket, the traditional recipe is followed exactly as it was first created by owner David Upson's grandmother in the early 1900s.

Following the success of its nostalgic mallow whirls, local chocolatiers Hadleigh Maid introduced their delicious giant sized tea cakes in two delicious flavours – milk chocolate, and dark chocolate and ginger.

Mrs Gleam's are the first cleaning products to join the Sourced Locally range. Shoppers took an instant shine to the family-safe products and director Joe Smith said of the new relationship: "The East of England Co-op has been outstanding in the way they assisted Mrs Gleam's in connecting with the public and sales have exceeded expectations."

Festive update

This year Sourced Locally showcased over 48 festive products, appealing to both traditionalists and those seeking a little indulgence over the Christmas period.

Mid-morning Christmas Eve was our busiest time with a very impressive £187,000 taken in one hour, between 11am and 12 midday. A further £45,000 was taken in the additional opening hours between 8pm and close.

OPENING ON BOXING DAY FOR THE FIRST TIME ALSO PROVED SUCCESSFUL WITH A TURNOVER ACROSS THE REGION OF £291,000.

Roger Grosvenor says: "The momentum and interest generated in Sourced Locally throughout the year continued to yield results over Christmas. Overall we ended the year on a high with food sales up 2% over the Christmas period and our newly extended Christmas opening hours enabled loyal customers and members the chance to pop in for those last minute essentials."

Christmas was a busy time for other areas of our business, and in particular our Post Office colleagues who were in huge demand throughout December. A big thank you also goes to our travel colleagues who collected more than 600 toys to donate to East Anglia's Children's Hospices (EACH) to help make Christmas that bit more special for the children it cares for.

SHOWCASING OVER 48 FESTIVE PRODUCTS

Sourced Locally by East of England Co-op

We have also received amazing feedback from our customers, with hundreds using social media to tell us about their Sourced Locally favourites.

Mrs Gleam's

DIRECTORS AND LEADERSHIP TEAM

The Directors are responsible for governance, policy and strategic decisions. The collegiate Leadership Team is collectively responsible for the day-to-day management.

Governing the Society

During the year covered by this report, your Directors met formally 15 times. 13 were ordinary meetings concerned with items of policy and strategy, matters reserved for Board decision and general oversight of performance.

The remaining 'special meetings' were held to:

- Receive a presentation from KPMG on corporate finance.
- Consider the election of Member Nominated Directors for the Co-operative Group.

The Directors also met informally on a number of occasions as they visited our premises and sites and took part in professional development workshops. These are described in further detail later in this report.

In June, the Board of Directors re-elected Sally Chicken and Colin Barrett to serve as President and Vice-President respectively for a period of 12 months.

Directors as at 23 January 2016

Sally Chicken
President

Colin Barrett
Vice-President

Belinda Bulsing

John Cook

Nicola Fox

Phil Hartwell

John Hawkins

Emma Howard

The Leadership Team

Day-to-day management of the Society is delegated by the Directors to the Leadership Team, which is responsible for implementing our strategy within the framework laid down by the Board.

The Directors can also draw on the advice and services of the Society Secretary, who is responsible for advising them on governance matters.

The office of Secretary (which, under the Code of Corporate Governance Best Practice, should not be combined with the other executive functions) is not incorporated within the Leadership Team. However, it does have full management executive status within the business.

Board of Directors

We were able to inspire members to join the Board, resulting in 19 candidates seeking election for six directorships.

At the AGM in May 2015, Emma Howard, Claire Johnsen and Steve Shaw were elected to the Board for a first term of office, together with serving Directors Phil Hartwell, Tereza Scrogie and Celia Moore. Phil Hartwell and Celia Moore are eligible to serve until May 2018, when they will be required to stand down for at least one year. Steve Shaw was elected to fill a casual vacancy for one year and will be eligible for re-election in May 2016.

The meeting also saw the retirement of three Directors with continuous long service on the Boards of the societies before the 2005 merger and then on the Board of the East of England Co-operative Society. Gillian and Graham Bober retired after 38 and 35 years, initially with the Colchester and East Essex Co-operative Society. Mary Blacksell retired after 21 years' continuous service, initially with the Ipswich and Norwich Co-operative Society. Their contribution has been huge and their experience will be missed. We wish them well in their retirement.

Claire Johnsen

Clive Mann

Celia Moore

Chris Newbury

John Pendle

Beverley Perkins

Tereza Scrogie

Steve Shaw

Mike Faulkner
Secretary

Leadership Team
From left to right:
Minnie Moll, Joint Chief Executive – Membership and Marketing
Mark O'Hagan, Joint Chief Executive – People and Performance
Nick Denny, Joint Chief Executive – Property
Roger Grosvenor, Joint Chief Executive – Retail
Doug Field, Joint Chief Executive – Finance and Technology

REVIEW

Overview

Whilst the UK economic recovery continues and household incomes are rising, it remains a tough market, especially in food retail, with price deflation impacting sales.

Whilst overall sales and trading profits have fallen this year, we have delivered a healthy trading performance in challenging conditions and have taken a number of difficult decisions to ensure the long-term prosperity of your Co-op.

This year we have invested more than £15m to improve our business and enhance the overall shopping experience for our members and customers so that we are their first choice when shopping locally.

INVESTED TO IMPROVE OUR BUSINESS

£15M

Turnover

Our sales are down this year – turnover has decreased by 0.9% to £338.5m.

Sales have fallen in our food stores by £2.6m (1.0%) – closed stores represent £3.0m of this decrease, although after accounting for new store sales growth of £2.9m, like-for-like sales fell by 1.0% (£2.5m).

Stores temporarily closed for refurbishments were a factor in these reduced sales, by an estimated £0.8m. More positively, the majority of revitalised stores are seeing enhanced sales and margin uplifts following these improvements.

Despite seeing volume growth of 6.2%, sales from our forecourts were down by £1.7m due to the falling price of fuel.

All of our other businesses increased their sales, except our Distribution Centre, which saw sales drop by £0.5m (2.2%), reflecting the challenging food retail market, and our Pharmacy business, which saw sales decline by 5.9% (£0.3m).

OVERALL SALES ARE DOWN

£3.1M

Our remaining businesses achieved year-on-year sales growth. The following operations did particularly well:

£4.8%

Funerals
Sales went up by £0.6m (4.8%), largely thanks to conducting an extra 170+ funerals – 109 of which came from new branches opened during the year.

£19.5%

Travel
An impressive 19.5% increase saw Travel sales approach £5m in the year with £0.5m of sales generated from new branches.

3.4%

Investment property portfolio
This year we welcomed more new tenants which, together with rent increases and receipt of a surrender premium, increased our income by 3.4%.

Profitability

Our underlying trading profit is down 11.7%, from £4.3m to £3.8m.

Despite improved efficiencies within our Food retail business, fewer sales and smaller margins led to a fall in profits. Operating expenses fell by £0.7m and personnel costs were kept in line with the previous year.

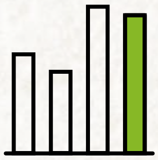
With the exception of our Funeral business, which generated an additional £0.5m profit due to our expanded offering and increased sales, all other specialist retail businesses experienced year-on-year profit decline. Our Optical business, which is operating in a changing market, saw profits drop by £0.4m.

Our Events and Conference business saw a £0.2m lift in profit and generated a positive contribution, and our Property business maintained its contribution of £3.8m.

Tough town centre property market conditions in Colchester have depreciated asset values in our investment property portfolio, although this is offset in part by increases across the rest of our property holdings.

The competitive marketplace in food retail has meant we have had to make difficult decisions to close stores that are not producing a profit for the business. These closures, including our supermarket in Clacton, enabled us to generate a profit on property disposals of £2.8m.

Across all of our businesses, our profit before distributions and taxation increased by £3.3m to £7.8m (2015: £4.5m).



UNDERLYING TRADING PROFIT

£3.8M

PROFIT BEFORE DISTRIBUTION AND TAX

£3.3M

The team at Halstead Supermarket.

Members' funds

Members' funds increased by £16.2m over the year to £233.1m.

MEMBERS' FUNDS £233.1M

Pension liabilities have gone down by £15.4m to £18.2m, largely because of a change in the expected risk-free return in the future, which is linked to gilt yields.

The overall value of our investment property portfolio fell by £3.4m to £102.7m with expenditure of £1.1m being more than offset by property sales and the opening of new purpose-built food stores.

With year-on-year sales growth of 28%, we now hold £35.9m of pre-paid funerals, up £6.2m in the year.

Cash flow

CASH £7.9M

We continue to manage cash effectively and, despite reduced profitability, we have generated an additional £8.5m of cash from trading activities thanks to working capital efficiencies.

We have continued to invest in our future and completed the build of four new food stores on sites acquired in earlier years, including a new larger store in Coggeshall, Essex, two stores in Norwich and one in Ipswich. We also purchased an operating food store in East Bergholt, Suffolk and, as part of a new venture franchise, opened five Subway branches and one Paddy and Scott's café in our food stores.

A number of food stores were closed or sold in the year, some of which we repurposed as funeral branches, which contributed to the 14 new funeral branches we opened across our trading area.

The bricks and mortar investment has been supported by continued investment in technology, which will drive efficiencies across all our businesses, especially Food retail.

We remain debt free and hold a healthy cash balance of £26.5m (2015: £18.6m).

We remain debt free and hold a healthy cash balance of £26.5m.

Changing accounting standards

The accounting standards under which the Society reports have changed and this is the first year that we have presented our results under FRS 102. The notes to the financial statements provide details on what has changed under this new basis. The most significant changes are to funeral bonds, pensions, investment property valuations and deferred tax.

Looking ahead

Market conditions remain challenging, especially with the potential uncertainty generated by the EU referendum. Whilst the UK economic recovery continues, persistent food deflation, which benefits our members and customers, makes life tough for our retail operations.

Our long-term strategy is to maintain a strong, sustainable business, keep generating profits and support our communities. The three core areas of focus for the year ahead are:

- **Food**
- **Funerals**
- **Property**

We plan to continue our successful food strategy in reviving more of our stores. Our aim is for an ambitious 60 stores to be refurbished over the coming year to add to the 40+ stores completed in 2015.

We must have the right stores in the right places, and we will continue to take the necessary measures to protect our economic security and ensure our long-term prosperity. Whilst this involves some difficult decisions, and may lead to store closures in 2016, we continue to build a Co-operative business for the future.

Our funeral branches are a very important part of our business and it is crucial we expand to sustain our offering to local communities and extend our geographical reach. Looking forward, we will continue to build our funeral offering but we anticipate sales figures may drop slightly in the coming year.

We continue to analyse and invest in our property estate to ensure it is performing well. 2015 saw some one-off incomes which are unlikely to be repeated this year, but the team is working hard to maximise the success of the whole property portfolio.

PRE-PAID FUNERALS

£6.2M

We now hold £35.9m of pre-paid funerals, up £6.2m in the year.

The challenge we face is that we must meet some major additional costs in the future that are beyond our control and which will impact our profitability. The most significant increase is the National Living Wage but there is also the removal of tax breaks for purchasing green energy and a new business tax to pay for apprenticeships.

We do have a strong balance sheet and will continue to provide the resources needed to invest and safeguard the future growth of your Co-op.

As a business that is not just for profit, we believe in working together for the collective good of our communities, customers and colleagues. We will remain true to our values and principles which means taking long-term decisions for the ultimate benefit of you, our members.

Who makes your Co-op work?

Isabelle MacLaren

Management Surveyor

I'm one of two Management Surveyors at the East of England Co-op, based at Wherstead Park. My role is to look after the commercial investment portfolio which comprises over 500 properties in total, encompassing a mix of retail, offices, warehouses, land and residential units. I manage the commercial units which are leased to a variety of local and national businesses. I also look after the day-to-day management of our corporate tenancies, dealing with the rent reviews, lease renewal and other landlord and tenant matters that arise. Our aim is to ensure all properties maintain their value and are profitable for the business.

I spend at least one day a week on site, meeting the tenants and carrying out inspections to ensure that the units are complying with the correct health and safety regulations. By meeting the tenants on site I can ensure that they have no outstanding issues and that they know who to contact if they have any queries or concerns.

From jewellers and beauticians to takeaway restaurants and industrial warehouses, I meet with a wide range of different businesses; all have various requirements and needs from the properties they lease from us. Most are long-term rental agreements but we do have occasional requests for one-off activities, particularly on land sites.

I deal with a number of charities, such as Age UK, EACH and the Samaritans, all of whom have recently taken on new commercial leases with us. In addition to this, we recently acquired a derelict pub in Ipswich which has been transformed into a recovery centre for those coping with addictions.

I joined the East of England Co-op this year, having only recently moved to the region from London.

I managed properties in the capital for almost eight years, so it's been great to work for a company whose ethos is not just motivated by profit, but focuses on the underlying good of the community.

No two days are the same and I thrive on the diversity of the businesses and range of interesting people I deal with, all keen to make their organisation a success. A happy tenant makes for good business sense and ensures the profitability of our portfolio.

The Co-op has been really supportive of my development and, with their help, I will be undertaking Approved Professional Competency training in 2016 to obtain MRICS status and become a qualified chartered surveyor.

OUR COLLEAGUES

E-LEARNING BOOSTS COLLEAGUE ENGAGEMENT

The Learning and Development Team has been busy supporting Project Leeder, a scheme to support the restructures undertaken at store level and ensure that our new team managers have the training required.

Upskill, our e-learning system that comprises 20 courses, has become an integral part of our training strategy.

Our e-learning courses have been really well received, with 86% of those using the material reporting positive feedback, compared to 45% when initially launched. Every store has a training laptop which enables easy access to the courses and the online format ensures consistent quality of training as well as significant time and cost savings.

The Dementia Friendly training developed by the East of England Co-op has been unanimously well received across the organisation with over 3,000 colleagues completing the e-learning course in 2015 and over 160 receiving face-to-face training.

Our dementia training has been a great success with colleagues keen to undertake the course and many reporting that it has helped them identify and understand the struggles some of their customers face.

News of our training has spread further afield and we were invited by the Alzheimer's Society to participate in the first of six Dementia Friendly workshops in London, which saw us sharing best practice alongside BT, British Gas, Sainsbury's and Heathrow Airport to name but a few.

"The success and cost savings of our e-learning has been phenomenal. 2015 was a hugely positive year for us and we're looking forward to building on this success with plans already in place to develop a portfolio of customer service modules."

Mark O'Hagan, Joint Chief Executive.

Helping Hands

With so many colleagues doing wonderful things to raise money for local charities and great causes, this year we introduced a 'matched funding' scheme to support everyone's efforts. The East of England Co-op community investment fund will contribute up to £50 per event when a colleague raises money, with funds being available on a first come, first served basis.

When it comes to lending a helping hand, colleagues have been busier than ever and have built some great customer relationships.

At our Silver End store in Essex, Mary and Jack visit on their mobility scooters and are always given a helping hand collecting and packing their shopping. The team has also gone above and beyond the call of duty for another customer, Mr Davies, who struggles to walk. He calls ahead on Saturday mornings and the team whips round to collect his shopping, which is then ready for him later that day.

In Manningtree it was greengrocery assistant Dan Maddison who went above and beyond to remove a frog found hopping around a customer's car. "It's probably one of the more unusual requests I've ever had," remembers Dan. "We always do what we can to help our customers, whether that's loading and carrying their shopping or removing frogs from footwells!"

COLLEAGUE ENGAGEMENT SURVEY HITS NEW HIGH

We are delighted that more colleagues than ever took the time to complete our 2015 Engagement Survey: 76%, which is 7% up on last year's respondents. The results of this survey help us to work towards making a real difference and positive changes to working environments across our business. This year **78% of colleagues confirmed they are proud to work for us** and a fantastic **82% said they enjoy their job.**

Other positive feedback from this year's results include:

- **90% of colleagues have a good understanding of what is expected of them**
- **77% of colleagues believe their jobs let them use their skills and abilities**
- **77% of colleagues feel praised by their managers**
- **83% of colleagues feel they have received the right training to enable them to do their jobs**

When we added together the results of all 10 questions in the survey, it revealed our highest engagement score ever of 79%. This overall figure is the important one as it tells us how engaged colleagues feel in the business. Engaged colleagues are happy, supported, fulfilled, challenged and enthusiastic about their work.

Who makes your Co-op work?

Sharon Harkin

Community Engagement Manager

I joined the East of England Co-op two years ago to launch our new Healthy Living projects, to bring the health and retail sectors together and promote the concept that healthy living is not just a concern for health and social care.

"2015 has been an amazing year – we continued our work with Sue Ryder to support local people living with neurological conditions. We partnered with ActivLives to transform a bowls pavilion into a thriving community hub and learning centre, and I have been kept busy with the exciting launch of Co-op Cuppa."

Leading our Dementia Friendly Retail initiative has also been incredibly rewarding. I'm so proud that the East of England Co-op has taken such an active approach to understand what dementia friendly retailing really means, and what we can do to improve the lives of our customers and colleagues living and working with dementia.

I'm overwhelmed by the support of my colleagues – more than 3,000 are now Dementia Friends, which is incredible! It's like we've opened the lid on something really important.

When I'm not project managing from my desk I'm out in the field – sometimes literally! Last year the team attended over 120 events, from large scale county shows to smaller local events.

Whilst our presence at these shows is about welcoming new members, it's also about delivering that personal engagement, chatting with members of the public and showcasing what we're all about.

Some people might think the shows are a 'jolly' day out of the office, but there are long hours involved and it is physically demanding. That said, I feel incredibly privileged as I hear the most inspiring real-life stories at these events, which really bring to life what we're doing as many of these stories feature in our internal training and members' magazine.

Having worked in the health sector for over 25 years, I have always been motivated to care and make a difference. My job at the East of England Co-op has given me so much scope in working in the community and allowed me to be involved in projects that I'm genuinely passionate about. My role is made extra special by the many incredible people I've met along the way.

MEMBERSHIP AND COMMUNITIES

As a retailer owned entirely by our members, we have worked hard this year to increase membership sign ups and improve engagement to ensure that our business approach meets the needs of the communities in which we operate.

Growing our membership is part of our ethos, to encourage our communities to have a say in how we are run. In 2015 we concentrated on offering more opportunities for customers to sign up as members and created new forums to engage with them.

Yoxford Primary pupils creating their school garden

Making it easier to join

In April, we removed the need to pay £1 before joining; new members now pay their £1 membership fee out of their first dividend. We also introduced in-store joining stations where customers can fill in and post their application themselves.

Member communication

Our members' magazine was relaunched in summer 2015, packed full of local news, community stories and exclusive member offers. These offers are relevant across our business, where members can enjoy money off vouchers to encourage them to try our delicious Sourced Locally produce, book their holiday with us, pick up discounted prescription glasses from our optical stores or buy from our electrical range. We also provided a free bag for life voucher, which has been especially popular.

Providing our members with exclusive offers is our way of giving something back and we are delighted that over 37,000 vouchers have been redeemed so far.

In addition to the members' magazine, we also launched a Membership Mash Up email this year, which more than 47,500 members currently opt in to receive. It's a great way for us to share our current and upcoming activities and offer members the chance to be the first to hear of our in-store promotions. We also share good news letters and photos we receive from our members and customers.

From Co-op Cuppa to support for Sue Ryder's Café Neuro, we've supported hundreds of local groups

Increased member numbers and community-led projects

This year, we welcomed a fantastic 16,290 new members, which is an impressive 57% more than last year. Our plans for 2016 are to continue growing our presence across the region, through events and roadshows, and supporting more community-led projects.

Always keen to be out and about meeting members and shoppers, colleagues attended more shows this year and hosted more roadshows than ever before, including our Christmas and new healthcare events. For the first time, we also took part in the Big Co-op Clean fortnight, where we joined colleagues across the wider UK Co-operative network to clean up local parks, river banks and streets across Essex, Suffolk and Norfolk.

Our hugely effective Co-op Cuppa scheme, launched in July, has also enabled us to lend a helping hand to over 300 projects across Norfolk, Suffolk and Essex through the donation of Fairtrade tea to support local good causes. Similarly, our new Token Scheme gives members the perfect opportunity to give something back to their local community every time they shop with us. Both of these schemes have been incredibly successful in supporting many local initiatives and will continue during 2016.

16,290 NEW MEMBERS

UP 57% ON LAST YEAR

Tasting panel

When it comes to food and drink, we believe the truth is in the tasting and our new Tasting Panel allows members to review our products. Members can register their interest online and are chosen at random every time we have a product tasting. We then send them a bespoke voucher to use at their nearest store and their reviews provide important feedback for future developments.

Charity token SUCCESS

252
local good causes benefited during the year

In our quest to provide greater support to those communities in which we have a presence, we are delighted with the success of our token scheme, which was introduced this year and runs across all our food stores. The simple scheme gives shoppers the chance to have a say, regardless of the amount they spend.

Ninety six different local good causes are supported every month, and new organisations are selected every three months. £500 is donated to the charity receiving the most tokens, £300 to the second good cause and £200 to the third.

Good causes to benefit from the scheme to date include Suffolk Young People's Health Project (4YP), Walton & Frinton Lifeboats in Essex and Norwich City Powerchair Football Club in Norfolk. News from our store managers is that shoppers really appreciate the opportunity to have their say on who benefits from our charity donations.

Minnie Moll, Joint Chief Executive, adds,

"From grass roots to national charities, we've supported and invested in hundreds of projects that have benefited the people living in our region. The token scheme is a great way to continue our charitable giving whilst giving local communities a voice when it comes to those good causes we support."

£84,000 investment this year

There are foodbank collection points in all East of England Co-op food stores

DEMENTIA Friendly

Having launched plans to become a Dementia Friendly retailer in 2014, the scheme has been taken to the hearts of everyone at the Co-op and since July all colleagues have been able to train as a dementia friend via our specially developed e-learning course, 'Shopping in their Shoes,' or face-to-face training. We're delighted to say that over 3,000 have signed up to date and are now benefiting from the insights the training provides.

We've also been busy teaming up with representatives from organisations across the region, including AGE UK Suffolk, Ipswich Hospital, the Alzheimer's Society Suffolk, Synergy Cafés, the Suffolk Dementia Helpline and Forget Me Not Groups, to launch our first assisted shopping focus group. Bringing together people living with the condition, health professionals and retail colleagues enabled us to identify how as a business we can reduce or eradicate shopping challenges faced by those living with dementia.

Colleagues across the business wore blue in support of 'Forget Me Not Friday', which raised a fantastic £2,200 for the Alzheimer's Society.

We want to do everything we can to help those with dementia and make their experience at the Co-op as easy as we can. There are some quick fixes we are implementing, such as removing pounds for trolleys, providing in-store seating, changing door mats and simplifying signage. We are also exploring other ideas and are keen to pilot a 'help button/desk', as well as trial a free home delivery service for registered shoppers.

Our first assisted shopping focus group at our Rosehill store, Ipswich

Helping those who are hungry

Sadly, the need for foodbanks is greater than ever and in the past year the number of people referred across the UK rose by 19% to over one million. In the East of England a staggering 100,909* people were provided with three days' emergency food during the year April 2014-March 2015.

More and more people now know someone personally who uses a foodbank; perhaps someone they work with, or someone on the school run.

We provide food collection points in all our stores and the generosity of customers shone through during 2015 with over 38,000 items collected. This equates to over 32,000 meals – almost more than 2014 and 2013's donations combined.

Our food donations are distributed to those in need through the Trussell Trust, the UK's largest foodbank charity, as well as to smaller, local foodbanks and charities including The Great Yarmouth Foodbank, Storehouse in the Stour Valley, FIND in Ipswich and Gatehouse in Bury St Edmunds.

All non-perishable donations are welcome including toiletries, which are expensive to buy if you don't have much money.

38,000 ITEMS DONATED

WHICH EQUATES TO **32,616 MEALS**

*www.trusselltrust.org/stats

THE POWER OF A GOOD Cuppa

Above: Our first Communi(tea) with a Difference event

Above right: The Norfolk Red Hat Society enjoying their Co-op Cuppa

A cup of tea provides a host of benefits, from encouraging conversation and fuelling positive action to providing comfort in a time of need. Recognising the power of a good brew, this year we launched our Co-op Cuppa scheme to support good causes and communities throughout Norfolk, Suffolk and Essex.

To date Co-op Cuppa has supported over 300 good causes across our region and donated over 208,000 Co-operative Fairtrade 99 tea bags!

We believe that a good cup of tea is a great catalyst for conversation, connection and co-operation. Food and drink are at the heart of our business, and people have relied on us to provide a great cuppa for over 140 years. As the region's largest independent retailer, Co-op Cuppa is the perfect way for us to lend a helping hand and support communities to do good.

Archant is also generously supporting Co-op Cuppa by promoting the good causes the scheme supports through the East Anglian Daily Times and Eastern Daily Press.

Not only does Co-op Cuppa support local good causes, but as we use Co-op Fairtrade 99 Tea, every tea bag donated through the scheme supports positive action for tea growers across Kenya and Malawi too.

Beneficiaries of Co-op Cuppa support have been far reaching – the WI, athletics clubs supporting people with disabilities, church groups, summer fairs and charity fundraisers.

Susan Harvey, organiser of the Kirton Community Tea Shop in Suffolk, says of the scheme:

" We really appreciate the East of England Co-op's initiative in donating the 960 tea bags for use at our Community Tea Shop. Communities rely so much on volunteers; they are the unsung heroes. I would like to say a big thank you to them all. Without them our small villages would not be the vibrant places they are today. Community events help to reduce loneliness and rural isolation. "

We hope the simplicity of this scheme will ensure Co-op Cuppa will be around for years to come.

If you know of a local group or good cause (which can be a regular or one-off event) that would benefit from Co-op Cuppa support, please visit our website and register for a Co-op Cuppa kit.

At the heart of the COMMUNITY

As a community retailer, our focus is to ensure that we are out there building relationships with the communities we serve, supporting local businesses, groups and charities. Our member and community team were present at over 120 events this year, from store openings and roadshows to regional agricultural events, including the Tendring, Suffolk and Norfolk Shows.

These provide us with a fantastic opportunity to get out there and meet our members as well as encourage new sign ups, introduce them to the East of England Co-op, and raise awareness of not only what we stand for, but the different areas of our business.

Attending these events is a great way for us to find out what's important to our communities and promote our projects, as well as the services we provide across our stores. We speak with a lot of people; some of them are unaware of our Co-op Cuppa, Token Scheme or Dementia Friendly Retail projects, and others feel really passionate about them. It also gives us great insight into how we can continue to give back to the local communities in which we operate.

At events this year, we signed up more than 2,770 new members; that's a whopping 199% more than last year.

In addition to the shows, we launched a 12-month project working with Inspire Suffolk, using football to support adults with differing mental health conditions across Suffolk and North Essex. The aim of 'Health Kicks' was to deliver specialised training that would improve the health, fitness and general well-being of those involved. Five-a-side tournaments were held every six weeks, allowing different teams to play against each other in a safe and relaxed, yet competitive, environment. At the end of the programme, an awards presentation was held and many of those involved reported weight loss, increased energy levels and improved confidence in their everyday lives.

This year, we joined other Co-operatives up and down the country to take part in an organised community 'Co-op Big Clean.' Supported by local councillors and community groups, our team of litter pickers and tidiers saw a great mix of colleagues, members and customers come together to spend time at Middlewick Ranges in Colchester, Whitehouse and Castle Hill in Ipswich, and Cannerby Lane in Norwich, collecting rubbish and making each environment a cleaner and friendlier place to be.

We also trialled a series of winter Healthy Living roadshows to showcase our high value professional services. Activities included free hearing and blood pressure checks, prescription service sign ups, flu vaccination vouchers, free sight test vouchers and healthy living advice including what support is available for those with dementia. We also offered giveaways and interactive activities to encourage interest, such as face painting and spa day competitions.

The feedback gave us a better understanding of what people are concerned about and our plan is to launch further Healthy Living roadshows next year.

"It's important that when we are out in the community, we are tackling key issues," adds Christian Bone, Head of Community Engagement at the East of England Co-op.

Measuring our Co-operative Performance

Key Performance Indicators

Area	Measurement	Description	2016	2015
Member economic involvement	Trade (£) conducted with members as a proportion of total sales (%)	Trade with members	43.9%	45.3%
Member democratic participation	Number of members voting in elections as a % of total membership	Members registered to vote	8,881	7,599
		Members who voted by post	2,777	3,087
		Members who voted online	267	–
		Members who voted in person	24	26
		Total number of members who voted	3,068	3,113
		% of total membership	1.1%	1.1%
Employee profile – gender and ethnicity	The proportion of male/female employees	Number of male employees	1,383	1,436
		Number of female employees	2,926	3,047
		Women in management grades	350	321
		% of management grades held by women	50%	52%
	The percentage of employees from particular ethnic backgrounds	% of employees not identifying as white British	2.0%	1.1%
Customer satisfaction	The percentage of customers who are satisfied with a key aspect of the business	Distribution centre product availability	99.1%	98.8%
		Customer complaints	1,971	1,792
		Number of transactions	40m	40m
Investment in community initiatives	Total monies invested in community initiatives	Healthy living activities	£54,996	£212,592
		Community dividend fund	£90,558	£69,579
		Hours donated	2,460	2,123
Investment in co-operative initiatives	Total monies invested in co-operative initiatives	Supported groups	£51,939	£51,534
Waste recycled/reused	The weight or volume of waste recycled and/or reused as a proportion (%) of total waste	% waste recycled	76.0%	75.9%
Net carbon dioxide (CO_2) emissions arising from operations	Net tonnes of CO_2 emissions associated with energy used for all on-site operations over the year	Tonnes of CO_2	26,055	27,620

Corporate Governance Report

The Board is pleased to report on the governance policies and practices within the Society for the year ended 23 January 2016.

This report is published in accordance with the Corporate Governance Code for Consumer Co-operative Societies (November 2013). The Code sets out the recommended best practice on issues of governance for consumer co-operative societies.

The Board is responsible for making sure the Society complies with recommendations in the Code that are appropriate to its circumstances and for reporting to members on this matter. Where the Society does not comply, the Board has an obligation to tell members why it does not. This report is intended to meet these obligations.

The Board believes the Society's governance arrangements are appropriate for an organisation of its size, nature and complexity, although there are a number of areas of the Code, detailed on page 40, with which the Society does not comply.

The Board is conscious that governance and related compliance matters can be difficult to convey within the confines of a formal report. The Board therefore welcomes questions and comments from members on this report at the Society's Annual Members' Meeting, or at any other time. In either case, please contact the Secretary.

The following sections in this report cover the key areas of governance as set down in the Code (copies of which are available from the Secretary).

Principal Activities

The Society's principal business activities are food retailing, funeral services and management of its investment property portfolio. In addition, the Society has interests in petrol forecourts, travel, pharmacy, optical, events and conferencing, and stonemasonry.

Membership Matters

Membership is at the heart of any true co-operative enterprise and it is vital to building the Society's future. The Board aims to recruit, engage and involve members in the Society, and to reach out to those who have not previously engaged with the Society. Throughout the year, the Society attends many events across the region which facilitate contact with members. This work is combined with traditional methods of member engagement such as the Annual Members' Meeting. All membership meetings are publicised on the Society's website, and through email and posters in all trading outlets.

A report on the Membership and Community Committee's activities can be found on page 18 of this report.

Application of Profits

The distributions made by the Society recognise and reward members and the community for their contribution to the Society.

The Dividend Card records points earned for purchases from the Society and, based on trading in the year to 23 January 2016, the Society proposes to pay a dividend representing 2% (2015: 2%) of each member's qualifying purchases. This will be issued in the form of Society vouchers shortly after approval at the Annual Members' Meeting in May 2016.

Financial Reporting Standards determine how we treat this dividend and other profit distributions in our financial statements.

The Society rules govern the distributions made. The table below details the amounts the Board plans to distribute in the year under review, in accordance with these rules. The aggregate dividends recognised as an expense in the year amount to £2,860,000 (2015: £3,220,000).

Distribution of Profits

	£000
Interest on share accounts	72
Dividend	2,970
Member and communities	623
Co-operative Party	32
Donations	15
Amounts retained by the Society for reinvestment*	404
Total profit available for distribution*	**4,116**

* These represent non-statutory measures and are shown for the purpose of providing additional information to members.

The Board

This section gives you details about the Society's Board, its duties and responsibilities, and how it is structured and functions.

Society Rules

The Society is bound by a set of rules that are approved by its members. Broadly speaking, these prescribe how the Society operates and the way it is structured.

Copies of the Society's rules are available from the Secretary.

The Board – Duties and Responsibilities

The Directors, as elected by members, are ultimately responsible for:

- Setting the Society's policy objectives
- Monitoring the achievement by management of those objectives
- Identifying and managing risk

Given the distinctive nature of co-operative societies, 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 these organisations.

All Directors on the Board, who are collectively responsible for the success of the Society, are answerable in law for the Board's decisions and are bound by the overriding fiduciary duty to act in good faith in pursuit of the best interests of the Society as a whole.

The Society's rules prescribe certain duties and responsibilities that are the sole preserve of the Board. The Board also has a formal schedule of matters reserved for its decision. The rules and the schedule include, for example, all matters concerning the determination and general operation of the Society's rules, all aspects of membership policy, the approval of all funding arrangements, and approval of property acquisitions and disposals above certain thresholds.

The Board has delegated the day-to-day management of the Society's activities to the Management Executive, which is responsible for the execution of the Society's strategy within the framework laid down by the Board.

Board Procedures

The Board meets regularly throughout the year. At meetings it receives reports from management on trading and other matters, and it reviews the financial performance of the Society (both by trading period and cumulatively for the year) and considers papers presented for decision or information. In addition, the Board holds ad hoc meetings to consider particular issues and informal meetings to consider strategic and other concerns. Whenever possible, papers are circulated in advance to give Directors the opportunity to prepare, and the minutes of all Board meetings are submitted to Directors for their review and approval. Decisions made are actioned as appropriate by management. The Board meets in private session without the presence of management as and when required.

Independent Advice

The Directors have access to the advice and services of the Secretary, who is responsible for advising the Board on governance matters. A number of external consultants also provide advice to the Board and its committees. There is an agreed procedure by which Directors may take independent professional advice at the Society's expense in furtherance of their duties.

During the year, the Directors and the Management Executive sought professional external advice. Individual providers receiving fees over £25,000 are set out in the table below.

Consultant	Purpose	Fees paid £000
KPMG LLP	Advice on corporation tax enquiries, asset backed funding pension arrangements and internal audit arrangements	160
PricewaterhouseCoopers LLP	External audit and VAT advice and assistance	93
Fenn Wright	Property advice and agency fees	82
Kerseys Solicitors	Legal advice including advice on disposals and property transactions	79
Grant Thornton UK Ltd	Corporate tax compliance and capital allowances claims	66
Ellisons	General property advice and property aspects of asset backed funding pension arrangement	45
Boyer Planning Ltd	Planning consultancy	35
Cicero Communications Ltd	Public affairs consultancy	34
Mills & Reeve	Legal advice	25

In addition, the Trustees of the Society's pension funds received external advice at the Society's expense as follows:

Consultant	Purpose	Fees paid £000
Buck Consultants	Actuarial and administration services	140
Pension Protection Fund	Annual levy for security fund	95
Pan Trustees Ltd	Independent Trustee	31
Barnett Waddingham	Investment consultancy	27

Board Development and Evaluation

The Board has undertaken two formal skills audits and a performance evaluation since the 2005 merger but has also reviewed its working practices at least annually since that time. The skills audits and the Board discussions have delivered a predictable outcome: a lower level of confidence in dealing with numerical management and financial information than in dealing with the policy and strategy of retail and community matters. The Board has considered the matter carefully and decided that the potential weakness is more apparent than it is real and that the extensive use of paid professional advisers remains the appropriate way to operate a democratically elected governing body. The Board makes regular use of its external auditors as well as its outsourced 'internal' audit partners. Specialists have also been employed whenever technical matters have been high on the Board's agenda, recent examples of which include capital financing, performance appraising and disaster recovery planning.

Notwithstanding the use of external consultants, the Directors are keen to keep their own knowledge and experience up to date and they all participate in an extensive programme of learning opportunities arranged by the Secretary. This programme has included workshops that have addressed co-operative innovation (Plunkett Foundation), external finance and a wide range of shorter presentations given by external consultants or the Society's Leadership Team. In the last year, presentations have been given on the overall Society business strategy, Society membership strategy, Federal Retail Trading Services and the Co-operative Group. The Board has also discussed further the Society's relationship with the Co-operative Party.

Other learning opportunities are presented at a number of conferences to which the Board regularly sends delegates. These include the National Retail Consumer Conference and the Co-operative Congress, both of which have programmes of speakers of international repute.

The Board has established a structured programme of induction training that is overseen and reviewed annually by the Remuneration and Search Committee.

Board Size

The rules provide for a Board of 16 Directors. The Directors are elected by all eligible members across the region irrespective of where the candidates or the members live.

Terms of Office

The standard term of office on the Board is four years and one quarter of the Board retires each year.

The Rules also prescribe that a Director may be removed from office at any time by a two-thirds majority of votes cast at a special meeting of members.

In December 2014, the Rules were amended to provide that, after 12 years' continuous service on the Board, a Director must stand down for at least one year. This is to ensure a degree of Director turnover and meets the best practice guideline of ensuring Board renewal.

The President and Vice-President

The President chairs the Board and is supported by a Vice-President. Each year, the Board of Directors elects candidates for these roles. The President leads the Board in the determination of Society policy.

The President cannot be an employee of the Society and cannot hold office for more than four years in a row.

Board Independence

To ensure the Board retains its independence, the Society's rules prescribe that neither a Director, nor their spouse nor partner, may be engaged in a managerial capacity in any business that competes with the Society. Nor may they have an interest of more than 1% of the issued share capital of a business trading with the Society.

Additionally, no more than two directors on the Board can be current employees or have worked for the Society within the last three years. In order to ensure that new Directors are elected to the Board, the rules limit the continuous length of time that a Director may serve on the Board. Previously this was achieved by an age rule but in 2014 this provision was changed to a time limit of 12 consecutive years (with effect from May 2006).

The Secretary maintains a register to record any conflicts of interest that may arise for Directors and the Management Executive of the Society. Formal updates to the register are requested biannually, and individuals must inform the Secretary at the first opportunity of any conflicts that should arise in the interim. The register is open to inspection by members. In addition, at each Board or Committee meeting, Directors are asked to declare any interests they may have in relation to the business on the agenda. The table on page 34 lists Director and Management Executive external directorships or equivalent.

The Board believes the above measures serve to ensure the independence of Directors and management is safeguarded.

Board Attendance Record

The table on page 30 lists the attendance record of Directors at Board and Committee meetings for the year under review. The figures show the number of meetings each Director actually attended, against the number of meetings they were eligible to attend (this latter figure is shown in parentheses).

Elections

During the year, elections to the Board were conducted by postal/online voting and voting in person at the Annual Members' Meeting. The Board is keen to encourage members to use the facility for postal and online voting.

In May 2015, there were six vacancies on the Board and 19 candidates contested these places.

Board and Committee Membership

Attendances 2015–16 Attendance shown 9(11) = 9 meetings attended out of a possible 11.

	Last elected	Term ends	Board	Audit	Performance Review	Membership and Community Engagement	Remuneration and Search	Co-op Party Working Group	Dormant Share Capital Working Group
Directors	**Term of Office**		**Committees**						
Mr C J Barrett	May 13	May 17	15(15)	4(4)			4(4)	1(1)	
Mrs M J Blacksell	May 11	May 15	6(6)			1(1)			
Mrs G A Bober*	May 12	May 16	6(6)				2(2)		
Mr G F D Bober*	May 14	May 18	6(6)		2(2)			1(1)	
Mrs B Bulsing	May 14	May 18	13(15)	1(1)	4(4)	4(5)			
Mrs S Chicken	May 13	May 17	14(15)				7(7)	2(2)	1(1)
Mr J Cook	May 12	May 16	11(15)	2(3)	2(3)				
Mrs N Fox	May 12	May 16	14(15)				7(7)	1(1)	
Mr P Hartwell**	May 15	May 18	14(15)			7(7)		2(2)	1(1)
Mr J Hawkins	May 12	May 16	15(15)		7(7)				
Ms E Howard	May 15	May 19	9(9)		4(4)			1(1)	
Mrs C Johnsen	May 15	May 19	9(9)	3(3)					
Mr C E Mann	May 14	May 18	15(15)	4(4)					1(1)
Mrs C Moore**	May 15	May 18	14(15)	4(4)					
Mr C Newbury	May 13	May 17	14(15)		5(7)			1(1)	
Mr J R Pendle	May 13	May 17	13(15)				6(7)		
Ms B Perkins	May 14	May 18	14(15)+		3(4)+	2(2)			1(1)
Mrs T Scrogie	May 15	May 19	12(15)			7(7)			
Mr S Shaw***	May 15	May 16	9(9)			5(5)			

This table does not record attendance at the Annual Members' Meeting, two informal development workshops and a visit to stores and potential developments. One special Board meeting was arranged at short notice to discuss the Co-operative Group Governance Review. Two absences shown above relate to this short-notice meeting. + Beverley Perkins missed one Board meeting and one Performance Review Committee meeting having been elected an Independent Society Representative on the Co-operative Group Members' Council. * Mrs G A Bober and Mr G F D Bober retired from the Board at the Annual Members' Meeting in May 2015. ** Phil Hartwell and Celia Moore will each complete 12 years continuous service in May 2018 and will need to stand down at this time for at least one year. *** Steve Shaw was elected to fill a casual vacancy for a term of office with one year remaining to be served. On 6th June 2015, Sally Chicken was re-elected President and Colin Barrett was re-elected Vice-President, each to serve for one year to June 2016.

Board Committees

In order to discharge its responsibilities effectively, the Board has appointed a number of committees to review specific matters on its behalf and to bring forward recommendations for consideration by the Board as and when appropriate.

The membership of these committees and the number of meetings that were held during the year are shown on the attendance table above.

Remuneration and Search Committee

Terms of Reference

The Remuneration and Search Committee has oversight of the following matters:

- Application of the Executive remuneration policy
- Setting Executive KPIs and undertaking performance appraisals
- Approval of new additional Senior Management Team posts
- Executive Service Agreements (excluding salary) and role profiles
- Executive appointments – shortlisting for interview
- Appointment of Pension Scheme Trustees
- Director induction
- Appointment of Directors to subsidiaries

The Committee makes recommendations when necessary to the Board on these and related matters, including recommendations for subsequent consideration by members regarding Directors' fees. Since merging with the Search Committee, it has also been responsible for the review of Board renewal and succession planning, induction, the code of conduct and recommended appointments to committees.

The Terms of Reference are derived from those recommended by Co-operatives UK for separate Remuneration and Search Committees.

Meetings

The Committee met seven times during the year. Members of the Leadership Team were only present at the discretion of the Committee.

To assist with its work and to ensure it received independent advice, the Committee retained a number of external consultants during the year. These are shown on the table on page 28.

Activities during the Year

The regular business of the Committee covers all aspects relating to Directors' fees and expenses, the approval of new Executive and senior management posts, Executive appraisal and remuneration and the employee benefit structure, including pensions. The Committee also makes recommendations to the Board on appointments to Board committees and on Directors' fees and expenses policy.

The key items considered by the Committee during the year were as follows:

Colleague Relations

Although Directors delegate all matters regarding the structure and management of the Society's workforce, other than at Executive and Senior Management level, to the Leadership Team, the Board maintains a close oversight to ensure that the organisation's needs continue to be met and that the approach taken is consistent with the Society's co-operative values and principles. The Committee undertakes this role on behalf of the Board.

The Committee does not participate in discussions with trade unions but has been pleased to support the development of a Partnership Agreement to outline a commitment to a long-term, 'good faith' relationship based on co-operation and communication. The Committee hopes that the spirit of this agreement will be taken up by all the unions representing our colleagues in a year when further changes will be inevitable in relation to structure, terms and conditions.

Oversight of the Management Executive

The single most important responsibility of the Board of Directors is to ensure that the professional leadership of the Society is of the highest calibre and able to achieve the business and co-operative goals set by the Board. It is the Remuneration and Search Committee that takes the primary oversight role in these matters.

In carrying out this role during the year, the Committee has continued to develop and refine the Executive appraisal process, with the help of its external consultants PicassoHR. The Committee has also carried out its annual review of Executive remuneration, resulting in recommendations which were subsequently approved by the Board relating to salaries, Leadership Team allowance, and pension contribution rates. Details of Executive remuneration are set out on page 33.

The Committee also helped the Board to review the effectiveness of collegiate leadership after four years of operation. The Board fully endorsed the Committee's view that the collegiate arrangement remains fully effective and appropriate for the Society.

Directors' Expenses and Fees

Directors' fees are determined by the Society's members on a recommendation from the Board, which itself considers a recommendation from the Remuneration and Search Committee. At the Annual Meeting in May 2014, members approved a revised formula for Directors' fees, replacing the performance-related and wage increase elements with a single wage-related increase based on the Union of Shop, Distributive and Allied Workers (USDAW) annual settlement. For 2016-17 the Board has agreed to recommend to members that the formula be suspended, and that no change be made to the level of fees. The continued relevance of the formula will be reviewed during the year.

No additional supplements are payable for the particular offices held by Directors and no delegate fees are payable for Directors attending meetings or conferences on behalf of the Society.

Directors do not participate in any employee bonus scheme, but do receive employee discount and reimbursement of necessary expenses on production of valid receipts.

For full details of expenses paid, see table 33.

Performance Review Committee

The purpose of the Performance Review Committee is to complement the Board's responsibilities for strategic review.

During the year, the Committee has met regularly to monitor the commercial performance of the Society as reported in the quarterly performance statements. It has also refined the content of these reports to address the core requirements of Directors for performance monitoring. These core elements form the basis for the Board's constructive challenge of the Society's Leadership Team:

- Were the strategy targets on track?
- Was the budget on track?
- Was planned development and growth on track?
- Were customer satisfaction improvements on track?
- Were major projects on track?
- Were community involvement plans on track?

If not – why? Would the position recover or is remedial action required?

Discussions focused on the key areas of sales, margin, personnel costs and the number of loss-making stores and branches. With the strategy reviews in December 2014 and January 2016 the Committee has helped the Board to set appropriate targets by which to measure success and, through a system of interim meetings introduced during the year, has carried out in-depth reviews of other parts of the business and helped to set targets for these areas.

The Committee also monitored the return on recent investment in the business including major store refurbishments and the acquisition of key investment properties.

Audit Committee

Terms

The Audit Committee's terms of reference are based on the Corporate Governance Code for Consumer Co-operative Societies (November 2013) which aids the Society's focus on the routine use of appropriate and effective financial controls.

After each meeting, the Committee reports formally to the Board on its proceedings, making recommendations to the Board on any actions and improvements that it deems appropriate.

Membership

Committee membership during the year is shown in the table on page 30.

The Committee members bring a diverse range of experience to their work.

The Audit Committee does not contain at least one member with recent and relevant financial experience as recommended under the Corporate Governance Code for Consumer Co-operative Societies (November 2013).

The Directors of the Society are elected by and from the Society's Members and currently no eligible Director has the specified experience.

Members of the Audit Committee are aware of this issue which is mitigated through the Committee's training programme and access to independent advice from external consultants.

Meetings

The Committee met formally four times during the year. At all meetings at least one member of the Leadership Team was present, although when external or internal auditors were also present, a period was set aside in the meeting for the Committee to meet with them in private, without any Leadership Team members being present.

Training/continued development

During the year the Committee undertook training sessions on the following subjects:

- Role of the Audit Committee
- Audit Committee Effectiveness

These sessions were facilitated by Grant Thornton.

In addition all Directors were invited to attend a practical demonstration covering shop floor, back office and warehouse IT systems/processes.

Activities during the Year

Below are the Audit Committee's principal activities over the last year:

- Review and approval of full year results
- Review of the internal audit plan and the results of the internal auditors' work, including monitoring management's responsiveness to findings and recommendations
- Review of the Society's internal financial controls and the internal control and risk management system
- Approval of the terms of engagement with the external auditor
- Review of the audit plan with the external auditor at the planning and reporting stages
- Effectiveness of the internal and external audit function
- Relevant disclosures in this Report
- Review and ongoing monitoring of the Society's IT strategy
- Monitoring and understanding changes within financial accounting standards - in particular agreeing to change to New UK GAAP for the 2015/16 year-end financial statements
- Reviewing Underlying Trading Profit Methodology
- Considering Internal Audit arrangements for monitoring Board effectiveness
- Review of Whistle Blowing Policy
- Reviewing the Society's Taxation Policy – Fair Tax Mark
- Monitoring changes in Key Social and Co-operative Performance Measures

Post year-end – special meeting

Following the year-end date, the Committee held a special meeting to consider and agree the accounting treatment of funeral bonds and deferred tax under FRS 102. More information on these changes can be found on pages 70-72.

Financial Reporting

After discussion with both the Leadership Team and the External Auditor, the Audit Committee determined that the key risks of misstatement of the Group's financial statements related to:

- Stock/GRNI reconciliations
- Retail stock valuation
- Investment and trading property valuations
- Defined benefit pension plan net liability
- Transition to FRS 102 (including Funeral Bond accounting and Deferred Taxation)

Other areas of focus for the Audit Committee were:

- Impairment review – loss making units and goodwill
- Taxation
- Compulsory purchase order of Society-owned land
- Dormant Members' Share Capital
- Fraud Risk

These issues were discussed with management during the year and with the auditor at the time the Committee reviewed and agreed the audit plan; and also at the conclusion of the audit of the financial statements.

Misstatements

The Leadership Team confirmed to the Committee that they were not aware of any material misstatements or immaterial misstatements made intentionally to achieve a particular presentation. The auditors reported to the Committee the misstatements that they had found in the course of their work and no material amounts remain unadjusted. The Committee confirms that it is satisfied that the auditors have fulfilled their responsibilities with diligence and professional scepticism.

After reviewing the presentations and reports from the Leadership team and consulting where necessary with the auditors, the Audit Committee is satisfied that the financial statements appropriately address the critical judgements and key estimates (both in respect of the amounts reported and the disclosures). The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

Committee Performance Appraisal

The Board encourages Committees to review their performance annually and to bring forward recommendations that might improve their effectiveness. This has led to regular updating of Committee terms of reference and occasional review of the Board Committee structure. In June 2013, the Board combined the Remuneration and Search Committees and agreed to take new venture proposals at Board level. The Rules Committee is established as an ad hoc working group as and when required and met during 2014 to propose rule amendments that were eventually approved by members at a Special General Meeting held on 15 December 2014.

Directors' Fees and Expenses

Director	2015/16 fees received £	2015/16 expenses £	2014/15 fees received £	2014/15 expenses £
Colin Barrett	8,046	1,408	7,845	595
Mary Blacksell*	2,587	68	7,845	247
Gillian Bober*	2,587	494	7,845	675
Graham Bober*	2,587	425	7,845	432
Jackie Bowis	–	–	2,672	234
Belinda Bulsing	8,046	30	5,173	–
Sally Chicken	8,046	3,145	7,845	673
John Cook	8,046	30	7,845	155
Nicola Fox	8,046	711	7,845	660
Phil Hartwell	8,046	828	7,845	1,084
John Hawkins	8,046	463	7,845	500
Emma Howard*	5,459	351	–	–
Claire Johnsen*	5,459	30	–	–
Clive Mann	8,046	1,136	7,845	1,162
Celia Moore	8,046	279	7,845	446
Chris Newbury	8,046	224	7,845	517
John Pendle	8,046	668	7,068	1,488
Beverley Perkins	8,046	2,057	7,845	1,826
Tereza Scrogie	8,046	724	7,845	643
Steven Shaw*	5,459	258	–	–
	128,736	**13,329**	**124,743**	**11,337**

*This Director only served for part of the current year, see table on page 30.

Management Executive Emoluments

	Basic salary £000	Share of employee bonus £000	Benefits in kind £000	Employer pension contributions £000	2015/16 total emoluments £000	2014/15 total emoluments £000
Nick Denny	167	–	9	16	192	178
Mike Faulkner	145	–	10	15	170	162
Doug Field	189	–	8	22	219	199
Roger Grosvenor	253	–	12	25	290	276
Minnie Moll*	138	–	10	7	155	90
Mark O'Hagan	172	–	12	9	193	184
	1,064	**–**	**61**	**94**	**1,219**	**1,089**

*Minnie Moll was appointed on 28 April 2014 and operates flexible working hours.

Management Executive Pension Table

	Age at year end	Years in the pension scheme	Total pension accrued at year end £000	Increase/ (decrease) in accrued pension during the year (net of inflation) £000
Nick Denny	47	4	5	–
Mike Faulkner	58	10	21	–
Roger Grosvenor	60	24	71	–

Directors' and Management Executive External Directorships or Equivalent

As declared January 2016

Director/Management Executive	External directorship (or equivalent)
Belinda Bulsing	Parish Councillor - Pettaugh Parish Council Trustee - Gilchrist Unit Supporters' Trust
Sally Chicken	Eastern Savings & Loans Credit Union (Director) Rainbow Saver Anglia Credit Union (Director) Galliform Ltd (Director) Plastic Cash Ltd (Director) Anglia Credit Union Ltd Sunrise Community Energy Ltd
John Cook	Ipswich Borough Councillor
Nicola Fox	Your Confidence Expert Ltd
Phil Hartwell	Harwich Connexions (Director) Co-operatives UK (Director) Co-operative Group Members' Council
John Hawkins	Harwich Connexions (Director) Trustee - St Helena Hospice Colchester (Vice Chair)
Claire Johnsen	Stanstead Parish Council Sudbury Chamber of Commerce
Beverley Perkins	Co-op Group – Members' Council Co-op Group – Members' Senate
John Pendle	Co-operative Loan Fund (Director) Trustee, Governor, Non-Exec Director – St Mary's School, Colchester (Chair)
Tereza Scrogie	T S Accounts Ltd (Director) Trulysimple Ltd (Director) Teacups & Tea Ltd
Doug Field	New Anglia LEP Board Member

N.B. All Directors of the Society are directors of subsidiary co-operatives.
Clive Mann and Chris Newbury are directors of subsidiary companies.

Internal Control

This section of the report sets out the Society's approach to internal control and the measures taken to review its effectiveness, so as to provide members with assurance that this critical area receives sufficient attention.

The Board has ultimate responsibility for the Society's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failing to achieve the Society's objectives and can only provide reasonable, rather than absolute, assurance against material misstatement or loss.

The aims of the system of internal control are:

- To safeguard the Society's assets
- Ensure that proper accounting records are maintained
- Ensure that the financial information used within the business and for publication is accurate, reliable and fairly presents the financial position of the Society and the results of its operations

The Board is also responsible for reviewing the effectiveness of the system of internal control and for this purpose it has its Audit Committee.

With the assistance of the Audit Committee, the Directors have continued to review the effectiveness of the Society's system of non-financial as well as financial controls, including operational and compliance controls, risk management and the Society's high level internal control arrangements.

The Board believes that the controls and processes in place are appropriate for an organisation of the size and complexity of the Society.

Control Environment

The quality and competence of our people, their integrity, ethics and behaviour are all vital to the maintenance of the Society's system of internal control.

The Society's control environment framework is designed to create an attitude of taking acceptable business risk within clearly defined limits. This framework contains the following key elements:

- An organisational structure with clear lines of responsibility, delegation of authority and reporting requirements
- Co-ordinated activity across the whole Society by the Management Executive Team
- A risk management process designed to monitor the major risks facing the Society
- Board review and approval of annual budget and longer-term plans for each business group and support function
- Comprehensive systems of financial reporting – actual results together with comparisons to budget and prior year are reported regularly to the Board throughout the year
- Clearly defined policies for capital and revenue expenditure, for example larger capital and revenue expenditure proposals require Board authorisation
- An independent internal audit function which reports directly to the Audit Committee

The Society has a formal Employees' Handbook which sets out the policies that explain and illustrate the high standards of conduct and personal behaviour that are expected of all colleagues in their dealings with members, customers, suppliers and each other.

The Employees' Handbook also contains the Society's Whistleblowing Policy and Procedures.

Control Procedures

The Society's control procedures are designed to ensure appropriate levels of control are maintained with complete and accurate accounting for financial transactions, thereby limiting the potential exposure to loss of assets or fraud. Measures taken include preventative controls (including physical and systems access controls), authorisation procedures, detective controls (including review and reconciliation procedures), segregation of duties, and reviews of processes by management, Internal Audit and the external auditors.

Monitoring

The operation of the system of internal control is the responsibility of line management. It is subject to review by the Finance Department and independent review by Internal Audit. Review also takes place, where appropriate, by the Society's external auditors.

At the start of each financial year the Leadership Team produces a business budget for the Society based on each of the trading divisions. The Board reviews the underlying assumptions and resulting figures. Throughout the year, following each trading period, comprehensive performance reviews are presented by the Leadership Team that compare the results with both the budget and previous year. Significant variations are examined by the Board. This process is complemented by the Board's Performance Review Committee who meet regularly to monitor the commercial performance of the Society.

Review Process

The process used by the Audit Committee to review the effectiveness of the Society's system of internal control includes the following:

- Review of external and internal audit work plans
- Consideration of reports from the independent internal and external auditors on the system of internal control
- Discussion with management of the actions taken to resolve issues identified in such reports.

Opinion on Internal Control System

The Audit Committee has reviewed the operation and effectiveness of the Society's internal control system during the year under review and through to the date of this report. The Committee considers that there have been no weaknesses that have resulted in any material losses or contingencies that require disclosure.

Financial and Business Risk Assessment

The Board and Leadership Team have the primary responsibility for identifying the key business risks facing the Society.

The Society operates a risk management process that identifies the key risks facing each business. The Society has a risk register which identifies the likelihood and impact of those risks occurring and the actions being taken to monitor and control them. Risk assessments are updated regularly and reported to the Audit Committee which has responsibility for establishing a coherent framework for the Society to manage risk, which also includes a Business Continuity Plan.

The objective of the Committee is to assist the Board in carrying out its responsibility to ensure effective risk management and systems of control.

A description of significant risks faced by the Society and relevant mitigating factors

Principal risk	Potential impact	How it is managed
Economic environment	Adverse economic conditions, tightened credit and rising unemployment may give rise to significant changes in consumer spending patterns in our markets. This could have a substantial impact on the performance of businesses operated by the Society.	We seek to understand and respond to the needs of our customers by offering a broad appeal to all customers in our different markets, which are appropriate to economic and market conditions. Financial forecasts are frequently updated to reflect economic indicators and monitor trading conditions.
Competition	The Society trades in highly competitive markets, and faces an increasing threat from national and international businesses seeking growth opportunities through expansion into new geographical areas and new formats. There is a significant number of projects being undertaken by the Society at this time to improve its competitiveness, including technology investments, a food store refresh programme and expansion of our funeral operations. If these projects aren't implemented effectively and on time then there could be an impact on profitability.	We measure trends in our performance and competitiveness e.g. price checks and promotional offers, as appropriate to the competitive landscape. The Society monitors competitor actions as far as is possible from information in the public domain and takes appropriate mitigating actions where possible. Projects are managed using recognised project methodologies and are supported by Society training and development programmes.
Compliance with legislation and regulation	The Society is subject to a wide range of legislative and regulatory requirements, principally designed to protect our customers and employees, and the Society is naturally fully committed to complying with all such requirements. Compliance failures can have serious implications for the trading performance of the unit concerned, or even for the Society as a whole, as well as potentially damaging our reputation. Legislation introducing the National Living Wage and additional energy compliance costs provide external cost pressures which will impact profitability.	The Society ensures that it obtains timely information about forthcoming changes in legislation and that it has robust procedures in place to minimise any risk of non-compliance. Employment of suitably qualified and experienced compliance and risk individuals. Significant resource is directed to training employees and monitoring the effectiveness of training in compliance obligations. We continue to drive efficiencies, through smarter working and technology investment to mitigate external cost pressures where we can.

Principal risk	Potential impact	How it is managed
Major failure of IT systems or infrastructure	The Society has invested significant sums of money in technology and is now heavily reliant on these operational systems. A prolonged failure of a key system or the IT infrastructure would have a detrimental impact on our business, potentially resulting in an inability to make sales, supply stores or pay employees. There could also be a reputational impact with customers losing trust.	Controls are in place to mitigate the risks of losing IT, including disaster recovery and business continuity plans, data backup procedures, backup power supply, hardware maintenance agreements and server replication. Regular tests of controls are undertaken and the Board use Internal Audit to obtain further assurance in this area.
Supply chain disruption	Significant disruption of supply to our trading outlets will impact the level of sales achieved by our retail operations and impact the financial performance of the Society. Our supply chain is linked to the wider co-operative movement through the food retail buying group, Federal Retail and Trading Services (FRTS). A major participant in FRTS is the Co-operative Group. Co-operative Group also manage distribution of goods to our Distribution Centre and food stores.	Supply chain continuity is an integral part of our business continuity plan. We are active participants within the FRTS organisation, attending all Strategy and Monitoring Group discussions. The retention of our own ambient Distribution Centre and the related vehicle fleet also helps mitigate risk.
Damage to our reputation and brand	The Society's reputation as an ethical retailer is based not only on our co-operative structure and philosophy, but also our longstanding commitment to ethical business practices, the quality of our products and services, and our ability to respond to changing member and customer demand for our products and services. If we fail to deliver excellent standards of hygiene and safety in our products and stores there is potential harm to our customers. Any failure to meet the high standards our members expect from us in these core areas will damage our reputation and potentially affect the ongoing success of our businesses.	Considerable management attention and training are devoted to protection of our reputation and brand. Health and safety is a mandatory Board and Leadership Team agenda item. The Society is an active participant within the co-operative movement and one of its Directors is also a Director of Co-operatives UK, the national trade body that campaigns for co-operation and works to promote, develop and unite co-operative enterprises. The Board of Directors are also represented on the Co-op Group's Members' Council and Senate. In practical terms, elements of this risk are outside the Society's control as the Co-operative 'brand' is managed by many different societies in different parts of the country.
Finance and liquidity	Inability to generate sufficient funds to meet business needs, including payments to members. The Society has exposure to commodity prices and fluctuations in interest rates, which can impact on financial performance.	The Finance function has processes and procedures in place to manage its responsibility for the Society's liquid resources, cash flow requirements and financial risk. The Society has significant liquid assets and so its exposure to liquidity risk is considered low.
Property investment values	The Society's property portfolio comprises both trading and investment properties. The latter are revalued on a regular basis in line with generally accepted accounting principles and in commercial terms provide a significant source of investment income to the Society. Any downturn in the commercial and residential property markets is likely to impact this income stream and, in consequence, reduce the capital value of those investments.	The investment property portfolio is under continual review to mitigate any risks to the Society.
Pension schemes	Inherent within the Society's final salary schemes is the risk that key variables, such as life expectancy and investment returns earned, may vary from current expectations and potentially increase the future costs that will have to be borne by the Society.	The Society and the schemes' trustees continue to carefully monitor the pension risks, taking action when necessary to adjust contributions to the schemes and revising the schemes' investment strategy to mitigate risks. Both final salary schemes have been closed to future accrual to reduce risk in this area. The Asset Backed Funding arrangement, introduced by the Society in 2013, has improved security for members of the two defined benefit pension schemes as well as increasing certainty for the Society in terms of funding.

Corporate Matters

This section of the report covers corporate policies and practices that the Board considers should be communicated to members.

Employees

The Society is committed to a policy of treating all its colleagues and job applicants equally and to increasing the involvement of colleagues through engagement activities.

Colleague engagement

Consultation with colleagues or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests.

Communication with all employees continues through in-house newsletters.

Equal opportunities

We have continued our policy of equal opportunities including the employment of people with disabilities. We ensure full and fair consideration is given to applications for employment where a disability is advised, having regard to particular aptitudes and abilities.

In the event of employees becoming disabled, every effort is made to ensure that their employment with the Society continues and all reasonable adjustments are made.

It is the policy of the Society that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Supplier payment policy

It is our policy to agree the terms of payment as part of the commercial arrangement negotiated with suppliers and then pay according to those terms once we receive an accurate invoice.

Trade creditor days as at 23 January 2016 were 23 days (2015: 20 days). This represents the ratio, expressed in days, between the amounts we are invoiced by our suppliers in the year and the amounts due at the year end to trade creditors.

Political donations

The Society's rules provide that affiliation and subscription to the Co-operative Party shall be determined by members in a general meeting.

During the year, subscriptions of £48,000 (2015: £31,848) were paid to the Co-operative Party.

Auditor independence

To ensure auditor independence and objectivity are safeguarded, the Board has a policy of monitoring any non-audit work undertaken by the Society's auditors.

All non-audit engagements of the External Auditor require formal approval by the Audit Committee except that the Committee's authorisation is not required where the External Auditor will be undertaking the proposed engagement in conjunction with other external organisations (as a member of a consortium; as a sub-contractor or through some other relationship) and the External Auditor will receive less than 15% of the value of the contract.

In addition, in accordance with the Code, the Society has adopted a policy whereby the audit engagement partner does not conduct the Society's audit for more than five years.

Transition to new accounting standards

This is the first year that the Society has presented its results under the new accounting standard, FRS 102. In order for these financial statements to show comparative figures for last year, the 2015 results have been restated. The significant areas affected by the transition are: funeral bonds, investment property, defined benefit pension scheme and deferred taxation. As a result of the transition, the profit for the year ended 24 January 2015 has reduced by £1.8m to a reported loss of £41,000. Members' funds have reduced by £4.7m to £216.9m. For full details, please refer to Note 7.5 of the financial statements.

Directors' and officers' indemnity insurance

The Society maintains appropriate Directors' and Officers' liability insurance cover in respect of legal action against its Directors. The arrangements for this were reviewed during the year.

Statement of compliance

To help members assess the Society's governance arrangements, the Society is required to specify those elements of the Code with which it does not comply. This section covers this requirement. The matters listed will be kept under review by the Board.

Members should note that the Society is required to complete a compliance questionnaire, drawn up by Co-operatives UK, to enable a formal assessment of its compliance with the Code by Co-operatives UK. This questionnaire will be available to members on request. Those interested should contact the Secretary.

Code of Corporate Governance – Exception Report

	Explanation of non-compliance
Search Committee Remuneration Committee Audit Committee	Membership of these committees is not limited to three years. Instead, the Board is mindful of the need to change the membership over time but also of the need to try to ensure some continuity of membership. Committee memberships are adjusted each year without a 'rule' limiting continuous service.
Audit Committee	The Committee does not have a Director with recent relevant financial experience or an accountancy qualification as defined by Co-operatives UK. However, the Committee has access to independent professional advice, internal accounting experience and considerable experience of challenging the Executives.
Independent Professional Non-Executive Directors ('IPNEDs')	The Code calls for the co-option of IPNEDs to be considered formally every year. The Board does not specifically consider the merits or otherwise of co-opting IPNEDs but does spend considerable time at various meetings throughout the year considering whether it is working effectively. Co-option of IPNEDs remains an option under the rules if the Board has concerns about its efficiency.
President's term of office	The Code calls for a three year limit on the President's term. This Society has adopted a four year term limit as this is consistent with Director terms of office.
Chief Executive	The Code contains various provisions relating to the office of Chief Executive. The Board has established a collegiate Leadership Team instead of having a single Chief Executive and this arrangement has been effective since its introduction in 2011.
Member Value Statement	The Board has yet to develop a 'Member Value Statement'. The value that members obtain from the Society is both economic and social and defining this is not a key priority of the Board.
Major Transactions	The Society does not have a rule requiring major transactions involving more than 25% of the entire value of the Society to be put to members for decision. No such decisions have arisen in living memory other than Society merger, which the rules do require to be put to members.
Loss of earnings for Directors	The Board does not pay loss of earnings to Directors for their attendance at Board or Society events. The Board is of the opinion that the Board fee has adequately compensated Directors for their contribution.
Three year term for Directors	The Code suggests a three year term of office (renewable three times in succession) is suitable to ensure new blood is brought onto the Board. This term fits with many Boards of 12 Directors. This Society has a Board of 16 Directors and four year terms are therefore considered more appropriate – with a quarter of the Board retiring each year.
Independent professional advice	The Code calls for a single Director to be permitted to obtain independent professional advice. The Board believes that if a Director wants to expose the Society to such professional fees he/she should be able to convince at least another two Directors to support the request. Any three Directors can seek independent professional advice at the Society's cost.

Statement of disclosure of information to auditors

So far as each of the Directors is aware, there is no relevant audit information of which the Society's auditors are unaware, and they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

On behalf of the Board:

Mike Faulkner
Secretary

Sally Chicken
President

16 April 2016

Statement of Directors' Responsibilities

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

The Co-operative and Community Benefit Societies Act 2014 requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accountancy Practice), including Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102). Under the Co-operative and Community Benefit Societies Act 2014 the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Society and of the profit or loss of the Society for that period.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether applicable United Kingdom Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements
- Notify its members in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Society's transactions and disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014. They are also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going Concern

The Board of Directors has considered the requirement of the Corporate Governance Code for Consumer Co-operative Societies (November 2013) to confirm its view that the Society can be regarded as a going concern. After making all appropriate enquiries, the Directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future.

Board Certification

The Financial Statements on pages 46 to 72 are hereby signed on behalf of the Board of Directors pursuant to The Co-operative and Community Benefit Societies Act 2014.

On behalf of the Board:

Sally Chicken
President

Colin Barrett
Vice-President

Mike Faulkner
Secretary

16 April 2016

Independent Auditors' Report

to the members of East of England Co-operative Society Limited

Report on the Group financial statements

Our opinion

In our opinion, East of England Co-operative Society Limited's group financial statements (the "financial statements"):

- give a true and fair view of the state of the Society's affairs as at 23 January 2016 and of its profit and cash flows for the 52 week period (the "period") then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) and the Co-operative and Community Benefit Societies Act 2014 and the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Group Balance Sheet as at 23 January 2016;
- the Group Revenue Account and Group Statement of Comprehensive Income for the period then ended;
- the Group Cash Flow Statement for the period then ended;
- the Group Statement of Changes in Equity for the period then ended;
- the Accounting Policies; and
- the notes to the financial statements, which include other explanatory information

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Our audit approach

Overview

Materiality

Overall group materiality: £3.4 million (2015: £3.4 million) which represents 1% of revenue.

Audit scope

- The two core operating businesses are made up of seven reporting units and the Group financial statements are a consolidation of those seven reporting units and centralised functions.
- East of England Co-operative Society, Ardencrest Limited and the centralised functions were considered to be financially significant and therefore were subject to audits of their complete financial information by the Group audit team.

Areas of focus

- Stock / GRNI reconciliations
- Retail stock valuation, particularly the provision for perishable produce
- Investment and trading property valuations
- Defined benefit pension plan net liability, including the appropriateness of the assumptions used
- Transition to FRS 102

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table opposite. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Stock / GRNI reconciliations *Refer to page 32 (Corporate Governance Report).* When goods are delivered to store they need to be manually entered into the stock system at the time of delivery. This manual process means that there is a risk that they are booked into stock at incorrect quantities. This could result in an under / overstatement of stock in the system. Supplier invoices are received after the goods have been delivered and therefore an exercise is performed by management to ensure that invoices subsequently received are reconciled with the amounts recorded in the stock system and recorded in the goods received not invoiced ('GRNI'). This exercise has been performed by management subsequent to the year end with invoices matched to goods received such that only immaterial differences remain.	We have performed testing to validate stock quantities recorded, and tested the subsequent clear down of items within the GRNI year-end accrual to an immaterial level. In order to give us comfort that stock was correctly recorded in the stock system, we also attended a sample of 11 stock counts at the year end date. As a result of this work, we were able to conclude that the GRNI had been appropriately cleared down post year end.
Retail stock valuation *Refer to page 32 (Corporate Governance Report).* Stock is a material balance. The stock provision is inherently judgemental as a result of the perishable nature of the Society's grocery products and uncertainty as to whether it will be able to sell all of the stock in the appropriate timescale. The stock provision is calculated in two ways. For some stock categories a provision is provided based on de-listing date (up to 100%). For the remaining stock categories the provision is based on the application of a fixed percentage (2-22%) to each stock category. The stock categories and percentages are determined using management's judgement.	We assessed management's judgements with respect to the stock provision. The key judgement related to the provision rate applied to each product category. We compared these rates to those used in prior years and challenged management where those rates had changed during the period, agreeing to corroborative evidence where appropriate. We also agreed stock quantities and values to the underlying records and reviewed the level of provision against previous years and any actual write-offs during the period. We have concluded that the key judgements made by management were appropriate.
Investment and trading property valuations *Refer to page 32 (Corporate Governance Report).* The Society holds a large number of investment properties with a carrying value of £103.7 million. This represents a decrease of £4.7 million compared to the prior year. Given that these amounts are significant, and the judgement involved, there is a risk that the valuations performed at the year end may be inaccurate. In addition, there is a risk that trading properties will need to be impaired given that trading conditions have continued to be challenging during the period. As a result of the exercise performed by management, a downward revaluation loss of £0.2 million was recognised in the Group Revenue Account relating to investment properties. No impairment charge was recognised against the trading properties.	We assessed and challenged management's judgements with respect to property valuations. We confirmed that the results of the valuations conducted by the external valuers were consistent with the results of those properties valued by the Group's internal valuation team. We did this by comparing the movement between the current and prior year valuations performed by the external valuers and those conducted by the Group's internal valuers. This gave us evidence that the movements were consistent between the external and Group's internal valuers. We assessed the results of management's exercise to identify loss making stores. We have assessed and challenged management's judgements, specifically the store revenue growth assumptions, margin assumptions and discount rate. We have then performed a sensitivity analysis, which did not identify any additional material impairment.
Defined benefit pension plan net liability *Refer to page 32 (Corporate Governance Report).* *See also note 5.3 to the financial statements for the Directors' disclosures of the related accounting policies and detailed pension disclosures.* The Group has a defined benefit pension plan net liability of £18.2 million, which is significant in the context of the Group Balance Sheet. The valuation of the pension liability requires significant levels of judgement and technical expertise in choosing appropriate assumptions. These assumptions include salaries increase, inflation, discount rates, expected rate of return on plan assets and mortality.	We agreed the discount and inflation rates, together with the expected rates of return on plan assets used in the valuation of the pension liability by the external actuary to our internally developed benchmarks. We obtained an understanding through discussion with the external actuary of the methodology used to derive the discount rate. We compared the assumptions around salaries increase and mortality to national and industry averages. All of the assumptions used were within our expected range and therefore we concluded that they were appropriate to support the valuation of the net pension liability.

Area of focus	How our audit addressed the area of focus
Transition to FRS 102 *Refer to page 32 (Corporate Governance Report).* *See also note 7.5 to the financial statements for the Directors' disclosures of the transition to FRS 102.* Transition to New UK GAAP (FRS 102) is required for the year ended 23 January 2016. Such a fundamental change in GAAP inevitably increases the risk of misstatement, particularly around presentation and disclosure.	We have assessed management's transition analysis for completeness by using a FRS 102 disclosure checklist. Two key areas of judgement were identified by management: accounting for funeral bonds and accounting for deferred taxation on investment properties. For funeral bond accounting, we considered the nature of the arrangement to assess the accounting treatment for the asset element and the liability element of the arrangement. We concluded that the funeral bond asset met the criteria to be accounted for as a financial asset, with fair value movements recorded in interest income in the Group Revenue Account, and that the liability to provide the funeral in the future should be held as deferred income. For deferred taxation on investment properties, we tested the Society's calculations by agreeing a sample of properties back to supporting documentation for the date of purchase and revaluation reserve. We also re-performed the calculations, on a sample basis, of the resulting gains made and the deferred taxation liability.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured as two core operating businesses focused on retail trading and investment property across the East of England. The businesses are made up of seven reporting units and the Group financial statements are a consolidation of those seven reporting units and centralised functions.

East of England Co-operative Society Limited, Ardencrest Limited and the centralised functions were considered to be financially significant and therefore were subject to audits of their complete financial information by the Group audit team. This scope of work, together with audit work on the consolidation, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£3.4 million (2015: £3.4 million).
How we determined it	1% of revenue.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £100,000 (2015: £100,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Other required reporting

Consistency of other information
ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
Information in the Annual Report is: · materially inconsistent with the information in the audited financial statements; or · apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or · is otherwise misleading.	We have no exceptions to report arising from this responsibility.

Other matters on which we are required to report by exception

Under the Co-operative and Community Benefit Societies Act 2014 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 Society's 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

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 41, the Directors are responsible for the preparation of the financial statements and for being satisfied that they 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 87 of the Co-operative and Community Benefit Societies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Norwich
16 April 2016

Group Revenue Account

For the 52 weeks ended 23 January 2016

	Note	2016 £000	2015 £000
Turnover	1.1	**338,473**	**341,583**
Cost of sales	2.1	(235,897)	(237,756)
Gross profit		**102,576**	**103,827**
Operating expenses	2.1	(98,502)	(99,192)
Trading Profit		**4,074**	**4,635**
Changes in fair value of investment properties		(205)	(2,182)
Unrealised impairment of tangible fixed assets		–	(413)
Employee bonus	2.4	(283)	(344)
Profit on disposal of property		2,758	1,924
Restructuring costs		(967)	(892)
Profit before interest, distributions and taxation		**5,377**	**2,728**
Interest receivable and similar income	2.2	3,391	2,763
Other finance expense	2.2	(999)	(972)
Profit before distributions and taxation		**7,769**	**4,519**
Dividend		(2,860)	(3,220)
Grants/donations	2.3	(917)	(902)
Profit before taxation		**3,992**	**397**
Taxation	3.1	182	(438)
Profit/(loss) for the financial year		**4,174**	**(41)**

The above results relate to continuing activities.

	Note	2016 £000	2015 £000
Alternative performance measure – underlying trading profit			
Profit before interest, distributions and taxation		5,377	2,728
Changes in fair value of investment properties		205	2,182
Unrealised impairment of tangible fixed assets		–	413
Profit on disposal of property		(2,758)	(1,924)
Restructuring costs		967	892
Underlying trading profit for the year		**3,791**	**4,291**

Group Statement of Comprehensive Income

For the 52 weeks ended 23 January 2016

	Note	2016 £000	2015 £000
Profit/(loss) for the financial year		4,174	(41)
Remeasurements of net defined benefit obligations	5.3	13,753	(10,782)
Movement in deferred tax relating to pension liability	3.1	(400)	916
Effect of change in rates on movement in deferred tax relating to pension liability	3.1	76	–
Total other comprehensive income/(expense)		13,429	(9,866)
Total comprehensive income/(expense) for the year		**17,603**	**(9,907)**

Group Balance Sheet

As at 23 January 2016

	Note	£000	2016 £000	£000	2015 £000
Fixed assets					
Intangible assets	4.1		9,685		9,179
Tangible assets	4.2		216,219		216,895
Investments	4.3		33,785		28,483
			259,689		254,557
Current assets					
Stocks	4.4	21,355		21,979	
Debtors	4.5	7,631		8,591	
Investments	4.3	3,919		6,061	
Cash at bank and in hand		25,541		14,583	
		58,446		51,214	
Current liabilities					
Creditors – amounts falling due within one year	5.1	(36,374)		(29,280)	
Net current assets			22,072		21,934
Total assets less current liabilities			281,761		276,491
Long-term liabilities					
Creditors – amounts falling due after more than one year	5.1		(27,300)		(23,767)
Provision for other liabilities	5.2		(1,482)		(337)
Net assets excluding pension liabilities			252,979		252,387
Pension liabilities					
Deficit on defined benefit schemes	5.3		(18,170)		(33,607)
Other retirement benefits	5.3		(1,725)		(1,915)
Net assets			**233,084**		**216,865**
Capital and reserves					
Share capital	6.1		9,303		14,572
Fair value reserve			38,139		37,562
Revenue reserve			185,642		164,731
Members' funds			**233,084**		**216,865**

Group Statement of Changes in Equity

For the 52 weeks ended 23 January 2016

	Share capital £000	Fair value reserve £000	Profit and loss account £000	Total £000
As at 26 January 2014	15,117	38,658	173,602	227,377
Loss for the year	–	–	(41)	(41)
Other comprehensive expense	–	–	(9,866)	(9,866)
Transfer	–	(1,096)	1,096	–
Total comprehensive expense for the year	–	(1,096)	(8,811)	(9,907)
Contributions to share capital	894	–	–	894
Dividend cheques paid in	727	–	–	727
Share interest	75	–	(60)	15
Withdrawals	(2,241)	–	–	(2,241)
Total transactions with members recognised directly in equity	(545)	–	(60)	(605)
As at 24 January 2015	**14,572**	**37,562**	**164,731**	**216,865**
Profit for the year	–	–	4,174	4,174
Other comprehensive income	–	–	13,429	13,429
Transfer	–	577	(577)	–
Total comprehensive income for the year	–	577	17,026	17,603
Contributions to share capital	1,026	–	–	1,026
Dividend cheques paid in	612	–	–	612
Withdrawals	(2,019)	–	–	(2,019)
Share interest	60	–	(70)	(10)
Dormant share accounts released to reserves	(4,948)	–	4,948	–
Tax on dormant share accounts	–	–	(993)	(993)
Total transactions with members recognised directly in equity	(5,269)	–	3,885	(1,384)
As at 23 January 2016	**9,303**	**38,139**	**185,642**	**233,084**

Group Cash Flow Statement

For the 52 weeks ended 23 January 2016

	Note	2016 £000	2015 £000
Net cash from operating activities	7.3	17,554	9,011
Taxation received		577	493
Net cash generated from operating activities		18,131	9,504
Cash flow from investing activities			
Purchase of intangible assets		(1,942)	(80)
Purchase of tangible assets		(12,756)	(9,657)
Purchase of fixed asset investments		(1)	(104)
Proceeds from disposals of tangible assets		10,253	3,618
Proceeds from disposal of fixed asset investments		9	–
Purchase of funeral bond investments		(6,223)	(4,632)
Interest received and similar income		893	950
Net cash used in investing activities		(9,767)	(9,905)
Cash flow from financing activities			
Share interest paid		(85)	(75)
Decrease in share capital		(321)	(545)
Net cash used in financing activities		(406)	(620)
Net increase/(decrease) in cash and cash equivalents		7,958	(1,021)
Cash and cash equivalents at the beginning of the year	7.3	18,583	19,604
Cash and cash equivalents at the end of the year		**26,541**	**18,583**
Cash and cash equivalents consists of:			
Cash at bank and in hand		25,541	14,583
Short term deposits (included in current asset investments)		1,000	4,000
Cash and cash equivalents		**26,541**	**18,583**

Accounting Policies

General information

The East of England Co-operative Society (registered number 1099R) and its subsidiaries operate convenience stores, supermarkets, travel, pharmacy, optical and funeral services branches across Norfolk, Suffolk and Essex. In addition, the Group also holds a large portfolio of investment properties.

The Society is incorporated in England under the Co-operative and Community Benefit Societies Act 2014 and its registered address is Wherstead Park, The Street, Wherstead, Ipswich, IP9 2BJ.

Basis of accounting

The following accounting policies have been applied consistently. The Group financial statements are prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"). The financial statements are also prepared in accordance with the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969 and the Co-operative and Community Benefit Societies Act 2014.

The prior year financial statements were restated for material adjustments on adoption of FRS 102 in the current year. For more information see note 7.5.

Accounting date

The Group financial statements are made up to the fourth Saturday in January of each year. The financial year represents the 52 weeks ended 23 January 2016 (2015: 52 weeks ended 24 January 2015).

Basis of consolidation

The consolidated financial statements include the audited results of East of England Co-operative Society Limited and all its subsidiaries. However, not all subsidiaries' financial statements are subject to audit. Please refer to note 7.4 for details.

Subsidiaries are those entities controlled by the Group. Control exists when the Society has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Accounting policies are consistent across all of the Society's subsidiaries.

Going concern

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Significant accounting policies

Accounting policies relating to specific areas of the financial statements can be found in their relevant sections.

Provisions

The Group makes provision for liabilities and charges when it has a legal or constructive obligation arising from a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not discounted on the basis of materiality.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Use of non-GAAP profit measures – Underlying trading profit

The Directors believe that an underlying trading profit measure provides additional useful information for members on underlying trends and performance. This measure is used for internal performance analysis. Underlying profit is not defined by UK GAAP and therefore may not be directly comparable with other societies' or companies' adjusted profit measures. It is not intended to be a substitute for, or superior to, UK GAAP measurements of profit.

Underlying trading profit is calculated by reference to profit before interest, distributions and taxation, adjusted for impairments of investment and trading properties, and exceptional items.

Exceptional items

The Society classifies certain one-off charges or credits that have a material impact on the financial results as exceptional items. These significant items are separately disclosed by virtue of their size or incidence to enable a full understanding of the Society's financial performance. Transactions which may give rise to exceptional costs/gains are principally re-organisation/restructuring costs, significant changes to pension arrangements and any surplus/deficit arising in respect of discontinuance of operations.

In determining underlying trading profit, it is considered appropriate to adjust for exceptional items as these gains or losses can have a significant impact on both absolute profit and profit trends.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held with banks and other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Society makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Information about areas of estimation, uncertainty and critical judgements used in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

	Note
Deferred taxation – estimation of deferred tax liability in relation to revalued investment property	3.1
Measurement of the recoverable amounts from cash generating units containing intangible assets or goodwill – estimation of future cashflows and selection of pre-tax discount rate	4.1
Valuation of investment properties – inherently subjective nature of valuations	4.2
Stock valuation – estimation of stock provision which requires judgement	4.4
Measurement of pension obligations – inherent uncertainty in use of assumptions	5.3

Notes to the Financial Statements

KEEPING IT SIMPLE

The 'keeping it simple' boxes are included as additional disclosure to help readers' understanding and interpretation.

Section 1 – Turnover

IN THIS SECTION

This section provides information used to establish the turnover of the Society.

KEEPING IT SIMPLE – TURNOVER

Turnover represents the amount of money customers pay or are liable to pay at the point of sale and delivery, less VAT, staff discount and agency fees.

Accounting policy:

Turnover includes cash sales, goods sold on credit, commissions and property rental income and arises wholly in the United Kingdom.

Turnover is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, VAT and other sales tax or duty. Turnover is recognised when:

- the significant risks and rewards of ownership have been transferred to the buyer
- the Group retains no continuing involvement or control of the goods
- the amount can be measured reliably
- it is probable the future economic benefits will flow to the entity and
- when the specific criteria relating to each of the Group's sales channels have been met, as described below
  a) Retail sales

     Sales of goods are recognised on sale to the customer, which is considered point of delivery. Retail sales are usually by cash, credit or debit card.

  b) Rental income

     Rental income from operating leases, excluding charges for insurance and maintenance, is recognised on a straight-line basis over the period of the lease, even if payments are not made on this basis.

  c) Agency fees and commissions

     Turnover includes amounts in relation to commission receivable in respect of sales made on an agency basis, principally relating to travel and concession sales, and is recognised at the point of sale.

  d) Income from franchise locations

     In certain locations the Group operates a franchised brand from third parties. Income from these locations is recognised at point of sale.

1.1 SEGMENTAL REPORTING

KEEPING IT SIMPLE – SEGMENTAL REPORTING

The segmental report details the breakdown of turnover between the Society's different business activities, in this case retail and property.

	2016 £000	2015 £000
Turnover		
Retail	331,390	334,401
Property	7,083	7,182
	338,473	**341,583**

Section 2 – Expenses

IN THIS SECTION

This section contains details of costs incurred by the Society during the year, transactions with Directors, finance costs and payments to and on behalf of members.

2.1 EXPENSES

KEEPING IT SIMPLE – COST OF SALES

Cost of sales are the costs we incur in buying the goods and the services we provide to our customers.

KEEPING IT SIMPLE – OPERATING EXPENSES

Operating expenses are the costs we incur in providing the goods and services we deliver to our customers. This includes the amount we pay our colleagues and the costs of running our retail outlets.

	2016 £000	2015 £000
Cost of sales	**235,897**	**237,756**
Personnel (note 2.1.1)	58,700	58,574
Occupancy costs	12,226	12,299
Profit on sale of fixed assets	(15)	(12)
Hire of plant and machinery	78	64
Vehicle contract hire/lease	491	364
Depreciation and other amounts written off tangible fixed assets	6,544	6,816
Amortisation of intangible fixed assets	1,435	989
Auditors' remuneration		
– Fees payable for the audit of consolidated financial statements	12	12
– Fees payable for the review of the interim report	–	10
– Fees payable for the audit of the Society and its subsidiaries	64	73
– Non-audit fees – VAT advice and assistance	17	–
Directors' fees (note 2.1.3)	129	125
Other expenses	18,821	19,878
Operating expenses	**98,502**	**99,192**

2.1.1 EMPLOYEES

	2016 Number	2015 Number
The average number of persons employed by the Society during the year was:		
Full time	1,110	1,180
Part time	3,200	3,478
	4,310	**4,658**

2.1.1 EMPLOYEES (CONTINUED)

	2016 £000	2015 £000
The cost incurred in respect of these employees was:		
Wages and salaries	52,478	52,132
Social security costs	2,914	2,777
Other pension costs	3,308	3,665
	58,700	**58,574**

2.1.2 KEY MANAGEMENT COMPENSATION

KEEPING IT SIMPLE – KEY MANAGEMENT COMPENSATION

This is the amount we pay to the Society's Management Executive.

	2016 £000	2015 £000
Key management includes members of the Management Executive. The compensation paid or payable to key management for employee services is shown below:		
Salary	1,064	951
Taxable benefits	61	58
Post-employment benefits	94	80
	1,219	**1,089**

Three of the Management Executive who served during the year are members of the Society's defined benefit pension schemes. All members of the Management Executive who served during the year participated in the Society stakeholder pension scheme.

The remuneration of the Executive Officer – Retail (who is also the highest paid employee) included above is set out below.

	2016 £000	2015 £000
Salary	253	240
Taxable benefits	12	12
Post-employment benefits	25	24
	290	**276**

	2016 £000	2015 £000
Accrued annual pension	71	70
Increase in accrued pension (net of inflation)	–	–
Transfer value of total accrued pension	1,076	942

The emoluments of the members of the Management Executive fell in the following £10,000 brackets:

	2016 Number	2015 Number
£90,000 – £100,000	–	1
£150,000 – £160,000	1	–
£160,000 – £170,000	1	1
£170,000 – £180,000	–	1
£180,000 – £190,000	–	1
£190,000 – £200,000	2	1
£210,000 – £220,000	1	–
£270,000 – £280,000	–	1
£290,000 – £300,000	1	–

2.1.3 TRANSACTIONS WITH DIRECTORS

KEEPING IT SIMPLE – TRANSACTIONS WITH DIRECTORS

This section shows any payments made to Directors for their role in the Society.

	2016 £000	2015 £000
Directors' emoluments		
The total remuneration of the Directors for their Board duties was as follows:		
Fees	129	125
The number of Directors whose emoluments fell in each £5,000 bracket was as follows:		
£0 – £5,000	3	1
£5,001 – £10,000	16	16

2.2 FINANCE COSTS / INCOME

KEEPING IT SIMPLE – FINANCE COSTS / INCOME

This is the amount of money we have paid out or received from our investments. We include interest received on bank accounts and pension obligations and interest paid on overdraft facilities used. Investment income relates to pre-paid funeral plans.

	2016 £000	2015 £000
INTEREST RECEIVABLE AND SIMILAR INCOME		
Interest receivable (note 4.3)	256	519
Investment income (note 4.3)	3,135	2,244
	3,391	**2,763**

	2016 £000	2015 £000
OTHER FINANCE EXPENSE		
Interest expense on pension obligations (note 5.3)	999	972

2.3 PAYMENTS TO AND ON BEHALF OF MEMBERS

KEEPING IT SIMPLE – PAYMENTS TO AND ON BEHALF OF MEMBERS

We return some of the profits earned each year to our members. We also support a range of co-operatives and other organisations through grants and donations.

	2016 £000	2015 £000
GRANTS/DONATIONS		
Member and Community Services expenditure	897	887
Donations	20	15
	917	**902**

2.4 EMPLOYEE BONUS

KEEPING IT SIMPLE – EMPLOYEE BONUS

We return some of the profits back to the employees of the Society.

Accounting policy:

The employee bonus approved by the Board during the year was paid in the form of vouchers during the year and these were valid until 23 January 2016. No liability is held for these vouchers not redeemed at the balance sheet date. Any unredeemed vouchers after the expiry date are released to the profit and loss account for that year.

Section 3 – Tax

IN THIS SECTION

This section shows the current tax and deferred tax charged during the year.

3.1 INCOME TAX AND DEFERRED TAX

KEEPING IT SIMPLE – INCOME TAX EXPENSE

This section shows the adjustments we make to our profits to calculate how much tax we have to pay.

KEEPING IT SIMPLE – DEFERRED TAX

Deferred tax arises because financial accounting rules and tax accounting rules are different.

A deferred tax asset is generally a tax saving which will be made in the future as a result of transactions which have already occurred. A deferred tax liability recognises tax which may be payable in the future as a result of events which have already occurred.

Accounting policy:

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

		2016		2015
	£000	**£000**	£000	**£000**
TAXATION				
Revenue account				
Current tax:				
UK corporation tax on profits for the year	–		–	
Adjustment in respect of prior years	(10)		(576)	
UK current tax credit		(10)		(576)
Deferred tax:				
Effect of change in rate on opening liability	41		–	
Timing differences arising in the year	416		1,784	
Adjustment in respect of prior years	(629)		(770)	
UK deferred tax (credit)/charge		(172)		1,014
Total UK tax (credit)/charge for the year		**(182)**		**438**

3.1 INCOME TAX AND DEFERRED TAX (CONTINUED)

TAX RECONCILIATION

The tax assessed for the year is lower (2015: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	£000	2016 £000	£000	2015 £000
Profit before tax	3,992		397	
Tax due if paid at the applicable UK corporation tax rate 20.18% (2015: 21.36%)	806		85	
Adjustments relating to current tax:				
Expenses not deductible for tax purposes	939		927	
Income not taxable relating to property disposal	(906)		–	
Expenses not deductible relating to pension scheme	203		208	
Impact of depreciation in excess of capital allowances	896		954	
Short-term timing differences in relation to accounting provisions	(34)		4	
Short-term timing differences in relation to funeral bonds	115		(409)	
Effect of tax relief on pension contributions	(2,798)		(2,464)	
Unrelieved tax losses arising in period	779		695	
Adjustment to tax charge in prior period	(10)		(576)	
Current tax credit for the year		**(10)**		**(576)**
Adjustments relating to deferred taxation:				
Effect of change in rate on opening liability	41		–	
Adjustment in respect of prior period	(629)		(770)	
Impact of depreciation in excess of capital allowances	(801)		(893)	
Impact of rental payments to property partnership	201		522	
Impact of pension scheme movements in profit and loss account	(180)		(194)	
Unrelieved tax losses arising in period	(816)		(203)	
Short term timing differences in respect of pension contributions	2,078		2,307	
Short-term timing differences in relation to funeral bonds	(102)		382	
Other short term timing differences	36		(137)	
Deferred tax (credit)/charge for the year		**(172)**		**1,014**
Total tax (credit)/charge for the year		**(182)**		**438**

Tax policy

The Society adopted a tax policy on 18 April 2015. A copy is available on our website at www.eastofengland.coop/taxpolicy. The disclosure made in these financial statements complies with the commitments made in that tax policy.

Tax rates

The Society is subject to the standard rate of corporation tax, which changed from 21% to 20% on 1 April 2015, which was during the Society's financial year. The standard rate of 20.18% applicable for the year has therefore been calculated on a time-apportioned basis.

The main rate of corporation tax will reduce from 20% to 19% on 1 April 2017 and then to 17% on 1 April 2020. At the balance sheet date, the rate of 17% had not been substantively enacted, and therefore deferred tax assets and liabilities have been measured at a rate of 18%; this is the rate which was originally expected to apply from 1 April 2020.

Expenses not deductible for tax purposes

Some expenses incurred by the Society may be entirely appropriate charges for inclusion in its financial statements but are not allowed as a deduction against taxable income when calculating the Society's tax liability. The most significant example of this is accounting depreciation or losses incurred on assets that do not qualify for capital allowances (generally land and buildings). Other examples include some legal expenses and some repair costs.

Income not taxable relating to property disposal

During the year, the Society sold property and recognised an accounting profit of £2.8m. As mentioned above, the accounting treatment in relation to fixed assets is different from the taxation treatment and, although the Society will need to calculate a capital gain on which corporation tax will be payable if the gain is not rolled over, the accounting profit is not recognised for tax purposes.

Expenses not deductible relating to pension scheme

During the year, the Society has recognised other finance expense of £999,000 (2015: £972,000) relating to movements in the defined benefit pension scheme. Although this expense has reduced accounting profits, it is not recognised for tax purposes.

Depreciation in excess of capital allowances

The accounting treatment of expenditure on fixed assets differs from the taxation treatment. For accounting purposes, an annual rate of depreciation is applied by the Society. For taxation purposes, the Society is able to claim capital allowances, a tax relief provided in law.

As the Society is loss-making for corporation tax purposes, no capital allowances have been claimed which results in a difference between the profit for accounting and taxation purposes.

Short-term timing differences in relation to funeral bonds

The Society's transition to new accounting standards (see note 7.5) has led to an accelerated recognition of profit on funeral bond sales. To assist companies in this position, HMRC have allowed for some tax liabilities, which arise specifically as a result of transition, to be spread over a 10 year period. This relief resulted in a deferred tax liability being recognised at our transition date, which will be released to the revenue account over the next 10 years.

Adjustments to tax charges in prior years

Adjustments to tax charges in earlier years arise because the tax charge in the financial statements is estimated before the detailed corporation tax calculations are prepared. Additionally, HM Revenue & Customs (HMRC) may not agree with the tax return that was submitted for a year and the tax liability for a previous year may be adjusted as a result.

3.1 INCOME TAX AND DEFERRED TAX (CONTINUED)

Tax relief on pension payments

During the financial year ended 25 January 2014, the Society took steps to improve the security of the members of our two defined benefit pension schemes. To do this, we placed a variety of trading and investment properties into the East of England Scottish Limited Partnership, directing rental income into the pension scheme as a form of cash contribution. The value of the transaction was £65.9m of which £48.1m is eligible for tax relief over four years.

The difference in timing between the recognition of the pension contribution in the accounts and the tax deduction received has led to the reconciling item above.

As only £36.6m of the tax deductible £48.1m contribution has been allowed by HMRC to date, this contribution also has an impact on our deferred tax position. The Society is entitled to future tax relief of £11.5m, giving rise to a large deferred tax asset. In future periods, taxable profits will arise which will be offset by the spreading forward of the relief on the pension contribution made last year. As a result, the Society will pay no current corporation tax until taxable profits exceed the tax relief obtained. The deferred tax asset will be released so that the profit and loss account for those future periods will show a deferred tax charge, and therefore a total tax charge, more in line with the taxable profits for those periods.

Tax losses

The large deduction from taxable profits arising from the pension contribution described above resulted in losses for tax purposes in earlier periods. The Society is unable to relieve these losses against profits from the current or previous periods, which resulted in a reconciling item in the current tax reconciliation. As these losses can be used to reduce taxable profits in future periods, a deferred tax asset has been recognised.

DEFERRED TAX

	Balance as at 25 January 2015	Current year deferred tax charge				Adjustment in respect of prior years	Balance as at 23 January 2016
		Revenue account – rate change	Revenue account	OCI / Reserves – rate change	OCI / Reserves		
	£000	£000	£000	£000	£000	£000	£000
Capital allowances	(1,748)	175	801	–	–	(14)	(786)
Short term differences in relation to pension contributions	4,615	(461)	(2,078)	–	–	–	2,076
Short term difference in relation to funeral bonds	(1,136)	114	102	–	–	–	(920)
Other short term timing differences	416	(42)	(36)	–	–	–	338
Capital gains	(66)	7	–	–	–	–	(59)
Tax losses	1,539	(154)	816	–	(993)	643	1,851
Deferred tax liability in relation to revalued property	(3,198)	320	–	–	–	–	(2,878)
Deferred tax liability relating to pension scheme	(759)	–	(21)	76	(400)	–	(1,104)
Total deferred tax liability (note 5.2)	(337)	(41)	(416)	76	(1,393)	629	(1,482)

Section 4 – Assets

IN THIS SECTION

This section shows the assets used to generate the Society's trading performance.

KEEPING IT SIMPLE – ASSETS

An asset is something which is used by the Society to generate a financial benefit. For example, stock is an asset because we will sell it to generate income. Similarly, we use our properties to enable our retail outlets to trade and generate income.

4.1 INTANGIBLE ASSETS

KEEPING IT SIMPLE – INTANGIBLE ASSETS

An intangible asset is an asset which cannot be physically touched, for example, software or licences.

Accounting policy:

Goodwill

Business combinations are accounted for by applying the purchase method.

The cost of the business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination.

On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated into goodwill.

Goodwill represents the excess of the fair value and the directly attributable costs of the purchase consideration over the fair values to the Group's interest in the identifiable net assets, liabilities and contingent liabilities acquired.

4.1 INTANGIBLE ASSETS (CONTINUED)

Accounting policy (continued)

On acquisition, goodwill is allocated to cash-generating units ('CGUs') that are expected to benefit from the combination.

Goodwill is amortised over its expected useful life. Where the Group is unable to make a reliable estimate of useful life, goodwill is amortised over a period not exceeding 10 years. Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the profit and loss account.

In accordance with Section 35 of FRS 102, Section 19 of FRS 102 has not been applied in these financial statements in respect of business combinations effected prior to the date of transition.

Other intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight line method, to allocate the depreciable amount of the assets to their residual values over their useful economic lives at the following principal rates:

- Software 20 to 33.3%
- Customer lists 5 to 10%
- Licences 5%

The assets are reviewed for impairment if the factors detailed below indicate that the carrying value may be impaired:

- Technological advancement
- Changes in market price

Costs associated with maintaining computer software are recognised as an expense as incurred.

Intangible assets acquired as part of a business combination are measured at fair value at the acquisition date.

Impairment of non-financial assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss.

The recoverable amount of the asset (or asset's CGU) is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's (or asset's CGU) continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset (or asset's CGU) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the revenue account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in profit or loss.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the revenue account.

Goodwill is allocated on acquisition to the CGU expected to benefit from the synergies of the combination. Goodwill is included in the carrying value of CGUs for impairment testing.

	Goodwill £000	Software £000	Customer lists £000	Licences £000	Total £000
FIXED ASSETS — INTANGIBLE					
Cost					
At 25 January 2015	11,263	7,439	38	–	18,740
Additions	417	1,503	–	22	1,942
Disposals	–	(144)	–	–	(144)
At 23 January 2016	**11,680**	**8,798**	**38**	**22**	**20,538**
Amortisation					
At 25 January 2015	5,433	4,128	–	–	9,561
Charge for the year	486	946	2	1	1,435
Disposals	–	(143)	–	–	(143)
At 23 January 2016	**5,919**	**4,931**	**2**	**1**	**10,853**
Net book value at 23 January 2016	**5,761**	**3,867**	**36**	**21**	**9,685**
Net book value at 24 January 2015	**5,830**	**3,311**	**38**	**–**	**9,179**

Included within additions above is goodwill arising on the Society's purchase of a convenience store for a cash consideration of £406,000. Included within software is £840,000 (2015: £970,000) related to assets in the course of construction.

4.2 FIXED ASSETS – TANGIBLE

KEEPING IT SIMPLE – FIXED ASSETS – TANGIBLE

These are the sites that the Society trades from and the fixtures and fittings within these sites. Also included are delivery vehicles used within the Society's business.

Accounting policy:

Fixed assets, excluding investment properties, are stated at cost (being the purchase cost, together with any incidental costs of acquisition) less accumulated depreciation and any accumulated impairment losses.

4.2 FIXED ASSETS – TANGIBLE (CONTINUED)

Accounting Policy (continued)

Depreciation is provided so as to write off the cost of tangible fixed assets, less their estimated residual values, over the expected useful economic lives of the assets in equal annual instalments at the following principal rates:

- Investment properties Nil
- Freehold buildings 2%
- Fixtures, fittings and plant 5 to 33.3%
- Transport 15 to 40%

Depreciation is not provided on freehold land.

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed annually and adjusted if appropriate.

Repairs, maintenance and minor inspection costs are expensed as they occur.

Assets in the course of construction are stated at cost. These assets are not depreciated until they are available for use.

Freehold properties transferred into the East of England Co-operative Society relating to the former Colchester and East Essex Co-operative Society were valued at their fair values on merger. This carrying value is deemed cost in the case of these properties.

KEEPING IT SIMPLE – INVESTMENT PROPERTY

Investment property is property held by the Society which is not used by one of our trading companies. Properties used for the day to day trade of the business (such as our food stores and funeral branches, etc) are shown as land and buildings within tangible fixed assets.

Accounting policy:

Certain of the Group's properties are held for long-term investment and, in accordance with UK GAAP:

a) investment properties are measured at fair value annually with any change recognised in the revenue account

and

b) no depreciation or amortisation is provided in respect of freehold investment properties and long leasehold investment properties.

	Land & buildings £000	Investment properties £000	Fixtures, fittings & plant £000	Transport £000	Total £000
FIXED ASSETS – TANGIBLE					
Cost or valuation					
At 25 January 2015	135,413	108,426	46,573	6,571	296,983
Additions	6,105	1,713	5,425	59	13,302
Disposals	(3,582)	(4,139)	(5,546)	(143)	(13,410)
Transfers	(7,314)	(2,109)	(152)	–	(9,575)
Revaluation	–	(205)	–	–	(205)
At 23 January 2016	**130,622**	**103,686**	**46,300**	**6,487**	**287,095**
Depreciation					
At 25 January 2015	43,273	–	31,601	5,214	80,088
Charge for the year	2,022	–	4,042	480	6,544
Disposals	(766)	–	(5,272)	(143)	(6,181)
Transfers	(9,370)	–	(205)	–	(9,575)
At 23 January 2016	**35,159**	**–**	**30,166**	**5,551**	**70,876**
Net book value at 23 January 2016	**95,463**	**103,686**	**16,134**	**936**	**216,219**
Net book value at 24 January 2015	**92,140**	**108,426**	**14,972**	**1,357**	**216,895**

Included within investment properties is £1,019,000 (2015: £2,354,000) relating to assets in the course of construction.

Particulars relating to revalued assets are given below:

	2016 £000	2015 £000
Investment properties		
At valuation	103,686	108,426
At historical cost	98,735	103,270

Revaluation of investment properties

Each year, 20% of the Society investment properties are valued by EWS Chartered Surveyors. The valuation is undertaken in accordance with the RICS appraisal and valuation manual. Investment properties and properties held for development (non trading) are valued on an open market basis. The remainder have been valued by the Society's Joint Chief Executive – Property on a consistent basis.

4.3 OTHER INVESTMENTS

KEEPING IT SIMPLE – OTHER INVESTMENTS

Other investments are mostly related to funeral pre-payment plans which have not yet been used and shares held in other businesses.

Accounting policy:

Investments in shares are stated at cost less provision for any impairment in value. Interest and investment income is accounted for on an accruals basis.

		Fixed assets		Current assets		Interest / investment income
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
INVESTMENTS						
Co-operative Group Limited						
– Shares	757	757	–	–	30	236
– Corporate Investor Shares	–	–	–	4,000	–	187
Other I & P societies						
– Shares	1	1	–	–	–	–
Other	51	114	–	–	–	–
Short-term deposits	–	–	1,000	–	35	–
Overnight deposit	–	–	–	–	178	79
Funeral bonds	32,976	27,611	2,919	2,061	3,135	2,244
Sundry interest	–	–	–	–	13	17
	33,785	**28,483**	**3,919**	**6,061**	**3,391**	**2,763**

4.4 STOCKS

KEEPING IT SIMPLE – STOCK

Stock is an asset which is purchased by the business for resale to our customers.

Accounting policy:

Stock consists of goods held for resale and is stated at the lower of cost and estimated selling price less costs to sell.

Cost is calculated using the weighted average cost method.

At the end of each reporting period stock is assessed for impairment. If an item of stock is impaired, the identified stock is reduced to its selling price less costs to sell and any charge is recognised in the revenue account. If a reversal is required then the impairment charge is reversed and the credit is recognised in the revenue account.

	2016 £000	2015 £000
STOCKS		
Goods for resale	21,355	21,979

Goods for resale is stated after provision for impairment of £965,000 (2015: £1,020,000). The movement in the provision is charged/credited to cost of sales each year.

4.5 TRADE AND OTHER DEBTORS

KEEPING IT SIMPLE – TRADE AND OTHER DEBTORS

A debtor is the amount owed by a person or business that has purchased goods or services from the Society but has not yet paid for them.

Accounting policy:

Trade debtors are non-interest bearing and are stated at their nominal value, as reduced by appropriate allowances for estimated irrecoverable amounts. A provision for impairment of trade debtors is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the debtor.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade debtor is impaired. The amount of any loss is recognised in the revenue account within operating expenses.

Subsequent recoveries of amounts previously written off are credited against operating expenses in the revenue account.

4.5 TRADE AND OTHER DEBTORS (CONTINUED)

	2016 £000	2015 £000
DEBTORS		
Trade debtors	3,532	3,390
Other debtors	1,658	1,889
Prepayments and accrued income	2,437	2,741
Corporation tax	4	571
	7,631	**8,591**

Trade debtors are stated after provision for impairment of £710,000 (2015: £793,000). The movement in the provision is charged/credited to operating expenses each year.

Section 5 – Liabilities

IN THIS SECTION

This section shows the liabilities incurred in order for the Society to carry out its trading activities.

KEEPING IT SIMPLE – LIABILITIES

A liability is generated when the Society has carried out an activity which results in an expense that will be paid in the future. This includes amounts owed to suppliers for goods or services the Society has received.

5.1 TRADE AND OTHER CREDITORS

KEEPING IT SIMPLE – TRADE AND OTHER CREDITORS

When the Society receives goods or services which are to be paid for at a later date, a creditor is created. This reflects money which the Society must pay out in the future.

Accounting policy:

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are not interest bearing and are stated at their nominal value.

KEEPING IT SIMPLE – FUNERAL PLANS

Customers of the Funeral business are able to plan and purchase their funeral in advance to be redeemed when the funeral is arranged.
The income from the sale of the bond is not recognised until the plan is redeemed and the funeral takes place.

Accounting policy:

Amounts received in advance for funeral plans are recorded as liabilities on the balance sheet. The liability has been apportioned between current and long-term liabilities based upon the Group's experience of funerals carried out under its pre-payment plans over the last five years. All monies received for funeral plans taken out from 1 January 2002 are paid into a contract for whole life insurance on the life of the customer for the purpose of providing the funeral and disclosed within fixed asset investments. This is to comply with the provisions of the Financial Services and Markets Act 2000. Interest income earned in the year is recognised in the revenue account.

		Due within 1 year		Due after 1 year
	2016 £000	2015 £000	2016 £000	2015 £000
CREDITORS				
Trade creditors	17,257	12,786	–	–
Other taxation and social security	3,569	2,371	–	–
Other creditors	2,710	2,613	–	–
Accruals and deferred income	10,607	9,659	–	–
Funeral bonds	2,231	1,851	27,300	23,767
	36,374	**29,280**	**27,300**	**23,767**

5.2 PROVISION FOR OTHER LIABILITIES

	2016 £000	2015 £000
Deferred tax (note 3.1)	1,482	337

5.3 PENSION OBLIGATIONS

KEEPING IT SIMPLE – PENSION OBLIGATIONS

The Society runs two types of pension scheme: defined benefit and defined contribution.
- *A defined benefit scheme provides a pension based on a colleague's salary and length of service.*
- *A defined contribution scheme sets the value which will be paid into a pension scheme; the amount of pension this generates is variable and depends on the performance of the investments into which contributions are paid and the annuity rates at the time of retirement.*

Accounting policy:

Defined benefit pension plan

The Group operates two defined benefit pension schemes covering certain full-time and part-time employees funded by employees' and employer's contributions. Both schemes are closed to new members and to future accrual.

A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets at the reporting date.

The defined benefit obligation is calculated using the projected unit credit method. Annually the Society engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments ('discount rate').

The fair value of the plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Society's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as "remeasurement of net defined benefit obligation".

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

(a) the increase in pension benefit liability arising from employee service during the period; and

(b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as "other finance expense".

Defined contribution pension plans

The Society also operates a defined contribution plan. A defined contribution plan is a pension plan under which the Society pays fixed contributions into a separate entity. Once the contributions have been paid the Society has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Society in independently administered funds.

PENSIONS

The Group operates two defined benefit pension schemes. These are the Ipswich and Norwich Co-operative Society Employees' Pension Fund and the Colchester and East Essex Co-operative Society Limited Employees' Superannuation Fund. The assets of both schemes are held in separate funds administered by Trustees. Both of these funds are closed to new members and closed to future accrual.

Asset-backed funding arrangement

On 29 August 2013, the Society established the East of England Scottish Limited Partnership (the Partnership) with the Schemes. Under this arrangement, properties with a value of £65.9 million were transferred to the Partnership.

The Schemes' interest in the Partnership entitles them to an annual distribution of £2.6 million for 25 years, increasing on a compound basis by 2.5% per annum. The properties transferred to the Partnership will revert to the Society's ownership after settlement of any remaining funding deficit on the Schemes at that time.

The Partnership is controlled by the Society and its results are consolidated by the Society. The Society's balance sheet, actuarial deficit and revenue account are unchanged by the establishment of the Partnership. The investment held by the Schemes in the Partnership does not qualify as a plan asset for the purposes of the Society's consolidated financial statements and is therefore not included within the fair value of plan assets.

The value of the properties transferred to the Partnership remains included within the Society's tangible fixed assets on the balance sheet. In addition, the Society retains full operational flexibility to extend, develop and substitute the properties within the Partnership.

Ipswich and Norwich Co-operative Society Limited Employees' Pension Fund (closed to new members on 16 June 2007)

The Society operates a defined benefit pension fund for its employees (the Ipswich and Norwich Co-operative Society Limited Employees' Pension Fund). A full actuarial valuation was carried out at 31 December 2012 and updated to 24 January 2015 by a qualified independent actuary. An actuarial valuation as at 31 December 2015 is currently being prepared. The service cost has been calculated using the Projected Unit method. The major assumptions used by the actuary are:

	2016	2015
Rate of increase of pensions in payment		
– prior to 31 August 2008	2.95%	2.85%
– post 31 August 2008	2.05%	2.00%
Rate of increase of pensions in deferment	3.05%	2.90%
Discount rate	3.75%	3.10%
Rate of inflation	3.05%	2.90%

5.3 PENSION OBLIGATIONS (CONTINUED)

	2016 years	2015 years
The mortality assumptions used were as follows:		
Longevity at age 65 for current pensioners		
– Men	22.2	22.4
– Women	24.6	24.8
Longevity at age of 65 for future pensioners		
– Men	23.9	24.1
– Women	26.5	26.7

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale involved, may not necessarily be borne out in practice.

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and are thus inherently uncertain, were:

	Value at 23/01/2016 £000	Value at 24/01/2015 £000
Equities	78,822	83,807
Bonds	42,815	44,312
Cash	1	3
Amounts owed to the Society	(440)	(321)
Total market value of assets	121,198	127,801
Actuarial value of liability	(127,372)	(143,596)
Total deficit in the scheme	**(6,174)**	**(15,795)**

To develop the expected long-term rate of return on assets assumption, the Society considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for the future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

During the year, the Society made pension payments on behalf of the scheme. The amount owed to the Society of £440,000 (2015: £321,000) above represents the balance due from the scheme in respect of these payments.

Reconciliation of scheme assets and liabilities

	Assets £000	Liabilities £000	Total £000
At 25 January 2015	127,801	(143,596)	(15,795)
Interest income/(expense)	3,921	(4,379)	(458)
Remeasurement gains/(losses)			
Actuarial gains	–	15,923	15,923
Return on plan assets excluding interest income	(7,856)	–	(7,856)
Contributions by employer	2,012	–	2,012
Benefits paid	(4,680)	4,680	–
At 23 January 2016	**121,198**	**(127,372)**	**(6,174)**

Analysis of the amount charged to the revenue account

	2016 £000	2015 £000
Interest income	3,921	4,604
Interest on pension liabilities	(4,379)	(5,049)
Total expense recognised in revenue account	**(458)**	**(445)**

5.3 PENSION OBLIGATIONS (CONTINUED)

Return on plan assets

	2016 £000	2015 £000
Interest income	3,921	4,604
Return on plan assets less interest income	(7,856)	14,899
Total return on plan assets	**(3,935)**	**19,503**

Colchester and East Essex Co-operative Society Limited Employees' Superannuation Fund (closed to new members on 31 December 2007)

The Society operates a defined benefit pension fund for its employees (the Colchester and East Essex Co-operative Society Limited Employees' Superannuation Fund). A full actuarial valuation was carried out at 31 December 2012 and updated to 24 January 2015 by a qualified independent actuary. An actuarial valuation as at 31 December 2015 is currently being prepared.

The service cost has been calculated using the Projected Unit method. The major assumptions used by the actuary are:

	2016	2015
Rate of increase of pensions in payment		
– prior to 31 August 2008	2.95%	2.85%
– post 31 August 2008	2.05%	2.00%
Rate of increase of pensions in deferment	3.05%	2.90%
Discount rate	3.75%	3.10%
Rate of inflation	3.05%	2.90%

	2016 years	2015 years
The mortality assumptions used were as follows:		
Longevity at age 65 for current pensioners		
– Men	22.2	22.4
– Women	24.6	24.8
Longevity at age of 65 for future pensioners		
– Men	23.9	24.1
– Women	26.5	26.7

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the time scale involved, may not necessarily be borne out in practice.

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and are thus inherently uncertain, were:

	Value at 23/01/2016 £000	Value at 24/01/2015 £000
Equities	39,444	43,071
Bonds	28,320	29,563
Cash	163	3
Amounts owed to the Society	(191)	(205)
Total market value of assets	67,736	72,432
Actuarial value of liability	(79,732)	(90,244)
Total deficit in the scheme	**(11,996)**	**(17,812)**

To develop the expected long-term rate of return on assets assumption, the Society considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for the future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

During the year, the Society made pension payments on behalf of the scheme. The amount owed to the Society of £191,000 (2015: £205,000) above represents the balance due from the scheme in respect of these payments.

5.3 PENSION OBLIGATIONS (CONTINUED)

Reconciliation of scheme assets and liabilities

	Assets £000	Liabilities £000	Total £000
At 25 January 2015	72,432	(90,244)	(17,812)
Interest income/(expense)	2,209	(2,750)	(541)
Remeasurement gains/(losses)			
Actuarial gains	–	10,197	10,197
Return on plan assets excluding interest income	(4,511)	–	(4,511)
Contributions by employer	671	–	671
Benefits paid	(3,065)	3,065	–
At 23 January 2016	**67,736**	**(79,732)**	**(11,996)**

Analysis of the amount charged to the revenue account

	2016 £000	2015 £000
Interest income	2,209	2,623
Interest on pension liabilities	(2,750)	(3,150)
Total expense recognised in revenue account	**(541)**	**(527)**

Return on plan assets

	2016 £000	2015 £000
Interest income	2,209	2,623
Return on plan assets less interest income	(4,511)	8,782
Total return on plan assets	**(2,302)**	**11,405**

Stakeholder scheme

The stakeholder pension scheme is a defined contribution plan. The contributions due to the plan during the year were £3,417,000 (2015: £3,367,000). As at 23 January 2016, no unpaid contributions were outstanding (2015: £nil).

OTHER RETIREMENT BENEFITS

The Society has in place an UURBS (pension promise) in respect of the former Chief Executives, into which the Society has paid £nil in the year (2015: £nil). These amounts are fully provided for and the liability calculated each year by external actuaries. The actual assumptions are consistent with those of the defined benefit schemes.

	2016 £000	2015 £000
Benefit obligation at the beginning of the year	1,915	1,696
Interest cost	58	69
Actuarial (gains)/losses	(167)	229
Benefits paid	(81)	(79)
Benefit obligation at the end of the year	**1,725**	**1,915**

Section 6 – Equity

IN THIS SECTION

This section contains details of reserves and the share capital invested by members through their membership and any share accounts held with the Society.

6.1 CAPITAL AND RESERVES

KEEPING IT SIMPLE – CAPITAL AND RESERVES

The Society's share capital is raised via contributions from members, comprising money paid into member share accounts.
A dividend distribution, or share of profits, is made to members once a year based on membership points earned within the period.
The value apportioned per point is agreed by the members of the Society.
Reserves represent profits earned in earlier years.

Accounting policy:

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments issued by the Society are recorded at the proceeds received, net of direct issue costs.

Dividends are paid using dividend vouchers and calculated by reference to dividend points earned rather than as a return on capital invested. They are therefore recorded in the group revenue account as an expense of the business rather than directly in reserves as an equity distribution. The dividend vouchers issued during the year are valid until 31 December of the relevant year and as such only those that have been redeemed have been accounted for as payments at the year end. No liability is therefore held for those dividend vouchers not redeemed at the balance sheet date. Any unredeemed dividends are released to the revenue account for the year. Dividend distribution to the Society's members is recognised as a liability in the Society's financial statements in the period in which the dividends are approved by the members at the Annual Members' Meeting.

The members' share capital is maintained at a fixed nominal value and attracts a rate of interest. Share interest is disclosed as a movement in equity and in the Statement of Changes in Equity.

SHARE CAPITAL

Called-up share capital represents the nominal value of shares that have been issued.

Share capital comprises 9,303,000 (2015: 14,572,000) shares of £1 attracting interest at 1% per annum.

Shares are withdrawable on varying periods of notice dependent on the amount involved.

Each member is entitled to one vote.

Member rights on winding up are contained in the Society rules.

RESERVES

Fair value reserve

This reserve is used to record increases in the fair value of investment properties and decreases to the extent that such decrease relates to an increase on the same asset.

Revenue reserve

This reserve includes all current and prior period retained profits and losses.

Section 7 – Other notes

IN THIS SECTION

This section contains details of operating leases, capital commitments, cash flow, subsidiaries and transition to new accounting standards.

7.1 OPERATING LEASES

KEEPING IT SIMPLE – OPERATING LEASES — LEASING FROM OWNER

An operating lease is where rent is paid to the owner of an asset to allow the Society to use it, for example, a property.

Operating leases

At 23 January 2016, the Group had the following minimum lease payments under non-cancellable operating leases for each of the following periods:

	Land and buildings		Other	
	2016 £000	**2015 £000**	**2016 £000**	**2015 £000**
Operating leases expiring:				
Within one year	826	918	610	426
Later than one year and not later than five years	2,397	2,405	1,035	569
After five years	3,619	3,685	3	–
	6,842	**7,008**	**1,648**	**995**

KEEPING IT SIMPLE – OPERATING LEASES — LEASING TO TENANTS

The Society leases assets to tenants such as property. The asset is still owned by the Society and the tenant pays rent to use it.

Accounting policy:

Leasing and hire purchase commitments

Rentals payable under operating leases are charged to income on a straight line basis over the term of the lease. Rental income from operating leases, excluding charges for insurance and maintenance, is recognised on a straight line basis over the period of the lease, even if payments are not made on this basis.

The future minimum rental receivables are as follows:

	Land and buildings	
	2016 £000	**2015 £000**
Within one year	6,366	6,521
Later than one year and not later than five years	17,077	17,127
After five years	15,625	17,773
	39,068	**41,421**

7.2 CAPITAL COMMITMENTS

KEEPING IT SIMPLE – CAPITAL COMMITMENTS

This is the value the Society has approved to spend on assets after the year end.

Capital commitments

At 23 January 2016, there were capital commitments of £0.5 million (2015: £2.7 million) which have not been provided for in the financial statements.

7.3 NOTES TO CASH FLOW STATEMENT

KEEPING IT SIMPLE – CASH FLOW STATEMENT

This is the breakdown of the total cash flow from operating activities shown on the cash flow statement.

	2016 £000	2015 £000
RECONCILIATION OF PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES		
Profit/(loss) for the financial year	4,174	(41)
Adjustments for:		
Tax on profit on ordinary activities	(182)	438
Distributions	3,777	4,122
Net interest income	(2,392)	(1,791)
Profit before interest, distributions and taxation	**5,377**	**2,728**
Grants and donations	(917)	(902)
Depreciation	6,544	6,816
Amortisation	1,435	989
Profit on sale of tangible fixed assets	(2,773)	(1,936)
Changes in fair value of investment properties	205	2,182
Unrealised impairment of tangible fixed assets	–	413
Change in value of fixed asset investments	55	–
Unrealised gain on funeral bond investments	2,502	1,799
Decrease/(increase) in stocks	624	(630)
Decrease/(increase) in debtors	143	(285)
Increase in creditors	10,092	3,452
Dividend paid	(2,860)	(3,220)
Pension contributions	(2,764)	(2,693)
UURBS current service (credit)/cost	(109)	298
Net cash from operating activities	**17,554**	**9,011**

	2015 £000	Cash flow £000	2016 £000
ANALYSIS OF MOVEMENT IN NET FUNDS			
Cash at bank and in hand	14,583	10,958	25,541
Current asset investments	4,000	(3,000)	1,000
	18,583	**7,958**	**26,541**

MAJOR NON-CASH TRANSACTIONS

During the year, the Society had no major non-cash transactions (2015: £nil).

7.4 WHOLLY OWNED SUBSIDIARIES

KEEPING IT SIMPLE – WHOLLY OWNED SUBSIDIARIES

These are separate legal entities that form part of the East of England Co-operative Society which are owned, managed and controlled by the Society.

SUBSIDIARY EXEMPTION

The following subsidiaries of the Society, with the exception of Ardencrest Limited and INCS Limited, have taken advantage of the exemption from an audit for the period ended 23 January 2016 available under s479A of the Companies Act 2006 as the Society has given a statutory guarantee of all of the outstanding liabilities of the subsidiaries (with the exception of Ardencrest Limited and INCS Limited) as at 23 January 2016.

SUBSIDIARY SOCIETIES AND COMPANIES

The subsidiaries of the Society are listed below.

Ardencrest Limited:
A Co-operative and Community Benefit Society holding investment properties.

INCS Limited:
A Co-operative and Community Benefit Society, currently dormant, established to hold properties for the Society.

A Smith and Sons (Funerals) Limited:
A dormant company formerly operating the Smith and Sons funerals business.

W H Shephard Funeral Furnishing Services Limited:
A dormant company formerly operating the W H Shephard funerals business.

Colchester and East Essex Co-operative Society (Trustees) Limited:
A company holding the trusteeship of the Colchester and East Essex Co-operative Society Employees' Superannuation Fund.

INCS (Trustees) Limited:
A company holding the trusteeship of the Ipswich and Norwich Co-operative Society Limited Employees' Pension Fund.

Colchester Funeral Services Limited:
A dormant company formerly a possible holding company for the funeral business of the Colchester and East Essex Co-operative Society.

Anglian Convenience Stores Limited:
A company operating the Anglian Convenience Stores business.

Local Convenience Stores Limited:
A property holding company acquired with Anglian Convenience Stores Limited.

H L Perfitt Limited:
A company operating the H L Perfitt stonemasonry business.

Perfitt Holdings Limited:
A dormant holding company.

Anglia Memorial Services Limited:
A dormant company acquired with H L Perfitt Limited.

East of England (SLP) General Partner Limited:
A company registered in Scotland, established to administer the East of England Scottish Limited Partnership.

East of England Scottish Limited Partnership:
A property holding partnership registered in Scotland, established in connection with the Society's defined benefit pension schemes (see note 5.3).

7.5 TRANSITION TO FRS 102

KEEPING IT SIMPLE – TRANSITION

This is the first year that the Society has presented its results under the new accounting standard FRS 102. In order for these financial accounts to show comparative figures for last year, the 2015 results have been restated. The following notes show the movements between the financial statements presented last year and the comparatives presented this year.

The last financial statements prepared under the previous UK GAAP were for the year ended 24 January 2015. The date of transition to FRS 102 was 26 January 2014.

Set out below are the changes in the accounting policies which reconcile profit for the financial year ended 24 January 2015 and the total equity as at 25 January 2014 and 24 January 2015 between UK GAAP as previously reported and FRS 102.

	For the 52 weeks ended 24 January 2015		
	As previously stated £000	Effect of transition £000	As restated under FRS 102 £000
GROUP REVENUE ACCOUNT			
Turnover	342,057	(474)	341,583
Cost of Sales	(237,756)	–	(237,756)
Gross profit	**104,301**	**(474)**	**103,827**
Operating expenses	(99,192)	–	(99,192)
Trading profit	**5,109**	**(474)**	**4,635**
Changes in fair value of investment properties	–	(2,182)	(2,182)
Unrealised impairment of investment and trading properties	(1,942)	1,942	–
Unrealised impairment of tangible fixed assets	–	(413)	(413)
Employee bonus	(344)	–	(344)
Profit on disposal of property	1,924	–	1,924
Restructuring costs	(892)	–	(892)
Profit before interest, distributions and taxation	**3,855**	**(1,127)**	**2,728**
Interest receivable and similar income	3,003	(240)	2,763
Other finance expense	–	(972)	(972)
Profit before distributions and taxation	**6,858**	**(2,339)**	**4,519**
Dividend	(3,220)	–	(3,220)
Grants/donations	(902)	–	(902)
Profit before taxation	**2,736**	**(2,339)**	**397**
Taxation	(1,014)	576	(438)
Profit/(loss) for the financial year	**1,722**	**(1,763)**	**(41)**

	As previously stated £000	Effect of transition £000	As restated under FRS 102 £000
STATEMENT OF COMPREHENSIVE INCOME			
Profit/(loss) for the financial year	**1,722**	**(1,763)**	**(41)**
Defined benefit pension scheme actuarial loss	(14,268)	14,268	–
Remeasurement of net defined benefit obligations	–	(10,782)	(10,782)
Movement in deferred tax relating to pension liability	2,853	(1,937)	916
Unrealised net deficit on revaluation of investment properties	(653)	653	–
Total other comprehensive expense	**(12,068)**	**2,202**	**(9,866)**
Total comprehensive expense for the year	**(10,346)**	**439**	**(9,907)**

7.5 TRANSITION TO FRS 102 (CONTINUED)

	As at 25 January 2014			As at 24 January 2015		
	As previously stated £000	Effect of transition £000	As restated under FRS 102 £000	As previously stated £000	Effect of transition £000	As restated under FRS 102 £000
BALANCE SHEET						
Fixed assets						
Intangible assets	6,259	2,388	8,647	5,866	3,313	9,179
Tangible assets	222,775	(2,388)	220,387	220,208	(3,313)	216,895
Investments	23,955	–	23,955	28,483	–	28,483
	252,989	–	252,989	254,557	–	254,557
Current assets						
Stock	21,334	–	21,334	21,979	–	21,979
Debtors	12,932	(5,321)	7,611	13,347	(4,756)	8,591
Investments	11,353	–	11,353	6,061	–	6,061
Cash at bank and in hand	10,161	–	10,161	14,583	–	14,583
	55,780	(5,321)	50,459	55,970	(4,756)	51,214
Creditors – amounts falling due within one year	(28,916)	–	(28,916)	(29,770)	490	(29,280)
Loans	(57)	–	(57)	–	–	–
Net current assets	26,807	(5,321)	21,486	26,200	(4,266)	21,934
Total assets less current liabilities	279,796	(5,321)	274,475	280,757	(4,266)	276,491
Creditors – amounts falling due after more than one year	(26,009)	5,311	(20,698)	(30,390)	6,623	(23,767)
Post-employment benefits	(21,270)	(4,893)	(26,163)	(28,801)	(6,721)	(35,522)
Provision for other liabilities	–	(237)	(237)	–	(337)	(337)
Net assets	**232,517**	**(5,140)**	**227,377**	**221,566**	**(4,701)**	**216,865**
Capital and reserves						
Share capital	15,117	–	15,117	14,572	–	14,572
Revaluation reserve	38,658	(38,658)	–	37,562	(37,562)	–
Fair value reserve	–	38,658	38,658	–	37,562	37,562
Revenue reserve	178,742	(5,140)	173,602	169,432	(4,701)	164,731
Members' funds	**232,517**	**(5,140)**	**227,377**	**221,566**	**(4,701)**	**216,865**

Funeral bonds

Amounts received in advance for funeral plans are recorded as deferred income and released when the bond is redeemed.

Funds received in respect of each funeral bond are invested with a third party provider and disclosed within fixed asset investments. The investment is realised when the associated funeral is performed.

The value of the investment changes according to market conditions and, under previous UK GAAP, interest earned in the year was not recognised in the revenue account, but was held on the balance sheet in funeral bond creditors and released to the revenue account on performance of the related funeral. Under FRS 102 the interest is credited or debited to the revenue account as earned.

At 26 January 2014, interest income totalling £5,315,000 was reclassified from the funeral bond creditor to the revenue reserve. In the year ended 24 January 2015, £2,274,000 was reclassified from the funeral bond creditor to interest receivable in the revenue account and turnover was reduced by £474,000. The reduction in turnover relates to the interest element of funeral bonds redeemed in the financial year.

Defined benefit pension scheme

Under previous UK GAAP the Society recognised an expected return on defined benefit plan assets in the revenue account. Under FRS 102 a net interest expense, based on the net defined benefit liability, is recognised in the revenue account. There has been no change in the defined benefit liability at either 26 January 2014 or 24 January 2015. The effect of the change has been to reduce the credit to the revenue account in the year 24 January 2015 by £3,486,000 and increase the credit in the other comprehensive income by the equivalent amount.

Changes in fair value of investment property

Under FRS 102, changes in the fair value of investment properties are recorded in the revenue account. Under previous UK GAAP some movements were recorded in the Statement of Total Recognised Gains and Losses.

As revaluation gains are reflected in the profit figure, but these amounts are not available for distribution as dividends until the associated property is sold, the Society has established a 'fair value reserve'. Non-distributable amounts will be transferred from the revenue reserve to the fair value reserve at the end of each financial year.

7.5 TRANSITION TO FRS 102 (CONTINUED)

Deferred taxation

Deferred tax is an accounting adjustment, the purpose of which is to smooth out timing differences between accounting and tax treatments.

Under previous UK GAAP the Society was not required to provide for taxation on property revaluations, unless the Society had entered into a binding sale agreement and recognised the gain or loss expected to arise. Under FRS 102, deferred taxation is provided on the temporary difference arising from the revaluation. A deferred tax liability of £3,198,000 arose on transition to FRS 102.

Overall, these financial statements include changes to deferred tax from those previously presented as follows:

- a decrease in the deferred tax asset at 26 January 2014 by £5,321,000 to nil
- the recognition of a deferred tax liability at 26 January 2014 of £237,000
- increase in the revenue account tax charge for the year ended 24 January 2015 of £576,000
- an increase in the other comprehensive income tax charge for the year ended 24 January 2015 of £1,937,000
- a reduction in the deferred tax liability at 24 January 2015 of £466,000 to £337,000

Additionally, under FRS 102 the deferred tax liability at 23 January 2016 of £1,103,000, arising on the post-employment benefit liability, is now included with deferred tax on the balance sheet. Under the previous UK GAAP, and applying FRSs17 and 19, the deferred tax asset arising on the post employment liability was offset against the liability.

Other adjustments arising on transition to FRS 102

In addition to the transition adjustments identified above which affect profit for the financial year, the following adjustments have arisen which have no effect on net equity or profit and loss account but which have affected the presentation of these items on the balance sheet.

a. Business acquisition

Under FRS 102 the goodwill identified on the purchase of an optician has been reclassified from Goodwill to Customer lists. The amount reclassified as at 24 January 2015 was £38,000.

b. Computer software

Computer software, with a net book value of £2,388,000 at 26 January 2014 (including assets under construction of £880,000), has been reclassified from tangible to intangible fixed assets as required by FRS 102. This has no effect on the Group's net assets nor on the profit for the year, except that the previous depreciation charge is now described as amortisation.

A further £925,000 (including £86,000 of assets under construction), was reclassified during the year ended 24 January 2015.

c. Statement of cash flows

The Group's cash flow statement reflects the presentation requirements of FRS 102, which is different to that prepared under FRS 1. In addition the cash flow statement reconciles to cash and cash equivalents whereas under previous UK GAAP the cash flow statement reconciled to cash. Cash and cash equivalents are defined by FRS 102 as "cash on hand and demand deposits and short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value" whereas cash is defined in FRS 1 as "cash in overdrafts from any qualifying institution repayable on demand". The FRS 1 definition is more restrictive.

Transitional relief

On transition to FRS 102 from previous UK GAAP, the Society has taken advantage of transitional relief as follows:

Business combinations

The group has elected not to restate business combinations that were effected before the date of transition to FRS 102. No adjustment has been made to the carrying value of goodwill and intangible assets subsumed within goodwill have not been separately recognised.

Members and Community Services Expenditure Statement (unaudited)

	2016 Net Expenditure £	£
Co-operative sponsored groups		
Co-op Juniors*	28,025	
Other	23,073	
Membership activities		**51,098**
Member magazine	66,386	
Member recruitment campaign	8,344	
Members' events	83,082	
New member cards	239,483	
Other	21,441	
Co-operative learning and related events		**418,736**
Healthy Living promotional activity		
Advertising	9,137	
Co-op Cuppa	9,559	
Defibrillators	8,493	
Projects	34,337	
Vehicle depreciation	8,442	
Other	2,607	
		72,575
		542,409
Office costs		
Personnel costs	270,398	
Other operating costs	84,756	
		355,154
Members and Community Services expenditure (note 2.3)		**897,563**

*Special provision from the Board.

Donations totalling £90,558 were made to organisations during the financial year from the Society's Community Dividend Fund. The Community Dividend Fund is supported by members who kindly divert their dividend to the '660' share account.

This statement does not form part of the financial statements.

Keep up-to-date with what we're up to in the community...

w eastofengland.coop

/eastofenglandcoop

@eoecoop

East of England Co-operative Society Ltd
The Street, Wherstead, Ipswich, Suffolk IP9 2BJ
Registered Number 1099R

East of England CO-OP