



Central England Co-operative

Annual Report and
Financial Statements

25 January 2014

The **co-operative**

Here for you for life

Our values

Co-operation:

Our co-operative principles are at the heart of our actions



Improvement:

Always getting better at what we do



Recognition:

Rewarding the efforts and achievements of our colleagues



Customers:

We listen to our customers to constantly provide great service



Honesty:

Openness and honesty as a way of working



Success:

Driving commercial success through effective leadership and teamwork



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Highlights

“2013 represented a transformational year for the Society, with the completion of two mergers, record levels of capital investment and achievement of The Co-operative of the Year Award”

Sales*

£727.5m
up 8.6%

Capital expenditure

£41.9m
17 new openings

Trading profit*

£20.5m
(2012/13: £24.3m)

Payments to stakeholders

£3.9m
(2012/13: £4.3m)

*Continuing businesses, before exceptional items

Our Family of Businesses

“Central England Co-operative is one of the largest independant Societies in the UK, trading in 16 counties with over 420 trading outlets and 8,700 colleagues”

Our vision is to be the UK's best consumer co-operative society by making a real difference to our members and our communities



Food

Food stores are the Society's main business, with over 240 outlets operating across Central England. Our stores pride themselves on providing excellent service, quality and value to members and customers in local communities across our trading area. We operate petrol filling stations and post office services at a number of locations and are committed to providing a welcoming, modern, convenient shopping environment at all our stores.

Our Distribution Centres in Leicester provide a consistent, smooth and uninterrupted supply of chilled and ambient products to the Society's food store estate.

We are committed to continuous improvement through investment in new stores, refurbishments and the introduction of new technology to further enhance the service provided to our members and customers.



Funeral

We are one of the region's leading providers of quality funeral services conducting over 16,000 funerals per year.

Our comprehensive funeral estate comprises funeral homes, florists, crematoria, masonry services and a coffin factory, ensuring that families are supported through every step of their journey.

We are committed to providing the highest standards of service and care to families in their time of need, 24 hours a day, 365 days a year.



Travel

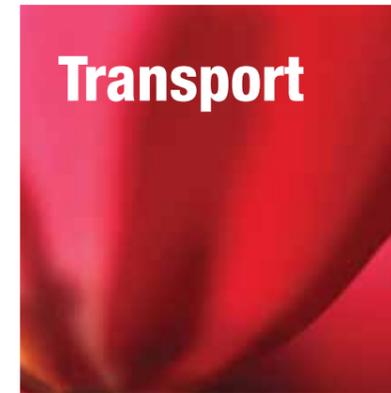
We operate 21 'The Co-operative Travel' shops following the transfer of engagements from Anglia Society.

The travel shop network is operated on a managed service basis through the joint venture owned Freedom Travel Group. This is in addition to the continued investment in the joint venture formed in October 2011 that brought together all parts of the Society's Travel business with those of The Co-operative Group and Thomas Cook's UK retail shop network.



Specialist Businesses

Our portfolio of specialist businesses has increased following the merger of Midlands and Anglia Societies and now includes three opticians, based in Hunstanton, Peterborough and St Neots, as well as a hair and beauty salon called 'Stylistics' which is based in Beales Department Store in Peterborough.



Transport

We have a diverse transport business made up of three separate operations.

Our motor dealerships offer vehicle care services, as well as new and used vehicles from a wide range of leading brands; Citroen, Chrysler, Dacia, Jeep, Mazda, Renault, Suzuki and Harley Davidson.

Our award winning specialist vehicle construction business, Leicester Carriage Builders, produces bespoke commercial vehicles for customers across the UK and our fleet services operation maintain the Society's distribution vehicles and funeral fleet which are essential to the smooth operation of our main business activities.



Property

Our property business comprises three key operations. A significant investment property portfolio, which includes farms, forms an important part of our asset base, as well as generating substantial income for the Society.

Our property development activity supports the Society's growth strategy through the pursuit of new trading outlets and business acquisitions whilst our facilities management team drives forward the maintenance programme, safeguarding the high standards of our existing property estate.

Board of Directors



John Maltby President

Frank Croft Vice-President

Michael Althorpe

Lynne Ayres

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* Ⓓ #



Douglas Boyall

Elaine Dean

Peter Dean

Dave Ellgood

*

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Ⓐ

Ⓒ



Robin Farrell

Philip Fee

#



Kevin Hepworth

John Howells

Maria Lee

Helen Lees

Ⓐ Ⓓ

Ⓐ Ⓒ Ⓓ #



Angela Loughran

Neil Mackie

Keith Redfern

Peter Smith

* Ⓓ Ⓐ

Ⓓ

Ⓐ



Stuart Unwin

Harry Whitelock

Ⓐ

*

- Ⓐ Member of the Audit Committee
- Ⓒ Member of the Community Dividend Selection Committee
- Ⓓ Member of the Remuneration Committee
- # Member of the Rules & Practices Committee
- * Appointed from Anglia Regional Committee in December 2013
- Ⓒ Independent Non-Executive Director
- △ Michael Althorpe retired as an employee on 31 January 2014 and was replaced on the Board by David Brown

Management Executive and Advisors

- Martyn Cheatle** Chief Executive
- Tony Carroll** Deputy Chief Executive
- James Watts** Secretary
- David Grady** Chief Financial Officer
- Paul Webb** Funeral
- Ian Callaghan** Property
- Tracey Orr** Human Resources
- Mark Ruttley** Information Solutions

Auditors

Deloitte LLP,
Four Brindleyplace,
Birmingham.
B1 2HZ

Bankers

Co-operative Bank plc,
118-120 Colmore Row,
Birmingham. B3 3BA

Registered Office

Central House, Hermes Road,
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Fax: 01543 415813
Registered No. 10143R

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Facebook: /centralenglandcooperative
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Directors' Report

“The merger of the Midlands and Anglia businesses to form Central England Co-operative has created one of the largest, independent co-operative societies in the UK”

To the members

The Board of Directors is pleased to present its report for the year ended 25 January 2014, which represented a transformational and important period in the Society's history. The past twelve months has seen much progress and activity across the Society including the completion of two mergers, record levels of capital investment and the achievement of the 'Co-operative of the Year' award.

On 1 December 2013, the Society welcomed members and colleagues of Anglia Regional Co-operative Society following a transfer of engagements. The transfer increases the Society's trading estate by a further 27 food stores, 8 petrol filling stations, 23 funeral homes and expands the business portfolio through the operation of 21 travel shops, 3 opticians and a hair and beauty salon. As a result of the merger the Society also now has a shareholding in Anglia Home Furnishings, a worker co-operative business operating a number of stores and concession units across the country.

The merger of the Midlands and Anglia businesses to form Central England Co-operative has created one of the largest, independent co-operative societies in the UK. The Society now trades in 16 counties with over 420 trading outlets and 8,700 colleagues. The Board recognises the opportunity the merger has created, through providing an even stronger foundation for the enlarged Society to achieve further growth and success in the future. The integration of the Anglia business activities is progressing well and will be substantially complete by the middle of 2014.

The bringing together of the Midlands and Anglia businesses necessitated a comprehensive review of the Society's democratic structures and constitutional arrangements. Following detailed consideration by the Board and the overwhelming approval of members at Special Meetings held in October 2013, the Society has embarked on the implementation of a new democratic structure that can best support the effective operation of the enlarged business. The design of the new structure entrenches the fundamental co-operative principle of democratic member control and aims to provide a clear distinction between the governance responsibilities of the Board and the Society's membership activities. The new democratic structure and constitutional arrangements will be introduced during 2014, commencing with the opportunity for members to directly elect the Board in April.

Earlier in 2013, the transfer of engagements of Shepley Industrial & Provident Society was successfully completed; extending the Society's trading presence in the West Yorkshire area.

In a busy and eventful 12 months, the Society was especially pleased to have been awarded 'Co-operative of the Year', the UK's most prestigious co-operative accolade.

This coveted award is presented to the society that has demonstrated overall excellence in all aspects of running a successful co-operative and takes account of business performance together with the contribution made to members, local communities and the environment. To be named Co-operative of the Year is an honour the Society is extremely proud to achieve, and represents an important landmark in pursuit of the Society's vision 'to be the UK's best consumer co-operative society by making a real difference to our members and our communities'.

The Society's ambitious growth strategy is reflected in substantial capital investment during the year across all areas of the business. This included the opening of 14 new food stores and 3 new funeral homes, significant refurbishment activity and continued investment in support infrastructure and new technology. The Society has now opened or acquired 45 new trading outlets since the launch of the 'One Vision' strategy in 2011. A similarly ambitious store opening programme is in place for the coming year and beyond, reflecting a strong pipeline of development sites and the Society's commitment to its fundamental purpose to provide goods and services to its members.

Trading performance in 2013 reflected the continuation of tough market conditions, particularly in the UK grocery sector. Despite recent optimism over signs of economic recovery, consumer spending habits continue to reflect pressure on household budgets driven by real wage compression. In addition, market conditions remain fiercely competitive with growing evidence that the UK retail market is undergoing significant structural change. Market polarisation characterised by the rising presence of the discounters and premium food retailers has created a squeezed middle ground where the provision of great service, quality and value are critical factors to retain and attract customers.

The Board expects that the intensely competitive environment and market trends will continue in the medium term. Against this backdrop, the Board remains confident that the Society's clear business strategy, robust financial position and advantage as a co-operative to make decisions for the long term will ensure the future success of the business.

The financial review on page 8 highlights that gross sales, excluding VAT, increased by 8.6% to £727.5 million, with growth driven by new stores and acquisitions together with eight weeks sales from the Anglia business following completion of the transfer of engagements. The Society's convenience stores again performed strongly in this important and increasingly competitive sector of the market. Encouraging sales growth was also achieved in the Funeral and Transport businesses, with the former celebrating a record year.

The Group Revenue Account shows that total trading profit, before exceptional items, of £20.5 million declined by £5.0 million (19.6%) against the prior year. On a continuing business basis, trading profit, before exceptional items, shows a decline against the prior year of £3.8 million (15.8%). As reported to members in the Director's Interim Report, the reduction in trading profit is consistent with the Board's expectations at the start of the year and largely reflects a decrease in corporate dividend received from The Co-operative Group, the impact of absorbing inflationary increases across the cost base and downward pressure on margins in the Food business. Profitability during the year was also affected by the loss of a chilled distribution contract to supply a number of Midcounties Co-operative stores as a consequence of changes introduced in The Co-operative Group's national distribution network.

The Board remains fully alert to the external market challenges faced by the business and is committed to delivering long term growth in sales and profitability as a key enabler of the Society's broader objectives.

Exceptional expenses of £10.4 million in the Group Revenue Account include one-off rationalisation costs of £6.5 million associated with the Anglia transfer of engagements and impairment charges totalling £2.7 million relating to the write down of specific trading assets. The asset impairment of some of the Society's food stores is a direct reflection of the changing market conditions in the retail food sector as a result of the competitive landscape and changes in consumer spending patterns. Unfortunately, the Society's investment in the start up venture The Energy Saving Co-operative was written off in the year following the wind up of that business. Uncertainty in government policy relating to the financing of energy efficiency measures ultimately undermined the Energy Saving Co-operative's ability to build sales and continue as a going concern.



The Board's confidence and commitment to build for the future was underlined in record investment of £41.9 million. The development and opening of new sites continues to be complemented by investment in the existing trading estate, with 30 refurbishments completed during the year. This included refit activity in food stores and funeral homes in line with the strategy to refresh 10% of the estate each year. Capital expenditure during the year also included the acquisition of seven new investment properties in line with the strategy to rebalance and strengthen the Society's investment portfolio.

Since the closure of the Fashion & Home business in the first half of 2013, the Society has continued to seek the potential letting or disposal of the former department store premises. It is pleasing to report that two properties have been successfully let, with another one nearing lease completion and progress made on other sites.

The expansion of the trading estate was again supported by strong operational cash flow from the core business, backed by the strength of the asset base. The Society's net cash position remains positive although shows a reduction against the prior year after acquiring and renegotiating a £29 million revolving credit facility following the transfer of engagements of Anglia Society. This funding facility provides the Society with the flexibility to support the growth strategy and the Board is satisfied this borrowing arrangement is appropriate for a business of the Society's size.

The net asset position of £219.8 million shows a reduction of £27.8 million of which £14.1 million relates to net liabilities transferred from Anglia Society upon the transfer of engagements and is covered in more detail in note 1 of the Notes to the Financial Statements. The Board remains satisfied that whilst the Anglia merger resulted in the transfer of net liabilities, the bringing together of the two businesses was based on the strong underlying future economic value of Anglia Society's trading operations and delivery of future operational efficiencies.

In accordance with the requirements of the defined benefit pensions accounting standard FRS17, the reduction in the Society's net assets also reflects the recognition of actuarial losses of £12.6 million, driven principally by a reduction in the discount rate used to measure the scheme liabilities.

The Society continues to place focus on pension scheme matters and has commenced a major exercise to merge the existing Midlands and Anglia pension schemes through the creation of a new scheme. The design of the new scheme incorporates three key principles covering the equitable treatment of the members of both schemes, generating administration efficiencies and the application of a consistent approach to funding and investment strategy. It is intended to complete the scheme merger in mid 2014 and ensures the Society continues its commitment to ensure the pension scheme deficit is managed on a fair, affordable and responsible basis.

The drive to strengthen member engagement from both a trading and democratic perspective remains a key feature of the Society's strategy. This approach aims to reinforce the Society's point of

difference as a successful, independent member owned co-operative business. Attendance at members' meetings increased again in 2013, with over 2,000 members attending the Society's Interim and Special Meetings in October. During the year the Board committed capital expenditure to improve the system capability to enhance the provision of tailored offers to members. This initiative will gather pace in 2014 and build on the success previously achieved by Anglia Society in increasing membership participation.

A key driver of the Society's growth and success is the contribution of colleagues in providing consistently high standards and service to customers and members. The importance of Society colleagues feeling a sense of belonging and commitment to the business is measured through colleague engagement. The Society has consistently placed great emphasis on this measure and it is most encouraging that a further improvement in employee engagement was recorded in the annual 'Have Your Say' colleague attitude survey. The increase in employee engagement represented the fourth consecutive increase in this important measure.

Elsewhere, the Society's drive for continuous improvement was recognised by the Retail team winning three high profile awards at the 2013 Convenience Tracking Programme Awards. The Society also received awards in other areas including recognition for its external and internal communications.

As a responsible co-operative business, the Society's Corporate Responsibility strategy aims to address the social and environmental impacts of the business whilst adhering to co-operative values and principles. The Society continues to seek out opportunities to improve the environment and contribute to the wellbeing and sustainability of the communities in which the Society trades. Much progress in this important area has been achieved in 2013 including the launch of the Society's 'Journey to a Job' programme which saw over 50 young unemployed people gain important skills and experience for finding and keeping a job. Elsewhere, the Society's work with local foodbanks across the trading area was positively received, with increased activity planned in 2014. Important contributions were also made in other areas including the Society's support of a new initiative at Selly Oak Trust School in Birmingham to provide work experience opportunities and master classes to raise the aspirations of students with learning difficulties. In Leicester, a truly inspiring collaboration with a charity in the Saffron Lane area resulted in locally produced 'Saffron Acres' chutney and jam being sold in over 50 Society stores. The products generated income for the charity and helped vulnerable people from the local community gain valuable work experience and life skills.

The Board recognises the challenges faced by the co-operative sector, and particularly the difficulties experienced by The Co-operative Group and its banking arm over the last 12 months. The Board remains resolute in defending the co-operative ownership model as a successful, viable alternative to conventional business structures. As a fellow co-operative and member owner of The Co-operative Group, the Society supports the recovery of the Group and its return to stability in the interests of the wider co-operative movement.



“Attendance at our members’ meetings increased in 2013 with over 2,000 members at the Society’s Meetings in October”

Outlook

Although some economic indicators are showing an improvement in the health of the economy, the outlook for customers and household spending is expected to remain challenging. In addition, the markets in which the Society operates are anticipated to remain fiercely competitive. The return of consumer confidence, falling unemployment and a stable inflationary environment will be key factors in determining the scale and pace of recovery in the UK. As economic conditions improve, the merger with Anglia and transfer of engagements from Shepley places the Society in a strong position to exploit expansion opportunities across a significantly enlarged trading area.

Business Activities

The Society's principal business activities are Food, Petrol Filling Stations and Funeral Services. The transfer of engagements from Anglia Society has added other retail operations to the trading portfolio consisting of 21 Travel shops operated on a managed service basis, 3 Opticians and a Hair and Beauty salon. In addition, the Society has interests in motor dealerships, specialist vehicle construction, coffin manufacture, florists and farming and manages a significant investment property portfolio that underpins the returns from trading activities.

The Society continues to hold a minority interest in Thomas Cook Co-operative Travel Limited, a joint venture company formed in October 2011 that brought together all parts of its Travel businesses with those of The Co-operative Group and Thomas Cook's UK retail shop network.

Financial Review

The financial review covers the 52 week period ended on 25 January 2014, with the prior year ending on 26 January 2013, which is consistent with the policy of the Society's year end falling on the fourth Saturday in January.

The trading highlights of the core businesses are covered later in the report, but their contribution to a solid financial performance in a challenging and highly competitive environment demonstrates the Society's underlying strength to deliver profitability and strong cash flow.

- Gross sales, excluding VAT, increased by 8.6% to £727.5m
- Trading profit, before exceptional items, of £20.5m is £5.0m below the prior year and £3.8m lower on a continuing businesses basis
- Trading profit, after exceptional items, of £10.1m (2012/13: £16.9m)
- Record capital investment of £41.9m (2012/13: £30.7m), including 17 new openings during the year (2012/13: 18)
- Payments to and on behalf of stakeholders totalling £3.9m (2012/13: £4.3m)
- Strong cash inflow from operating activities of £35.2m (2012/13: £37.4m)
- Net cash £1.4m (2012/13: £38.5m)
- Net assets of £219.8m (2012/13: £247.6m)

The strength of the financial base places Central England Co-operative in a sound position to continue its growth strategy and further enhance the Society's profile as a modern, successful co-operative business.

Retail

Trading

Retail food stores are the Society's largest business, with over 240 outlets now trading across Central England. A solid trading performance has been achieved in the most competitive of conditions which have seen consumers more aware of price and actively seeking promotions. With consumers moving towards top-up shopping, the business has seen encouraging performances throughout the Society's convenience store network providing customers and members with a varied range of products and high levels of customer service. Trading in the Society's larger food stores is particularly challenging and this area of the Society's retail operations is receiving significant focus. A new look format store is being trialled at Castle Donington, reviews of range is underway and development of member engagement is being implemented.

The hard work of the Society's colleagues continues to be recognised externally. Their outstanding efforts were again recognised by the Retail team winning three awards at the 2013 Convenience Tracking Programme Awards held in May: Best Top-up Retailer; Best Beer, Wine and Spirits Retailer; and Best Overall Convenience Retailer.

The strength of The Co-operative brand provides the framework for maintaining consistently high operating standards. Initiatives that have been implemented on the strength of the brand include the introduction of a new fuel supplier, co-operative branding across the Society's petrol filling stations and the launch of membership points on members' fuel purchases.

Integrating former Anglia food stores into the retail estate is well underway following the merger of the two societies in December. Implementing best practice from both businesses will ensure that Central England Co-operative food stores continue to deliver against fierce competition.

Store Development

The development of the food store estate has again been the main feature of capital expenditure in 2013 and is a clear reflection of the Society's ambitious growth strategy.

Despite a challenging economic environment, the Society opened, relocated and acquired 14 food stores during the year and completed 13 major refits. This included the rebranding and full refurbishment of Shepley food store, providing the Shepley community with a much improved, new format village supermarket, following the transfer of engagements from Shepley Industrial & Provident Society, in August.

As part of the strategy to expand the Society's presence in the petrol filling station and convenience store sector, the acquisition of a going concern business in Birley Moor, Sheffield was completed together with the major refurbishment of the Society's existing site in Alfreton.

Early trading performance at the new stores has been very positive, giving confidence for further new store openings planned for the coming year.

The Society has also re-modelled its Castle Donington food store with a view to rolling this concept out as part of the food strategy to invest in the supermarket estate. The new look includes the developments of 'hero' categories in produce, bakery, wine and spirits and food-to-go.

Supporting the communities in which the Society trades has seen the introduction of a 'Post Office Local' service within the food store at Sunny Hill in Derby and a main Post Office service at Glenfield in Leicester and First Avenue food store in Stafford. This important initiative provides local residents with access to a range of postal services and has been well received by customers and members.



“Retail food stores are the Society's largest business, with over 240 outlets trading across Central England”



New product layouts at Castle Donington



Further Post Office services introduced



New food-to-go range at Castle Donington

“The Society opened 14 new food stores during the year and completed 13 major refits”

Marketing

New product lines have been introduced into stores in 2013, including food-to-go, chilled ready-made meals, pies and pizzas as part of a major overhaul of the Co-operative own brand food range. The roll-out of the improved own brand range, ‘Loved By Us’, continues to be complemented by the Society’s commitment to source local products across the trading area. Following the closure of the Fashion & Home business, a revised non-food range has been successfully integrated into the Society’s larger food stores.

The Society’s Retail team has worked closely with a charity in the Saffron Lane area of Leicester and a number of other organisations to successfully bring to market a limited edition range of locally produced chutney and jam. The ‘Saffron Acres’ products were sold in over 50 food stores as part of the Society’s local range. Sales of the products generated income for the charity to reinvest in the initiative further, highlighting the Society’s commitment to working with local communities.

The Society’s mobile promotional vehicle continues to be used at a number of events, promoting the food business as well as membership and the role the Society plays within local communities at new store openings and regional food festivals.

Retail Systems

The Society’s Retail system continues to drive process efficiencies across all food stores. Following the successful roll-out of Sales Based Ordering for ambient product ranges, progress is underway to see this embedded across fresh, frozen and chilled lines. Sales Based Ordering and perpetual inventory has generated benefits including improved visibility of sales, price reduction and wastage trends.

Customer Insight

The Society’s Customer Insight team has been encouraging member engagement in stores. Members have had access to a number of marketing initiatives and exclusive offers at key periods throughout the year.

Strengthening insight channels by introducing a customer satisfaction survey has been piloted in 63 of the Society’s food stores. The success of this survey delivered excellent scores in service and operational standards. As a result of this success and the insight it has provided, the programme will be rolled out across all food stores over the coming year.



Saffron Acres products sold in over 50 Society food stores



Engaging customers through the ‘We Like Wine’ club

Distribution

Retaining and operating its own Distribution function is a fundamental part of the Society’s retail food strategy with the majority of products delivered through the Food Distribution and Chilled Distribution Centres in Leicester.

The Distribution Centres continue to provide a service to neighbouring Heart of England and Tamworth Societies although this year saw the cessation of the distribution service provided by the Society to some Midcounties Co-operative food stores as a result of changes introduced in The Co-operative Group’s national distribution network.

The Society has invested in a new warehouse management system and environmentally efficient lighting within its two warehouses, reflecting the Society’s responsible approach to the environment and improving product availability and delivery accuracy. During the year nine new vehicles, constructed by Leicester Carriage Builders, were added to the Distribution Fleet, underpinning the significant role of the Distribution Centres in providing support to the Society’s retail stores.



Funeral

Trading

The Society's funeral homes conducted 13,055 funerals during the year; this represents a marginal increase on the prior year together with eight weeks of services conducted by the Anglia Society. Nationally, registered deaths showed a modest increase in 2013 with forecasts predicting a relatively stable death rate for the coming years. The Society continues to experience new competitors entering the market and remains focused on the provision of a consistently high standard, quality funeral service to protect its market position.

Providing quality services for every client without compromise is at the forefront of the Society's funeral strategy. Quality and standards are continually reviewed for areas of improvement and client satisfaction surveys show that 99% of clients rate services received as excellent. Society colleagues play an integral part in delivering excellent service and are supported by tailored learning and development programmes to develop the best talent and remain industry leading. Colleagues are dedicated in ensuring families receive a memorable and personalised funeral service and pride themselves on making each service an individual and lasting tribute to loved ones.

Continuing to listen to clients' needs and reviewing the latest market trends helps the Society stay ahead in the range of services it offers to families. Unlike many operators the Society can provide a fully integrated service through its estate of funeral homes, floral shops and masonry showrooms. This is further supported by the coffin manufacturing business and the Society's crematorium at Bretby, located on the outskirts of Burton upon Trent.

A number of developments have been introduced to enable clients to personalise funeral arrangements. This has included the launch of a free online obituary for every client's loved one, where families can share memories online together with important details of the funeral service.

As part of the Society's growth strategy, three new funeral homes were opened during 2013 together with the development of a new Islamic Funeral Services brand. The Society is continually focused on raising funeral standards and ensuring that all faiths receive the highest quality service. The Society aims to open more homes during 2014 through the development of new sites and acquisitions and placing a focus on the promotion of pre-paid funeral plans to secure future market share.

Funeral colleague engagement scores were again strong in 2013 and throughout the year teams from across the business carried out numerous activities to build and maintain important links with the community. The Society arranged a number of Christmas Memorial Services during the year, with over 5,000 family members attending.

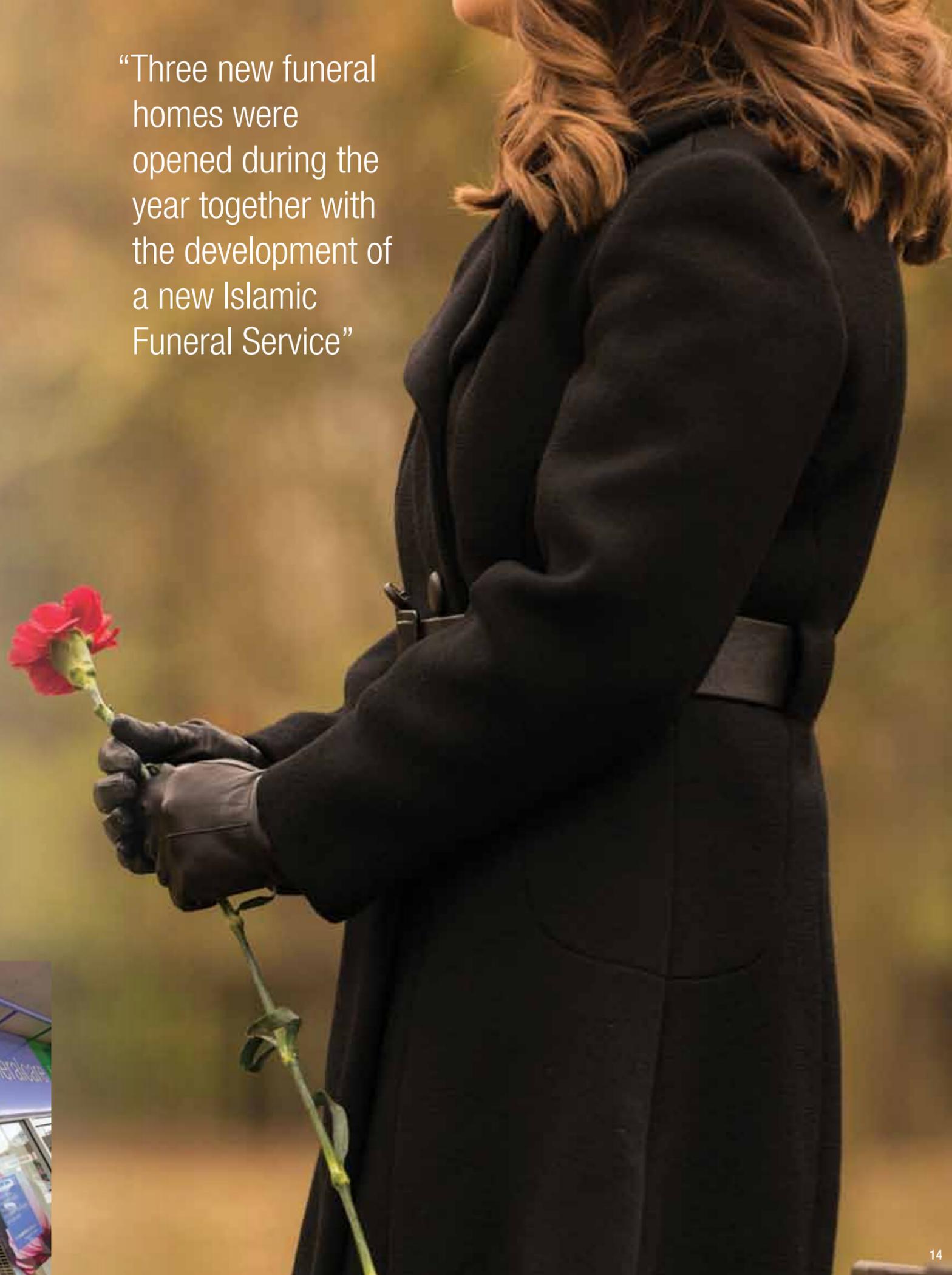
Investment

The rebranding programme was completed during 2013 with 64 of the Society's funeral homes in the Midlands region now trading as The Co-operative Funeralcare. Alongside rebranding there were 17 refurbishments completed across the funeral homes, floral and masonry estate. The Society also invested in 18 new hearses and limousines as part of an on-going replacement of the funeral fleet.

Following the opening of the Bromsgrove funeral home in January 2013, two new homes at Acocks Green in Birmingham and Wigston in Leicester successfully opened in the second half of the year. Each of these homes has been well received by its local community. As well as the excellent work by funeral colleagues to promote the Society's services in the community, the new homes benefited from new style marketing aimed at creating awareness ahead of the opening day.

During the year, the Society's coffin manufacturing facility (which trades as Terry Smith's) near Mansfield underwent a 'lean' manufacturing assessment and a number of initiatives have been identified to both improve the quality and speed of delivery for customers. The Society's Co-operative Memorials has launched a new masonry range under the Terry Smith's trading name, which will be offered to independent funeral directors.

“Three new funeral homes were opened during the year together with the development of a new Islamic Funeral Service”



Transport

Improved performance at the Society's motor dealerships in Kettering and Lincoln continued during the year, maintaining the progress achieved in 2012. Nationally, new car sales in 2013 recorded their best year since 2007, boosted by attractive credit deals and improving consumer confidence. New car sales at the Society's dealerships grew by 25%, with used car sales increasing by 14%. Sales growth reflected the benefit of new model launches and further improvements in customer satisfaction scores. The Society's market share performance in all vehicle franchises showed encouraging results throughout 2013.

The transformation programme at Leicester Carriage Builders (LCB), the Society's specialist vehicle construction business, continued during the year and has reinforced LCB as a strong competitor in this niche sector. Production improvements using flow line methodology were implemented during the year, generating manufacturing efficiencies in two key contracts. The adoption of 'lean' manufacturing and design processes has attracted new customers whilst also providing the impetus to apply the same production principles in other parts of the business including the Society's coffin manufacturing business. Leicester Carriage Builders was recognised at the Mobile Library Show, picking up the award for Best Small Library and won the delegates choice for Best Overall Library. The improved manufacturing process will support the production and delivery of a major contract to supply the Post Office with mobile post office vehicles during 2014. The business has developed a new concept camper van based on the iconic VW model, with trials of the vehicle in progress to assess the future sales potential.

The Transport fleet operation provides an essential, cost effective service to maintain the Society's Retail Distribution vehicles and funeral fleet to the highest possible standard. The operation continues to focus on the safety of the fleet and effective cost control. A programme to up-skill colleagues was introduced during the year, enabling essential tail lift maintenance services to be brought in-house and generate cost savings to the Retail business.



Travel

The Society's presence in the Travel sector now includes the operation of 21 Travel shops following the transfer of engagements from Anglia Society. This is in addition to the continued investment in the joint venture formed in October 2011 that brought together all parts of the Society's Travel business with those of The Co-operative Group and Thomas Cook's UK retail shop network. The former Anglia Society Travel shop network is operated on a managed service basis through the joint venture owned Freedom Travel Group. The Society continues to monitor this arrangement in accordance with the requirements of the joint venture agreement to provide members with access to Co-operative Travel services across its trading area.

Performance of the joint venture improved during 2013, reflecting the benefit of cost savings across its travel shop estate following restructuring activity in the prior year. The joint venture continues to face the challenge of the growing shift to online bookings although is now operating on a reduced cost base in order to remain competitive.

The Society's interest in the joint venture remains underpinned by a minimum dividend guarantee and exit rights. These arrangements, negotiated as part of the disposal of the Society's Travel business, ensure the Board's decision to join the joint venture remains financially valid.

Specialist Businesses

As a result of the merger the Society has extended its trading portfolio and now has three Opticians based in Hunstanton, Peterborough and St Neots and a Hair and Beauty salon, Stylistics, situated within the Beales Department Store in Peterborough.



Property

“The Society continues to develop strong relationships with agents, developers and local councils to pursue viable future growth opportunities”

Investment Property Management

The property market continued to provide significant challenges throughout 2013, with the Society's investment estate absorbing the impact of tenant failures as a result of difficult conditions on the high street. Tenants have again sought reduced rents at lease renewal, with rent reviews also reflecting a subdued market. However, the Society's strategy to recycle underperforming property assets, replacing them with high quality investments has been progressed with seven new investments acquired and eight disposals completed.

Despite the difficult market conditions, 15 commercial lettings have been completed together with 29 residential tenancies, reflecting the Society's proactive approach to the estate and some success letting the former department store premises. The team has continued to pursue rating appeals and have achieved savings in the Society's trading and investment estates.

The on-going review of investment properties has also supported business growth in Retail food stores and Funeral homes, with vacant Society owned units being converted to trading outlets.

Facilities and Development

The team has made a significant contribution in supporting business growth across the Society, delivering 14 new food stores, 13 food store refurbishments, 3 new and 17 refurbished funeral homes, 38 trading projects including 6 new post offices, the petrol estate rebranding together with a number of equipment replacement projects.

All projects have been supported by the Society's merchandising and display teams, ensuring stores have opened with clear branding and product displays for customers and members.

Development activity relating to both trading units and investment properties has increased with over 20 projects in various stages of planning. The Society continues to develop strong relationships with agents, developers and local councils in order to pursue viable future growth opportunities.

A new management system to handle maintenance calls was implemented during the year, supported by a detailed review of supplier contracts. The new arrangement provides a single point of contact, 24 hour service across the Society, handling over 600 calls per week. New supplier contracts have also secured the UK production of refrigeration display units, providing the required quality and ease of supply from a local manufacturer.

The Society's continued commitment to reduce carbon emissions has been demonstrated by a successful re-assessment of the Carbon Trust Standard confirming that carbon emissions were reduced by 7%. Reductions have been achieved across all refitted stores through replacement lighting schemes and the introduction of new, more efficient equipment. Many projects have resulted in reduced energy consumption of between 40-50%. The drive for further improvements in energy efficiency, reduced consumption rates and lower carbon emissions remains a key feature of the Society's new store development programme.

An extensive procurement exercise was completed during the year for capital works and facilities suppliers, resulting in enhanced terms, process improvements and more sustainable supplier relationships. This process will continue to ensure good value sustainable contracts support the Society's day-to-day trading requirements and future growth plans.

Colleagues

“Driving high performance is a key enabler to achieving the Society’s vision and strategy”



In the current challenging trading environment, the contribution and commitment of colleagues is a key factor in the Society’s success. Their dedication to outstanding service and customer focus continues to differentiate the Society from its competitors.

The focus of Human Resources policy has continued to be the provision of a rewarding and supportive employment environment with Compensation and Benefits being reviewed and benchmarked to ensure that employment provision remains competitive.

As part of the Society’s stakeholder strategy, a record ‘share of the profits’ distribution of £1.3million was approved by members and issued to all eligible colleagues in June 2013 in recognition of their valued contribution to the business.

Supportive Culture and Environment

Commitment to monitoring and improving colleague engagement continued in 2013 with the annual ‘Have your Say’ attitude survey. For the first time the survey was completed online by all colleagues, a move which generated a positive response with an impressive participation rate of 93%. The strongest responses were received in respect of colleagues knowing exactly what is expected in their role; awareness of health and safety responsibilities; the Society operating ethically and responsibly; and customer service. Colleagues also feel that customers are happy with the service that they are provided with. The top ranking improvements since the 2012 survey are that managers regularly talk to colleagues about how they are doing in their job and teams are encouraged to take the initiative and to suggest changes to bring about improvements.

Analysis of the attitude survey enables each business area to respond to specific issues for improvement and development from the feedback provided by colleagues.

As part of the ongoing commitment to colleague engagement, the Society’s HR policies and procedures are continually reviewed to ensure they demonstrate best practice, transparency and consistency in leadership and communication.

Learning & Development

During 2013, the Society invested £459,000 in the development of colleagues which included over 500 learning events attended by over 4,900 participants.

Driving high performance is a key enabler to achieving the Society’s vision and strategy. The Society’s performance and talent management processes have been key to maximising the potential of colleagues and developing leadership capability across the business.

Some notable achievements have been:

- The introduction of a new Society wide leadership development programme ‘Leading the Way’
- The completion of a range of Institute of Leadership and Management (ILM) qualifications including Level 2 Award and Level 3 Certificate in Leadership and Management and Level 3 Certificate in Coaching and Mentoring.
- The development of online learning to increase the accessibility and effectiveness of learning through a new ‘one learning’ management system.

Following the launch of the Society’s apprenticeship programme, there are now 26 apprentices in Retail Food, 5 in Funeral Services, 6 in Transport and 4 being recruited in Retail Distribution.

As part of the Institute of Grocery Distribution ‘Journey to a Job’ programme the Society delivered 16 two day workshops focused on developing the skills of young people to find, get and keep a job.

Pension Scheme

In March 2013 the Society launched a comprehensive auto-enrolment programme to enable colleagues to join the Standard Life Group Personal Pension Flexible Retirement Plan. The programme resulted in the number of colleagues saving for their pension doubling with more than 50% of colleagues now making provision for their retirement. The Society was nominated for recognition of the communications approach to this important initiative although the real success is in the significant number of employees who have started saving for their retirement.

Consistent with the commitment to ensure good governance of the Society’s pension arrangements, a Governance Committee oversees the operation of the Standard Life Plan. As part of this process, the Governance Committee receives an independent report each year to monitor the operation of the Plan. This annual report was presented to the Committee in June 2013 confirming that the Standard Life Plan continues to offer low charges and a wide choice of investment funds which have performed satisfactorily over the year. At the end of the financial year colleague savings in the Standard Life Plan exceeded £14.5 million.

The Midlands Co-operative Society Employees’ Pension Scheme also saw a number of changes in 2013. In October the administration for the Scheme was transferred to Barnett Waddingham who are now responsible for administration services to over 10,600 pensioners and deferred pensioners.

The change of administrator has improved member experience through the centralisation of all calculations and pensioner payroll processes with one provider. This has improved turnaround times and transparency in the reporting of service levels. The Trustee also made a change through the appointment of KPMG as the Investment Advisor to the Pension Scheme. This has resulted in a number of positive changes to the Investment Strategy in order to reduce the volatility in the value of the investments through initial action taken to address both inflation and interest rate risk. The Joint Working Party established in 2012 comprising management representatives and Trustees are pleased with progress and results.

The Society also piloted a pre-retirement course in 2013 for colleagues thinking about retiring in the next few years. This covered issues such as state pensions and next steps, how to obtain pension forecasts, tax implications, savings and how to prepare for life after work. The feedback from participants was very positive and the Society intends to offer further courses in 2014.



Health & Safety

The Health & Safety team are accountable for advising the Society on how to ensure that all of its activities are managed in such a way to ensure that colleagues, customers and visitors are kept safe and well.

During the year the Society built on the success achieved in 2012 by further developing its documented management systems. This includes provision of new improved risk assessments and safe systems of work for the Retail business, which aim to reduce the risk of accidents and provide better protection of the Society's interests in the event of an incident occurring. Equivalent systems have also been further developed for the Society's coffin factory.

The number of accidents in 2013 reduced by 20% compared to the prior year.

Business Continuity

The capability for ensuring the resilience of the Society in the event of any disruptive event has been enhanced by the development of documented business and function specific plans, designed to provide important information on how to respond to manage disruptions effectively.



Awards

“The Society was named Co-operative of the Year, the UK’s most prestigious co-operative accolade”

Once again, in support of the vision to become the UK's best consumer co-operative, the Society received recognition for excellence from industry and sector peers across a wide range of business areas and specialisms.

In June, the Society was named Co-operative of the Year, the UK's most prestigious co-operative accolade, at Co-operative UK's 2013 national awards ceremony in recognition of its strong business performance, as well as the contribution it makes to its members, local communities, the environment and wider society.

Following success in the last two years at the Him! Convenience Tracking Programme Awards, which importantly are voted for by customers, the Society once again picked up awards, this time for 'Best Top-up Retailer,' 'Best convenience' and 'Best beer, wine and spirits retailer'.

In a year when it launched a new Corporate Responsibility strategy the Society entered Business in the Community's CR Index at bronze level. The Index is the UK's leading and most in-depth voluntary benchmark of corporate responsibility and features some of the UK's best known national and multinational brands. This represented a great achievement for a first time entry and one upon which the Society is already building. One example of this is the 'Healthy Eating 5-a-Day Recipe Book', aimed at people with learning difficulties, and produced by the Society, in collaboration with Leicestershire Partnership Board and Leicestershire Partnership NHS

Trust, which picked up a Plain English Award in December 2013. The national award recognises documents which are clear and easy to understand and the judges praised the recipe book for its emphasis on tasty, healthy food, saying it was ideal for anyone who has problems reading and understanding standard recipe books.

Communications support for the government's pension auto-enrolment initiative also resulted in the Society being awarded gold in the Internal Communications category at the Chartered Institute of Public Relations' Midlands award ceremony. The same ceremony also saw the Society shortlisted in the Best Internal Publication and Outstanding In-house PR team categories.

The Society's internal colleague engagement scheme, Firefly, which sees colleagues support and participate in the trading businesses, added to the awards picked up in the previous year by collecting the top award at the Marketing Society Awards for Excellence in the Employee Engagement category. The Firefly film, produced in-house by Corporate Affairs as part of the campaign also took gold at the Golden Hedgehog Awards (South) for Best Use of Video.

The Society's new intranet was also awarded Best Intranet Brand by Interact Intranet and in addition to the accolades listed here, the Society was recognised by reaching the finals in a wide range of national and regional industry awards.

Risk Management

The Risk Management team ensure that the Society's documented management system is designed and maintained in order to adequately identify and appropriately respond to the regulatory, reputational and commercial risks faced by the business. The new Risk Management system is now embedded and its operation has been reviewed by the Internal Audit department.

The Management Executive has continued to meet on a quarterly basis throughout 2013 to review the risks faced by the Society and ensure that plans to mitigate these risks are progressing adequately. The outputs of this process have been reported to the Board and the Audit Committee in accordance with the Society's corporate governance arrangements.

The Risk Management team also has operational accountability for partnering all aspects of the Society's business activities in respect of Health & Safety Management, Loss Prevention and Business Continuity.



Stakeholders

Stakeholder Distributions

The distributions from trading profit recognise and reward the three key groups of members, colleagues and the community for their contribution to the Society. The membership card records points for purchases from the Society and, based on the trading in the second half year, the Board is pleased to propose a dividend rate of 1 pence per point for points collected up to 25 January 2014. The proposed dividend will be distributed to members shortly after approval at the Annual Members' Meeting in May 2014.

The colleague dividend recognises their contribution and rewards them in line with trading success at 5% of trading profit, before exceptional items. The Board proposes a full year dividend of £1,211,000, which includes a full year payment to former Anglia Society colleagues and will also be paid in Co-operative vouchers once approved by members.

The 'Making a Difference Community Dividend' scheme distributes 1% of trading profits to the local communities served by the Society. The proposed dividend of £198,000 will be allocated by the Board's Community Dividend Selection Committee to a wide range of community groups and good causes across the Society's trading area. This will bring the total amount granted since inception of the scheme to £2.2 million. A full review of the Society's funding approach to support community activities, local charities and good causes will be undertaken during 2014. This will take full account of the existing arrangements in respect of the Midlands 'Making a Difference Community Dividend' scheme and the Anglia Co-operative Community Fund (ACCF). Both schemes will continue to be supported in the interim period.

Membership

As at 25 January 2014 the Society had 1,410,608 members (2012/13: 999,184) comprising 1,005,474 former Midlands Society members and 405,134 former Anglia Society members.

The total number of active members at the year end stands at over 300,000. Active members are defined as those members who have traded with the Society over the last 12 months and/or have attended a members' meeting.

The Society has adopted a Code of Practice on Withdrawable Share Capital. Under the Code, all those joining the Society or members investing through their share accounts are reminded in written documentation that share capital is risk capital. A copy of the full Code can be obtained from the Secretary and the Board takes this opportunity to state that, at present, the risk associated with members' withdrawable share capital is extremely low, given the strength of the Balance Sheet published with this report.

Through the Regional Member Relations structure a wide range of events and community activities are organised for members and their families. Details can be found later in this report.

Corporate Matters

Political Donations

The accounts report that £115,000 (2012/13: £117,000) was paid to the Co-operative Party during the year. This includes support at national level and grants to the three Society Party Councils.

Corporate Governance

Corporate Governance refers to the manner in which organisations are governed and powers are distributed and exercised by different groups. It is concerned with the practices and procedures that try to ensure that an organisation achieves its objectives. As an Industrial and Provident Society, Central England Co-operative is not required to comply with the provisions of the Combined Code, which applies to listed companies. However, Co-operatives UK has published a Code of Best Practice for consumer co-operatives, which is based on the Combined Code, but applicable to the particular governance circumstances of a Co-operative Society.

Under the terms of the Code's compliance assessment, the Board has a responsibility to ensure that the Society complies with those recommendations that are appropriate to its circumstances, or to explain its reasons where this is not the case. The Board considers this approach of 'comply or explain' to be a practical means of assessment, which recognises the diversity within the Movement. The annual statement on Corporate Governance, on page 24, includes a section covering the Society's explanations and by providing this the Board believes that it has complied with the Code.

The Society's Code of Conduct is being further developed to reflect our continuous improvement in this area. As a responsible retailer, the Society is committed to conducting its business affairs and activities in accordance with the Society's values and that the business acts ethically in all of its stakeholder relationships. It is also the Society's policy to agree and clearly communicate the terms of payment to suppliers and then pay according to those terms, based on the timely receipt of an accurate invoice. Society trade creditor days for the financial year were 28 days (2012/13: 31 days). The Society's Procurement Policy sets out a common, fair and consistent approach to the way in which the business procures goods and services. The Policy reflects best practice and is consistent with the Society's vision and values.

Corporate Responsibility

The Society genuinely strives to put co-operative values into practice in all aspects of its activities. The Society's Corporate Responsibility Policy is built around the four internationally recognised Responsible Business Framework themes of 'Workplace', 'Marketplace', 'Environment' and 'Community'. The Policy forms the bedrock of the Society's 'One Vision' strategic framework, underpinning the overall strategy of the business in line with co-operative values and principles. The importance of Corporate Responsibility continues to represent a major area of focus across the Society. Full details of the progress on the established Social and Co-operative Performance Indicators can be found on page 30.

Obituary

Arthur Stanley, a former director of the Society passed away in March 2014 after a short illness. Arthur retired from the Board in April 2007 having served continuously for 47 years. He was first elected to the Coalville & District Co-operative Society in 1960 and continued as a director following the subsequent mergers to form Leicestershire Society and Midlands Society.

Appreciation

The Directors, as always, extend their sincere appreciation to all Society colleagues for their hard work and continued dedication in contributing to the Society's growth and success, and to all members and customers for their loyal support.

John Maltby President
Martyn Cheatle Chief Executive
James Watts Secretary

28 March 2014



Corporate Governance

“The Society strives for the highest professional standards and business performance and seeks to maintain these standards across all of its operations”

Internal Controls and Audit Committee

The Co-operatives UK Corporate Governance Code of Best Practice requires the Board of Directors to review the effectiveness of the Society's system of internal controls. This review covers all controls including financial, operational, compliance and risk management.

The Board of Directors is ultimately responsible for the Society's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Management Executive is responsible for the implementation, day-to-day operation and management of the Society's system of internal control.

The Board of Directors has an established Audit Committee, which operates as a sub-committee of the Board and is responsible for reviewing the effectiveness of the Society's system of internal control.

The Audit Committee meets three times a year to:

- monitor the integrity of the Society's financial statements, including its annual and interim reports, together with any significant financial reporting judgements contained in the financial statements;
- consider reports from the Management Executive, internal audit and external audit on the systems of internal control and any material control weaknesses;
- discuss with Management Executive the actions taken on problem areas identified in these reports or by the Board;
- review the effectiveness of the risk management process and ensure significant risk issues are referred to the Board for consideration so that appropriate steps can be taken to minimise such risks to the Society;
- consider the effectiveness of the operation of the internal audit function;
- consider the appointment of external auditors and in conjunction with management agree the nature and scope of the external audit review;
- review the external audit management letter and the management response to the report;
- review the Society's whistleblowing procedures to ensure arrangements are in place for employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

The Audit Committee also has a duty to discuss problems and reservations arising from the Society's audit and any matter the auditor may wish to discuss, if necessary in the absence of any management.

In addition, the Audit Committee carries out a periodic self-evaluation so as to ensure that the remit set by the Board of Directors is being fully satisfied. In accordance with its terms of reference, the remit of the Audit Committee is reviewed by the Board at least every three years, so as to ensure that it fully meets best practice in corporate governance. The Board most recently carried out this review in March 2013 and agreed some minor amendments to provide additional clarification to the key duties of the Committee.

The Board and the Executive

The Society strives for the highest professional standards and business performance and seeks to maintain these standards across all of its operations. The Society has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Society objectives. The organisational structure has clearly defined lines of responsibility and of delegated authority.

The Board, elected by members, and Management Executive have primary responsibility for setting the Society's strategy and monitoring delivery of that strategy by management, identifying key business risks facing the Society and for the development of policies and procedures to manage those risks. The Society operates a risk management process, which identifies the key risks facing each business and reports to the Management Executive and Audit Committee on how these risks are being managed. Regular self-assessment audits are carried out across the business and these self assessments are validated on a sample basis.

The Society's Internal Audit department performs independent reviews of operational and financial control procedures across the business. The Risk Management team is accountable for ensuring the Society identifies and responds appropriately to the risks it faces, reporting formally to the Society's Risk Management Committee which in turn is accountable to the Board for the appropriate management of risk. There is a continuous process for identifying, evaluating and managing the significant risks faced by the Society, which operated during the year under review and up to the date of approval of the Annual Report and Financial Statements. This process, which includes the prioritisation of key risks, is regularly reviewed by the Board of Directors.

The Risk Management team also has operational responsibility for Health & Safety management and Loss Prevention. The Risk Management department works closely with the Internal Audit function in order to provide an integrated approach to the prevention, detection and reduction in losses arising from identified risks. Progress against management action plans to overcome internal control weaknesses and business risks, is monitored and reported to the Audit Committee.

Society management recognise the risks attendant on all areas of business resulting from operating in increasingly competitive market places and continue to review processes and procedures with the objective of ensuring effective controls are maintained, overcoming any identified weaknesses and achieving business efficiencies. Where problems do arise positive action is taken to implement appropriate control mechanisms.

Accordingly the Board of Directors confirm that the effectiveness of the system of control for the year commencing 27 January 2013 and ending on 25 January 2014 has been reviewed in line with the criteria set out in the Corporate Governance Code of Best Practice.

Code of Best Practice 2005

The Code of Best Practice, issued by Co-operatives UK in 2005, is based on the Combined Code on Corporate Governance published in July 2003 by the Financial Reporting Council. Whilst the Code and its Appendices are comprehensive in scope Co-operatives UK has consistently recognised that co-operative societies differ in scale, size, trading profile and resources and that it is inevitable that levels of compliance will differ for acceptable reasons. The approach to assessing compliance is that societies should review their rules, practices and policies, in the context of what is appropriate for their circumstances, and provide explanations where these do not comply strictly with the Code.

The following explanations are, therefore, provided:

• Remuneration Report

The report confirms that the disclosure in the notes to the accounts complies with accounting standards and is at a level and in a format deemed appropriate by the Board.

• Board Size

The Board believes that size should relate to the democratic structure of a particular co-operative. The Society's outgoing democratic structure incorporates a temporary Board size of 20 in accordance with the transitional arrangements agreed as part of the transfer of engagements from Anglia Regional Co-operative Society.

Under the Society's forthcoming new democratic structure, the Board will consist of 12 elected positions with scope for the Board to appoint up to two independent non-executive directors to form a maximum potential Board size of 14.

• Search Committee

The Board has not previously considered it necessary to establish such a Committee, as it believes the designated issues are sufficiently important and capable of being dealt with by the Board as a whole.

Under the Society's new democratic structure it is anticipated that the Board may wish to establish a search committee, particularly in respect of considering the appointment of independent non-executive directors.

• Independent Professional Advice

The Code prescribes that one third of the Board should be sufficient to access such advice in order to meet their responsibilities, however, the Board believes that a simple majority is the appropriate criterion for all of its decisions.

• Appraisal of the Board and Individual Directors

The Board does not undertake a formal annual evaluation of its own performance or that of individual Directors. It does, however, continue to identify the need for specific training and undertakes such training from time to time on relevant matters. In addition, Directors regularly attend training events. It is intended to review this matter upon the appointment of the new Board in May 2014.

• Board Meeting Independent of Executives

The Board does not meet independently on a scheduled basis, but recognises that it has the authority to do so, should circumstances arise.

In November 2013, Co-operatives UK published an updated and revised version of the Corporate Governance Code for Consumer Societies. The updated Code replaces the existing code and will formally become applicable to the Society in respect of the year ending January 2015.

Remuneration Report

The Remuneration Committee

The Remuneration Committee is a Sub-Committee of the Board of Directors and is responsible for all aspects of remuneration and contractual terms and conditions of the members of the Society's Management Executive. The Committee sets the remuneration policy and strategy for these individuals and determines appropriate levels of reward which are subject to confirmation by the Board. The Committee's terms of reference do not include consideration of Directors' fees and expenses. The Board directly formulates any proposals on these issues for the approval of members.

The Remuneration Committee is composed entirely of non-employee Directors who have no day-to-day involvement in the management of the business. The members of the Committee during the financial year were Paul Singh, John Howells, Maria Lee and Keith Redfern. Following the appointments to the Board Sub-Committees in May 2013, John Maltby was appointed to the Committee, replacing Paul Singh.

The Committee is chaired by the President. The Chief Executive attends meetings of the Committee to make recommendations relating to the remuneration of the Management Executive. The General Manager, Human Resources provides advice and guidance to the Committee and the Society Secretary is Secretary of the Committee. The Chief Executive is not in attendance when his own remuneration is considered.

The Remuneration Committee has access to an external specialist consultancy to provide independent, professional advice to them on remuneration policy, salary ranges and other elements of remuneration, when required. The Committee met three times during the year.

Remuneration Policy

The Society's remuneration policy for the Management Executive is to apply the median of market base salaries once the individual has become fully established in post and performance is viewed as fully acceptable.

Elements of Remuneration

Management Executive total remuneration consists of salary, pension, a performance related incentive scheme and other benefits.

Details of the remuneration of the Management Executive are provided in note 4 to the Accounts in a format deemed appropriate by the Board.

Salary

The Committee's objective is that base salaries for the Management Executive should be at the median level for the relevant sector, having regard for job scope, function and the size and complexity of the business. The Committee reviews the base salaries annually or when a material change in responsibility or scope occurs.

Pension

Members of the Management Executive are eligible to join the Society's defined contribution Group Personal Pension Plan and all but two were members at January 2014.

A pension opt-out arrangement exists for all members of the Management Executive to apply in circumstances where an individual's accrued pension benefits reaches the Lifetime Allowance threshold, as defined by HM Revenue & Customs. In such cases, the individual is entitled to receive a taxable salary supplement equivalent to the Society's prevailing employer pension contribution rate. The pension opt-out arrangement was implemented in respect of the Chief Executive in April 2012.

Incentive Scheme

In June 2011 the Board approved the implementation of a revised Management Executive Incentive Scheme. The revised Scheme is set below the market base for comparable schemes, incorporating long term and short term targets based on both financial and non financial measures. Any payments due under the Management Executive Incentive Scheme are non-pensionable. The revised Scheme is designed to reward performance over a rolling three year period and incorporates long term targets covering cumulative trading profit, customer service and colleague engagement. The Scheme replaced the previous Management Incentive Plan that had operated since 2003/04.

Under the terms of the Scheme, no annual incentive is payable in respect of the year ended 25 January 2014. An amount of £165,000 is payable in respect of the long term incentive component of the Scheme covering performance over the three years ended January 2014, the costs of which have been charged to the revenue account across that three year period.

Other Benefits

Other benefits provided to the Management Executive include permanent health insurance; private medical insurance; medical examinations; and the provision of a car or a non-pensionable cash alternative.

Service Contracts

All members of the Management Executive, including the Chief Executive, are entitled to 12 months' notice.



Corporate Responsibility

“Making a difference today for a better tomorrow”

As a responsible business, owned by our members, we believe that Corporate Responsibility (CR) is integral to the long term sustainability of Central England Co-operative which is why the Society puts considerable focus on this important area. In 2013 the Society built on the launch of its Corporate Responsibility policy in the previous year with the permanent appointment of a Corporate Responsibility Manager and the development of a new CR strategy which incorporates four key pillars: ‘Workplace’, ‘Marketplace’, ‘Environment’ and ‘Community’. A Corporate Responsibility Delivery Framework has been put in place with a CR steering group chaired by the Deputy Chief Executive and four work groups. The four work groups have been established to drive forward initiatives under each of the four key pillars and a number of projects have already commenced making a real impact on vulnerable people in local communities. In January 2014, the CR key performance indicators (KPIs) for each of the CR pillars was approved by the CR steering group.

These KPIs will help the Society to monitor and report progress towards achieving our CR objectives.

Community: *Work with our communities to help them to improve their sustainability and wellbeing*

Central England Co-operative is committed to making a real difference to the communities within its trading area and is a key element to our approach to Corporate Responsibility.

The Society's two year colleague elected charity partnership with Newlife Foundation, a national charity that funds a range of specialist equipment designed to meet the needs of disabled children, began in May 2012. Since then, colleagues have raised over £449,000 for the charity, with every pound raised going towards helping children within the Society's trading area. Over the past twelve months a partnership with the Salvation Army to site their clothing banks at 72 retail stores has also provided an income of over £138,000 which has been equally shared between the Salvation Army and Newlife Foundation.

In 2013 the Society developed the Journey to a Job programme to work in conjunction with Job Centre Plus to support the Institute of Grocery Distribution's (IGD) 'Feeding Britain's Future', a month long campaign in September that focused on addressing growing unemployment and the lack of training opportunities for young people between the ages of 16-24 years. Its primary focus is to give young unemployed people a helping hand in their search for a job. Our Journey to a Job programme saw 57 unemployed young people from the trading area take part in a series of workshops organised by the Society which aimed to give young people the chance to gain important skills which would help them find, get and keep a job. Some were inspired to apply for positions with the Society and three months after attending the workshop ten young people had secured permanent employment.

In July, the Society entered into a partnership with Selly Oak Trust School in Birmingham as part of a Business in the Community (BITC) initiative called Business Class. This three year commitment will help to provide quality work experience opportunities and master classes to raise the aspirations of students with learning difficulties.

The Society is also committed to helping to address the issue of food poverty by working with local foodbanks across our trading areas to provide emergency food and support to individuals and families in crisis and has developed a foodbank policy which is currently being implemented across many of its food stores.



The Society's Journey to a Job initiative

Rising costs of food and fuel combined with low income growth, unemployment and changes to benefits are causing increasing numbers of people to seek help from foodbanks. It is predicted that 1 million people will need help from a foodbank by 2016.*

*Trusell Trust September 2013



Marketplace: Operate a responsible supply chain and develop ethical trade

The Society's Saffron Acres project brought a number of organisations together with Saffron Lane Neighbourhood Council, a charity based in one of the most deprived areas in the East Midlands, to get a limited edition jam and chutney to market. The products, which were sold as part of the Society's 'A Taste of' locally sourced range, not only generated income for the charity, but also helped vulnerable people from the local community to gain valuable work experience and life skills.

The 'A Taste of' locally sourced range was launched in 2012. We now stock over 400 locally sourced food and drink products in our retail stores.

In August a new Islamic Funeral Service was introduced as part of the Funeral Service offering at our Great Brook Street Funeral Home in Nechells, Birmingham. The Society's Islamic Funeral Services team provides the highest level of service for Muslim families at their time of need.

Environment: Reduce our negative and increase our positive impact on the environment

In September, in line with the successful programme operating in our Retail stores, we achieved 'Zero Waste to Landfill' at our head office in Lichfield.

In addition to the 'Zero Waste to Landfill' initiative, waste prevention is a key objective for the Society. Preventing waste not only helps to preserve finite resources it is also more cost effective to prevent waste occurring in the first place.

As part of the supply chain waste prevention project, funded by the Waste Resources Action Programme (WRAP), we teamed up with Fyffes to assess how banana waste could be reduced in the supply chain resulting in a nationally recognised project which identified opportunities to reduce banana waste by 80 tonnes each year. The joint Central England Co-operative and Fyffes project has been made into a case study featured on the WRAP website. Retail Week was so impressed with the project that they shortlisted it in the Green Supply Chain Initiative of the Year category at its annual national awards ceremony.

Following the success of the WRAP funded supply chain waste prevention project, the Society became a Signatory to WRAP's Courtauld 3 Commitment when it was launched in May. As a Signatory, the Society will support the work of WRAP by helping them to achieve the waste prevention and resource optimisation objectives which underpin Phase 3 of the Courtauld Commitment. This covers a three year voluntary agreement aimed at improving resource efficiency and reducing the carbon and wider environmental impact of the grocery retail sector.

2013 also saw the Society retain the Carbon Trust Standard having achieved a 7% reduction overall in its carbon footprint over the past two years. The Carbon Trust Standard is a voluntary certification and mark of excellence that enables organisations to demonstrate their success in cutting their carbon footprint. This is both good for the environment and saves money too.

As an ethical business, the Society believes it has a responsibility to current and future generations to use natural resources in a responsible manner which includes using recycled materials wherever possible. The Society has introduced a new range of Funeral wear for our employees made from 100% recycled materials. All new Funeral Directors' jackets and waistcoats are now made from 100% recycled materials, including the buttons.

Workplace: Engage and develop our employees while rewarding their efforts and achievements justly and fairly

As part of our commitment to encourage colleagues to improve their health and wellbeing, the Society introduced a cycle to work scheme run in conjunction with Co-operative Flexible Benefits and Halfords.

An enhanced health cash plan for colleagues was also introduced in September which includes a number of additional benefits including; the option to increase the level of cover add partners and dependent children to policies, access to a GP helpline available 24 hours per day, 365 days per year and online access to hundreds of special offers.

We have developed online learning to increase the accessibility and effectiveness of learning across the Society from January 2014 all new colleagues complete their induction online either in their workplace or from home. The online learning modules can be accessed via our new learning management system; 'One Learning.'

A new health and wellbeing section has been launched on the Society's intranet with planning underway for an awareness campaign to improve the health and wellbeing of the Society's colleagues.

Industry Recognition

In April 2013 the Society was ranked Bronze in Business in the Community's (BiTC) Corporate Responsibility Index. The CR Index is the UK's leading and most in-depth voluntary benchmark of corporate responsibility. It has been run by BiTC for over a decade to help organisations; accurately measure and manage all aspects of their social and environmental performance, shape how they integrate and improve corporate responsibility throughout their business operations and benchmark themselves against competitors.

A Bronze ranked organisation demonstrates a clear outline of its mission, values and corporate responsibility principles, with clear roles and responsibilities being allocated across its business. As this was the first time the Society had taken part in BiTC's annual benchmark of responsible business management we are extremely pleased that our focused approach to CR has been formally recognised.

The Society received a number of other CR awards in 2013 including a BiTC Community Impact Award for our 'Beyond Fundraising' approach to our corporate charity partnership with Newlife Foundation and the Marketing Society Award for employee engagement.

Co-operative, Environmental & Social Performance Indicators

As a co-operative the Society aims to operate its business in accordance with co-operative values and principles and using the ten performance indicators, as defined by Co-operatives UK, to monitor our year on year performance.

AREA	MEASUREMENT	OUTCOME	2013	2012
Member Economic Involvement:	Trade (£) conducted with Members as a proportion of turnover (%)	Sales to Members	£126m (18.2% of turnover)	£134m (20.2% of turnover)
Member Democratic Participation:	Number of Members voting in elections and as a % of total Membership	Members who voted	1,666 (1.1% of active Members)	1,656 (1.2% of active Members)
Participation of employees and members in training and education schemes:	All types of training (induction, Health and Safety, IIP etc), Member training of all types including Committees	Learning events Employee participants Member training hours	528 4,971 908	660 4,412 1,158
Staff Injury and Absentee rates:	Staff injury rates (full/part-time) broken down by RIDDOR regulations and others	Reportable accidents Routine accidents	13 593	22* 777*
Staff Profile – gender and ethnicity:	% male/female employees % employee ethnicity data held for	% male employees % females employees % employee ethnicity data held for	33% 67% 97%	33% 67% 85%
Customer Satisfaction %:	Number of customers satisfied as %	Food stores' customer satisfaction	98%	96.2%
Considerations of ethical issues in procurement and investment decisions:	Qualitative description of how these factors are considered in the course of business	Code of Business Conduct together with specific environmental, ethical and other corporate responsibility questions incorporated into competitive tendering documents	Yes	Yes
Investment in community and co-operative affairs:	£ Fairtrade products sold	Sales of Fairtrade products	£8.9m	£8.8m
	Annual amount of pre-tax profit invested in community	Community Dividend	£214,000	£238,000
	Amount raised for corporate charity	Additional Donations	£11,500	£12,500
	Annual amount of pre-tax profit invested in other co-operatives	Corporate Charity	£289,000	£185,000
		Co-operative Grants	£323,000	£257,000
Net Carbon Dioxide (CO₂) emissions arising from operations (tonnes):	Annual CO ₂ emissions associated with energy used for all on-site operations i.e. offices/shops (excludes transport)	Tonnes of CO ₂	44,946 (326 premises)	45,589 (301 premises)
Waste recycled / reused as % of waste arising:	% of recycled / reused (including scrap/effluent waste)	% waste recycled	63%	63%

The statistics above only incorporate data from Midlands Society.

*Figures have been amended for comparability with current year

Membership & Community

“The contribution the Society makes to local communities is a key element of our approach to supporting our members and our communities”

Members of Central England Co-operative are co-owners of a successful, independent co-operative business at the heart of the community. Members of the Society can have a say in how the business is run, enjoy a share of the profits, take advantage of special member events, offers and activities and make an application for community funding.

Community Dividend

Central England Co-operative is committed to making a real difference to the communities in which we serve. The contribution the Society makes to local communities is a key element of our approach to supporting our members and our communities.

The Community Dividend Fund distributes 1% of trading profits to support communities served by the Society. In 2013, £214,000 was distributed to community groups and good causes across the Midlands. In the ten years since the Society's Community Dividend Fund was introduced, 924 grants have been awarded, totalling over £1.8 million to causes ranging from; lifesaving equipment for Rothley First Responders, a sensory room for Chase View Primary School, a Bee Garden for Groundwork Northamptonshire and support to a Bakewell Daycentre to enable workshops for social interaction.

Democratic Participation

In 2013 we saw even higher attendances at our members' meetings and the number of members voting to 'have their say'. Central England Co-operative was chosen as the Society's new name following a series of focus groups and an online members' poll which culminated in the preferred name being approved at a special members' meeting in January 2014.

The new Society now has over 300,000 active members. Thanks to all our members and customers, we have been able to deliver a wide range of activities and events for the benefit of members and communities across our trading area. The three regional Midlands Society Member Relations Committees supported a wide variety of activities in 2013, highlights of which are featured below. Specific regional reports will be presented at the Annual Members' Meetings in April and May 2014.

Education, Culture, Recreation

Educational, cultural and recreational activities continued to provide an additional benefit to members including art and dance classes, history groups, keep fit clubs and tai chi. Numerous member education trips were run to locations including the Rochdale Pioneers

Museum, the Robert Owen Museum, Stafford Borough Council's Mayor's Parlour and Co-operatives Congress 2013 in Cardiff. Special film screenings of Gaslands, Rochdale Pioneers and Chasing Ice took place in Leicester, Derby and Belper respectively.

In Birmingham the MCS Repertory Company produced a number of amateur dramatic performances. This included the Snow White pantomime which featured a special showing to raise funds for the Newlife Foundation, one of the Society's charity partners. The Ratae Co-operative Players, based in Leicester, staged three performances during the year.

The Brass & Voices Concert in Corby featured the Midlands Co-operative Corby Ladies Choir and the Ratby Co-operative Band with refreshments served by the Corby Co-operative Women's Guild. Again, all proceeds from the event went to the Society's corporate charity. The Co-operative Male Voice Choir sang carols at a Memorial Service at Humberstone Road funeral and Whetstone store, Glenfield Ladies Co-operative Choir sang carols at the Luncheon Clubs at Glenfield food store's Society café and the Midlands Co-operative Ladies' Choir sang carols at Market Harborough store's late night shopping.

“The Society's Ethical Challenge provides a great opportunity for community groups to visit our food stores and take part in an interactive session”

The Northern Member Relations Committee held a successful history event showcasing memorabilia from the former Derby Co-operative with former employees sharing their experiences. At the Derby Senior Members' Gathering tea and entertainment was offered to members who have over 60 years of membership of the former Derby Co-operative Society.

Activities offered on promoting Fairtrade were again popular in school assemblies, presentations to young people and tastings for customers and members. Fairtrade information sessions were delivered at five Co-operative Trust Schools across Birmingham and support was given to Oundle Primary School to successfully achieve 'Fairtrade School Status'. The Society's Ethical Challenge provides a great opportunity for community groups to visit our food stores and take part in an interactive session to find out more about our products and the Society as a whole. Ethical Challenges were held at a number of food stores including Measham, Anstey, Grange Place, Stirchley, Littleover and Ripley food stores.



A representative from La Riojana Co-operative in Argentina visiting to share her Fairtrade story



Member & Community Relations help local children learn more about ethically sourced products



Healthy eating events held at a number of our food stores



Chesterfield Sea Cadets celebrating receiving £3,000 for a new Trinity boat



Member & Community Relations promoting health and well being advice in Tamworth during January 2014

Health & Well-being

Providing information and support on health and well-being was a key area of focus for activity during the year. As part of National Obesity Awareness week, the Society Promotional Vehicle attended our Tamworth store to promote health and wellbeing advice to members and customers, as well as offering tastings of healthy soups and smoothies. The Society together with a local gym and NHS representatives, provided advice and tips as well as the opportunity to have Body Mass Index (BMI) and Body Fat Percentages tested.

At Grange Community Primary School, situated next to the Society's Grange Place food store in Kettering, the Member & Community Relations team assisted Kettering Borough Council with the MEND (Mind, Exercise, Nutrition, Do-it!) afternoon group for families with health concerns. This included families taking part in the Society's Ethical Challenge in store and the whole school was treated to "Trifle", a healthy eating comedy production, in recognition of the achievements of the children who participated in the project. A health walk led by Kettering Borough Council also visited our Desborough food store where there was an opportunity for the community to receive a free weight check and personalised report on BMI, body fat and water percentages, muscle mass and visceral fat levels and a free fruit kebab.

Following the recent opening of the new Eyres Monsell food store in Leicester, in partnership with the local Dietetic Services, Eyres Monsell Primary School visited the store to learn about healthy eating, five-a-day and understanding food labels. Healthy eating projects and events were also held at Hallam Crescent and Aberdale Road food stores. The Strawberry Festival, a joint event with Corby Community Food Co-op to promote healthy eating and local produce was accompanied by outreach work to promote healthy eating at the Healthy Schools Market Place in Leicester, Moulton College, Corn

Market Hall in Kettering and Melton Vale College. The Society and the East Midlands Co-operative Education Committee received external recognition for its healthy eating recipe book created in partnership with Leicestershire Partnership Board and Leicestershire Partnership NHS Trust. The Plain English Award was given in recognition of the clear and simple layout of the recipe book.

Finally, the Shopping Challenge designed for school children to gain practical experience of shopping healthily on a budget was delivered to a number of schools in the Chesterfield area.

Youth Employability

Supporting the Society's Corporate Responsibility focus on youth employability was a new area of work for the Member & Community Relations team during the latter part of the year. The Eastern & Southern Member Relations Committee provided support to the Society's Journey to a Job programme to assist young unemployed people in the region. Support was also provided by the team on career information and business experience for events at Moat College in Leicester and St. Peter's Innovation Centre in Derby.

A Floristry Masterclass was delivered to 10 students from the Selly Oak Trust School. Selly Oak Trust School helps a wide variety of children in Birmingham who experience learning difficulties. A team from the Society's Co-operative Florist visited the School to teach students new skills on how to create a bouquet of flowers and provide an insight into the floral industry.

More information about our member and community activities can be found on the member website www.members.coop, by following the Society's twitter account @mycoopfood or visiting our Facebook page. Regular updates are also provided in our award winning Members' Magazine.

We also supported the Green Patch Project in Kettering, a green space set up to give children the opportunity to learn about the great outdoors in a safe environment.

In partnership with Chesterfield College, we held an event with 10 local senior schools. Pupils visit the college for the day and attend our Masterclass that covers the Society's heritage, ethics, the environment, healthy eating and co-operative business. The partnership with the College has developed with the Society's involvement in Enterprise Days which has a business and skills focus. In our ongoing partnership with Da Vinci Community School in Derby we supported attendance at a Schools Conference focusing on co-operative learning. We also supported the Heart of England Health Trust with the first Youth Conference held in Solihull. Over 100 students aged between 15-17 from across the West Midlands took part. The Society provided fruit for attendees and also gave students and teachers' information on our co-operative difference and how we support local communities.

Encouraging Member Participation

To encourage member participation and engagement, we have continued to support many events to promote the Society and the benefits of membership and co-operation.

Support has been provided across the trading area to promote membership at new food stores, trading business roadshows, funeral home openings and at food shows and festivals including the Melton Shake & Bake Food Fair, Staffordshire County Show and the Lichfield, Belper and Derbyshire Food & Drink Festivals.

In Leicester we supported Retail colleagues at Fresher's Week at De Montfort University and were actively involved in Society led events such as the Kingshurst-by-the-Sea Community event and the successful Stirchley Community Day where there was involvement from local schools, the West Midlands Fire Service, charities and community groups. Following the transfer of engagements from Shepley Society to Midlands Co-operative, the Member & Community Relations team organised a 'Get to know' event to give greater details about the Society, the food store and membership and community opportunities. Some 40 people attended the event which has subsequently led to the delivery of further membership activities in the area.

Working in partnership with the Society's Funeral team and Melton Mowbray Library, an awareness raising event was held in Melton Mowbray. Local people were given the opportunity to seek advice, support or simply ask a question around any subject matter relating to funerals.

In 2013 the three regional Midlands Society Member Relations Committees supported numerous other community events to promote the Society in the wider communities in which we trade including One World Week, Lichfield Festive Gift Festival, Willington Arts Festival, Ripley Music Festival, Inkermann Buzz community event, Chesterfield Medieval Market, The Big 1 Chaddesden, Eastwood Arts Festival, Ilkeston Carnival and The Big Lunch at Botanical Gardens, Birmingham. The Society's popular 'Recycle Your Bicycle' initiative was also held at Shepshed, Hallwood Road in Kettering, Desborough and Syston food stores.



Floristry Masterclass at Selly Oak Trust School

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.

Industrial and Provident Society law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Industrial and Provident Society law 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the 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 Industrial and Provident Society Acts. 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.

So far as the directors are 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.

John Maltby President

Frank Croft Vice-President

Martyn Cheatle Chief Executive

James Watts Secretary

28 March 2014



Report of the Independent Auditors

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

We have audited the financial statements of Central England Co-operative Limited for the year ended 25 January 2014 which comprise Group Revenue Account, Group Balance Sheet, Group Statement of Total Recognised Gains and Losses, Cash Flow Statement and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the directors and auditor

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

Scope of the audit of the financial statements

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 society'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. 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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the society's affairs as at 25 January 2014 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts, 1965 to 2002.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts, 1965 to 2002 requires us to report to you if, in our opinion:

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

Deloitte LLP

Jane Whitlock
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom
2 April 2014

Accounting Policies

Accounting basis

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group financial statements. The Group financial statements are prepared in accordance with applicable UK accounting standards, using the historical cost convention modified to include the revaluation of certain land and buildings.

Accounting date

For operational reasons, the Group financial statements are prepared to the fourth Saturday in the year ended 31 January. The current period is for the 52 weeks ended 25 January 2014 (2013: 52 weeks ended 26 January 2013). Advantage Motor Group Limited prepares its financial statements to 31 December each year.

Basis of consolidation

The Group financial statements consolidate the financial statements of Central England Co-operative Limited and all its subsidiaries. The results of businesses acquired during the year are included in the Group financial statements from the dates of their acquisition using acquisition accounting standards, FRS6 Acquisitions and Mergers. Central England Co-operative Limited has not presented its own financial statements as part of these Group accounts as these are filed separately.

Transfers of engagements accepted from incoming Societies

Assets and liabilities accepted under a transfer of engagements are restated at fair value, including any adjustments necessary to comply with the accounting policies of the Group. The resulting surplus or deficit is taken directly to reserves.

Going concern

The directors are required to assess whether the Society has adequate resources to continue in operational existence for the foreseeable future. The financial statements have been prepared on the assumption that the Society remains a going concern.

The Society currently meets its day-to-day working capital requirements from its cash reserves and bank facilities and is forecast to stay within the current bank facilities for the foreseeable future. The bank facilities consist of a revolving credit facility of £29,000,000 and a bank overdraft of £20,000,000, which is reviewed on an annual basis. There are two financial covenants attached to the revolving credit facility which are tested on a quarterly basis, both of which are not expected to be breached in the twelve months from the date of signing these financial statements. The repayment terms and details of the revolving facility are detailed in note 16 to the accounts.

The directors have reviewed the forecast of cash flows for the current year and the following year and have formed the judgment that at the time of approval of these financial statements, the Society has sufficient resources with its current facilities to continue operating for the foreseeable future. On this basis the directors continue to prepare the financial statements as a going concern.

Gross sales

Gross sales is a memorandum disclosure and represents the total transaction value of all the Society's services. The gross value of sales includes amounts recognised in respect of sales made on an agency basis, principally relating to travel agents, foreign exchange bureaux, concessions in departments stores and certain petrol stations.

Turnover

Turnover, as disclosed in accordance with Application Note G to FRS5, includes cash sales, goods sold on credit, commissions and property rental income. It is stated net of VAT, discounts and incentives. Travel commissions are recognised at the point of sale, with appropriate provision for anticipated cancellations.

Management Executive Incentive Scheme (MEIS)

The Group has a long-term scheme (MEIS) in place to incentivise the Management Executive within the Society. An expense is recognised over the vesting period of 3 years based upon meeting specific targets and objectives.

Accounting Policies

Exceptional Items

Exceptional items are disclosed separately as they are either material to the Society or non-recurring in nature and require further explanation.

Investment Income

Interest receivable is accounted for on an accruals basis. Dividends are accounted for when received.

Payments to and on behalf of stakeholders

The surplus shown in the revenue account is not considered to be attributable solely to the members, but also to various stakeholders including the Group's employees, charitable institutions or other organisations with objectives or purposes consistent with those of the Group.

Payments to and on behalf of stakeholders are recognised in accordance with the Group's rules to include approved dividends, member relations costs and donations to the Co-operative Party. Payments to and on behalf of stakeholders are recognised in the revenue account in the period in which they are approved by the members.

Goodwill

Goodwill, being the excess of the consideration paid for a business over the fair value of its net assets, is capitalised and amortised evenly over its useful economic life with a maximum useful life of 20 years.

Impairment

In accordance with FRS11, the group undertakes an annual impairment review to ensure the carrying value of assets represents the higher of value in use or net realisable value. Impairment reviews are performed for the smallest group of assets (the income generating unit) that produces a largely independent income stream, subject to constraints of practicality and materiality.

Investment properties

Certain of the Group's properties are held for long-term investment and in accordance with SSAP19:

(i) Investment properties are revalued at least once every five years at open market values by external valuers. In all other years, all investment property valuations are reviewed on a "desk-top" basis. All surpluses and deficits arising are taken directly to the revaluation reserve except that any permanent diminution in value of an investment property is taken to the revenue account for the year; and

(ii) No depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years remaining on the lease.

Fixed assets and depreciation

Depreciation is provided on all tangible fixed assets, other than investment properties, properties under development, assets in the course of construction and freehold land, at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Freehold buildings	2% - 10% per annum
Leasehold properties	Over the unexpired part of the lease
Plant & machinery, fixtures & fittings	6.7% - 33.3% per annum
Petrol station decommissioning costs	2% per annum
Funeral fleet vehicles and other transport	10% - 50% per annum

Investments

Investments in shares are stated at the lower of cost and net realisable value. Net realisable value is based on the discounted cash flows expected to arise from the investment, using an appropriate discount rate relevant to the investment. Provision for any impairment in value is considered annually.

Accounting Policies

Assets held for resale

Fixed assets are transferred to current assets and held for resale when a decision has been taken by the Board that they are to be disposed of and an exit plan is committed to. At the time they are transferred an impairment review is carried out and assets are held for resale at the lower of their carrying value or estimated sale proceeds less costs of selling.

Stocks and long-term contracts

Stocks are stated at the lower of cost and net realisable value. Cost of manufactured goods comprises materials, direct labour and appropriate overheads incurred in the normal course of business in bringing the product to its current location and condition. Consignment vehicles are regarded as being effectively under the control of the Group and are included in stocks on the balance sheet as the Group has the significant risk and rewards of ownership even though legal title has not passed. The corresponding liability is included in trade creditors. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation.

Some of the Group's Transport contracts are considered to be long-term contracts and, in accordance with SSAP9, the attributable profit which reflects the proportion of work carried out is included in the accounts to the year end date.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Funeral plans

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 money received for funeral plans taken out from 1 January 2002 is 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 at cost. This investment strategy complies with the provisions of the Financial Services and Markets Act 2000. All money received for funeral plans taken out before 2002 is held in a separate trustee administered bank account and disclosed within current assets. Interest income earned on the cash deposit in the year is not recognised in the revenue account, but is held on the balance sheet in funeral plan debtors and released to profits on performance of the related funeral.

Assets leased to the group

Assets held under finance leases are capitalised in the balance sheet at cost and are depreciated in accordance with the Group's normal accounting policy. The interest element of the rental obligation is charged to the revenue account over the period of the lease based on the balance of the outstanding commitment. The outstanding commitment is analysed between current and long term liabilities. Rentals due under operating leases are charged to the revenue account in the year that the cost accrues.

Onerous lease provision

Where the Group is committed to future rental payments on a property that are in excess of income received, an onerous lease provision is made. The provision is discounted at an appropriate rate.

Decommissioning provision

Provisions are made in respect of decommissioning obligations for petrol filling stations. The amounts provided are based on the Group's best estimate of the present value of costs to be incurred to decommission the petrol tanks in the future.

Accounting Policies

Other provisions

A provision is recognised when the Society has a present legal or constructive obligation as a result of a past event and it is probable that a measurable outflow of economic benefits will be required to settle the obligation. If the effect is material provisions are determined by discounting the expected, risk adjusted, future cash flows.

Holiday pay

For employees who commenced employment on or before 1 April 1998, the Group accrues for the cost of outstanding holiday entitlement. These employees were required to accrue one year of their annual holiday entitlement before taking any holiday. The required accrual is calculated by multiplying one year of their annual holiday entitlement for each employee by their current daily pay rate.

Pension costs

The Group currently operates two defined benefit pension schemes. The Midlands Co-operative Society Limited Employees' Pension Scheme was closed to future accrual and new entrants on 30 July 2011 and curtailment gains were calculated in accordance with FRS17. The Anglia Regional Co-operative Society Limited Employees' Superannuation Fund closed to future accrual on 14 August 2009.

The assets of both schemes are held in separate trustee administered funds.

The deficit on the defined benefit schemes are recognised in full on the balance sheet and represent the difference between the fair value of the assets and the present value of the defined benefit obligation at the balance sheet date.

Finance income is recognised in the revenue account based on the expected return on pension assets less the interest on pension scheme liabilities.

Differences between the actual and expected return on assets, experience gains and losses and changes in actuarial assumptions are included directly in the statement of total recognised gains and losses.

The Group also operates a defined contribution scheme. The contributions payable to the scheme in respect of the accounting period are charged to the revenue account.

Share interest

The Society's members' share capital maintains a fixed nominal value and attracts interest. Share interest is disclosed as a movement in equity and within the reconciliation of movements in members' funds.

Group Revenue Account

For the 52 weeks ended 25 January 2014

	Note	January 2014 Total 52 Weeks £'000	January 2013 Continuing 52 Weeks £'000	January 2013 Discontinued 52 Weeks £'000	January 2013 Total 52 Weeks £'000
Gross sales (including VAT)		798,489	731,726	-	731,726
Less Value Added Tax		(71,026)	(62,043)	-	(62,043)
Gross sales (excluding VAT)	2	727,463	669,683	-	669,683
Turnover	2	717,845	663,635	-	663,635
Cost of sales		(510,001)	(462,514)	1,031	(461,483)
Gross profit		207,844	201,121	1,031	202,152
Expenses	3	(187,382)	(176,818)	102	(176,716)
Trading profit before exceptional items		20,462	24,303	1,133	25,436
Exceptional items	5	(10,352)	(8,528)	-	(8,528)
Trading profit		10,110	15,775	1,133	16,908
Gain on disposal of fixed assets		876	193	-	193
Profit / (loss) on disposal of businesses		2	-	(83)	(83)
Profit before interest and taxation		10,988	15,968	1,050	17,018
Net interest payable	6	(2,024)			(1,270)
Other finance income	18	2,695			3,879
Profit before payments to and on behalf of stakeholders		11,659			19,627
Payments to and on behalf of stakeholders	7	(3,878)			(4,316)
Profit before taxation		7,781			15,311
Taxation	8	(3,005)			(5,269)
Retained profit for the year	20	4,776			10,042

Discontinued activities relate to the disposal on 4 October 2011 of the Group's travel business. All activities in the current year relate to continuing operations.

Group Balance Sheet

As at 25 January 2014

	Note	January 2014		January 2013	
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	9		29,126		30,240
Tangible assets	10		362,497		298,996
Investments	11		63,377		44,662
			455,000		373,898
Current assets					
Stocks	12	41,084		37,174	
Debtors	13	48,853		44,211	
Assets held for resale	14	4,589		-	
Cash at bank and in hand		24,994		38,608	
		119,520		119,993	
Creditors					
Amounts falling due within one year					
Creditors	15	(80,803)		(62,915)	
Borrowings	16	(234)		(35)	
		(81,037)		(62,950)	
Net current assets			38,483		57,043
Total assets less current liabilities			493,483		430,941
Creditors					
Amounts falling due in more than one year					
Creditors	15	(151,644)		(139,275)	
Borrowings	16	(23,451)		(87)	
			(175,095)		(139,362)
Provisions for liabilities and charges	17		(25,834)		(7,968)
Net pension liability	18		(72,705)		(36,038)
Net assets			219,849		247,573
Capital and reserves					
Share capital	19		22,925		16,602
Revaluation reserve	20		15,391		21,102
Revenue reserve	20		181,533		209,869
Members' funds			219,849		247,573

Note of Historical Cost Profits & Losses

For the 52 weeks ended 25 January 2014

	2014 52 weeks £'000	2013 52 weeks £'000
Profit before taxation	7,781	15,311
Realisation of property revaluation gains of previous years	561	187
Historical cost profit before taxation	8,342	15,498
Historical cost retained profit for year	5,337	10,229

Group Statement of Total Recognised Gains & Losses

For the 52 weeks ended 25 January 2014

	Note	2014 52 weeks £'000	2013 52 weeks £'000
Retained profit for the year		4,776	10,042
Actuarial losses on pension scheme	18 & 20	(12,562)	(47,302)
Movement on deferred tax relating to pension scheme		206	9,325
Unrealised loss from investment property revaluation	10	(5,150)	(14,594)
Total recognised losses in the year		(12,730)	(42,529)

Reconciliation of Movements in Members' Funds

For the 52 weeks ended 25 January 2014

	Note	2014 52 weeks £'000	2014 52 weeks £'000
Retained profit for the year		4,776	10,042
Other recognised losses for year (as above)		(17,506)	(52,571)
Share interest	19	(161)	(176)
(Decrease) / increase in share capital	19	(1,085)	100
Bought in on Anglia transfer of engagement	1	(14,053)	-
Bought in on Shepley transfer of engagement	1	305	-
Net reduction in members' funds		(27,724)	(42,605)
Opening members' funds		247,573	290,178
Closing members' funds		219,849	247,573

Group Cash Flow Statement

For the 52 weeks ended 25 January 2014

	Note	2014 52 Weeks £'000		2013 52 Weeks £'000	
Net cash inflow from operating activities	21		35,179		37,423
Returns on investments and servicing of finance					
Net interest and dividends received		795		871	
Interest paid and pension deficit funding		(6,773)		(5,644)	
Net cash outflow from returns on investments and servicing of finance			(5,978)		(4,773)
Corporation tax (paid) /received			(51)		840
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(39,624)		(17,538)	
Purchase of fixed asset investments		(4,881)		(5,027)	
Proceeds from disposal of fixed assets		4,767		775	
Net cash outflow from capital expenditure and financial investment			(39,738)		(21,790)
Acquisitions					
Purchase of business	22	(2,245)		(11,139)	
Overdraft acquired	22	-		(695)	
Cash acquired on transfer of engagements	1	581		-	
Net cash outflow for acquisitions			(1,664)		(11,834)
Disposals					
Sale of businesses		-		(1,883)	
Net cash balance disposed of with business			-		(1,883)
Cash outflow before use of liquid resources and financing			(12,252)		(2,017)
Financing	23		(1,362)		(658)
Decrease in cash in the year	24		(13,614)		(2,675)

Reconciliation of Net Cash Flow to Movements in Net Cash

For the 52 weeks ended 25 January 2014

	Note	2014 52 weeks £'000	2013 52 weeks £'000
Decrease in cash in the year		(13,614)	(2,675)
Cash inflow from lease financing	24	71	35
Cash (outflow)/inflow from debt financing	24	(22)	547
Loan capital investment	24	11	-
Debt acquired on transfer of engagement	24	(23,570)	-
Change in net cash resulting from cash flows		(37,124)	(2,093)
Opening net cash		38,486	40,579
Closing Net Cash	24	1,362	38,486

Notes to the Financial Statements

1. TRANSFER OF ENGAGEMENTS

On 1 December 2013, Anglia Regional Co-operative Society Limited transferred its engagements to Midlands Co-operative Society Limited. A summary of the separately identifiable assets and liabilities acquired and transferred is:

	Book value £'000	Intercompany elimination £'000	Fair value adjustments £'000	Provisional fair value £'000
Intangible fixed assets	1,703	-	-	1,703
Tangible fixed assets	36,262	-	10,890	47,152
Investments	16,374	-	-	16,374
Stocks	6,773	-	-	6,773
Assets held for resale	4,992	-	(403)	4,589
Debtors	34,689	(23,000)	(1,995)	9,694
Cash at bank	541	-	-	541
Creditors	(31,565)	-	(360)	(31,925)
Loans	(23,612)	-	-	(23,612)
Pension liability	(28,375)	-	-	(28,375)
Provisions for liabilities and charges	(11,530)	-	(5,437)	(16,967)
Net assets acquired	6,252	(23,000)	2,695	(14,053)
Share capital	30,519	(23,000)	(128)	7,391
Revenue reserve	(25,665)	-	4,221	(21,444)
Revaluation reserve	1,398	-	(1,398)	-
Members' funds acquired	6,252	(23,000)	2,695	(14,053)

In accordance with accepted accounting practice, goodwill has not been recognised on the transfer of engagements. Book values have been aligned to estimated fair values at the date of transfer. The principal adjustments relate to:

- Reassessment of freehold property values
- Reassessment and alignment of provisions
- Alignment of accounting principles and policies on funeral bonds

In its last published accounts for the period to 7 September 2013 Anglia Regional Co-operative Society Limited made a loss after tax of £14,427,000. The transfer of engagements of Anglia Regional Co-operative Society Limited has increased turnover by £28,385,000 and increased trading profit by £660,000 in the period to 25 January 2014.

At the time of the transfer of engagements Midlands Co-operative Society Limited owed £23,000,000 to Anglia Regional Co-operative Society Limited under a short term loan facility. As a consequence of the transfer of engagement, the related creditor and debtor balances were eliminated.

Notes to the Financial Statements

1. TRANSFER OF ENGAGEMENTS (CONTINUED)

On 2 August 2013, Shepley Industrial and Provident Society Limited transferred its engagements to Midlands Co-operative Society Limited. A summary of the separately identifiable assets and liabilities acquired and transferred is:

	Book value £'000	Intercompany elimination £'000	Fair value adjustments £'000	Provisional fair value £'000
Tangible fixed assets	44	-	(3)	41
Investment properties	720	-	(504)	216
Fixed asset investments	18	-	-	18
Stocks	17	-	(17)	-
Debtors	151	(150)	-	1
Cash at bank and in hand	40	-	-	40
Creditors	(11)	-	-	(11)
Net assets acquired	979	(150)	(524)	305
Share capital	188	(150)	(21)	17
Revenue reserve	703	-	(415)	288
Revaluation reserve	88	-	(88)	-
Members' funds acquired	979	(150)	(524)	305

In accordance with accepted accounting practice, goodwill has not been recognised on the transfer of engagements. Book values have been aligned to estimated fair values at the date of transfer. The principal adjustment relates to the reassessment of freehold property values.

In its last published accounts for the period to 1 August 2013 Shepley Industrial and Provident Society Limited made a loss after tax of £25,000. The transfer of engagements of Shepley Industrial and Provident Society Limited has increased turnover by £486,000 and increased trading profit by £18,000 in the period to 25 January 2014.

At the time of the transfer of engagements Midlands Co-operative Society Limited owed £150,000 to Shepley Industrial and Provident Society Limited under a short term loan facility. As a consequence of the transfer of engagement, the related creditor and debtor balances were eliminated.

2. GROSS SALES AND TURNOVER

	Gross Sales (excluding VAT)		Turnover	
	2014 52 weeks £'000	2013 52 weeks £'000	2014 52 weeks £'000	2013 52 weeks £'000
Retail	588,667	532,170	583,776	526,122
Wholesale	64,673	71,869	64,673	71,869
Funeral	32,222	29,300	32,222	29,300
Transport	25,940	23,686	25,940	23,686
Other	5,650	1,005	923	1,005
Rent received from investment properties	10,311	11,653	10,311	11,653
Total	727,463	669,683	717,845	663,635

Turnover consists of sales made in the United Kingdom and Ireland.

Notes to the Financial Statements

3. EXPENSES

	Note	2014 52 weeks £'000	2013 52 weeks £'000
Personnel costs	4	105,640	101,878
Occupancy costs		27,448	23,674
Depreciation:			
- Owned assets	10	14,766	15,087
- Assets held under finance leases	10	37	35
Amortisation of intangible assets	9	2,098	1,835
Operating lease rentals – plant and machinery		521	274
Operating lease rentals – land & buildings		6,213	7,017
Directors' fees	4	146	137
Other expenses		30,513	26,779
		187,382	176,716
Exceptional items	5	10,352	8,528
Total expenses		197,734	185,244

Services provided by the Group's auditor

During the year the Group obtained the following services from the Group's auditor at costs detailed below:

Audit fees:

Fees payable for the audit of consolidated accounts

Fees payable for the audit of the Society and its subsidiaries pursuant to legislation

Fees payable to Group's auditor for other services:

Other services pursuant to legislation

All other services

	2014 52 weeks £'000	2013 52 weeks £'000
Fees payable for the audit of consolidated accounts	50	25
Fees payable for the audit of the Society and its subsidiaries pursuant to legislation	105	124
Other services pursuant to legislation	-	5
All other services	10	44
	165	198

Notes to the Financial Statements

4. EMPLOYEES

	2014 Number	2013 Number
The average number employed by the Group was:		
Full time	2,685	2,696
Part time	4,593	4,500
	7,278	7,196
Aggregate amounts paid in respect of:		
	£'000	£'000
Wages and salaries	94,916	95,236
Social security costs	6,178	5,864
Defined contribution pension scheme costs	4,546	4,531
	105,640	105,631

Included within exceptional costs is £6,100,000 in respect of Anglia Regional Co-operative Society Limited transfer of engagements.

Wages and salaries include exceptional closure costs of £nil (2013: £3,753,000) in respect of the closure of the Fashion and Home Business.

DIRECTORS' EMOLUMENTS

	2014 52 weeks £'000	2013 52 weeks £'000
The total remuneration of the Directors for their Board duties was:		
Fees	146	137
The average number of Directors whose emoluments fell into each £2,500 bracket was:		
	2014 52 weeks £'000	2013 52 weeks £'000
£0 - £2,500	5	1
£2,501 - £5,000	2	1
£5,001 - £7,500	5	7
£7,501 - £10,000	8	6
£10,001 - £12,500	2	2
£12,501 - £15,000	1	1

Notes to the Financial Statements

4. EMPLOYEES (CONTINUED)

	2014 52 weeks £'000	2013 52 weeks £'000
MANAGEMENT EXECUTIVE EMOLUMENTS		
The total remuneration excluding pension contributions of the Management Executive was:		
Wages and salaries	1,681	1,559
Taxable benefits	101	98
Performance related	165	300
	1,947	1,957
HIGHEST PAID EXECUTIVE		
The total remuneration of the highest paid executive included above was:		
Basic salary	468	452
Other supplements	50	45
Taxable benefits	1	1
Performance related (Annual)	-	68
Total related to current year	519	566
Performance related (Long Term)	50	21
	569	587

Other supplements include pension allowances in lieu of a pension provision and car allowance. The Group has paid £nil (2013: £5,700) into the Group pension scheme for the future pension provision of the highest paid executive.

The number of members of the Management Executive whose emoluments, excluding pension contributions, fell in each £10,000 bracket were:

	2014 52 weeks Number	2013 52 weeks Number	2014 52 weeks Number	2013 52 weeks Number
£120,001 - £130,000	-	1	£200,001 - £210,000	1
£130,001 - £140,000	1	1	£390,001 - £400,000	-
£140,001 - £150,000	-	-	£400,001 - £410,000	1
£150,001 - £160,000	2	2	£570,001 - £580,000	1
£160,001 - £170,000	1	-	£580,001 - £590,000	-
£190,001 - £200,000	1	-		1

Notes to the Financial Statements

5. EXCEPTIONAL ITEMS

	Note	2014 52 weeks £'000	2013 52 weeks £'000
Costs arising from the closure of Fashion & Home business		266	4,289
Impairment of goodwill	9	1,264	17
Impairment of tangible fixed assets	10	1,422	4,555
Increase / (decrease) in onerous lease provision		79	(660)
Costs arising from the closure and re-organisation of Transport businesses		-	(97)
Anglia transfer of engagements		6,539	-
Write off investment in Energy Saving Co-operative		540	-
Other exceptional items		242	424
		10,352	8,528

In line with the Group's accounting policies, an impairment review was undertaken during the year and led to an exceptional impairment charge of £1,264,000 of goodwill (2013: £17,000) and £1,422,000 of tangible fixed assets (2013: £4,555,000).

The Group is committed to a number of onerous leases on trading properties, the provision for which was reviewed during the year and gave rise to an increase in the provision of £79,000 (2013: £660,000).

During the year Anglia Regional Co-operative Society Limited transferred its engagements to Central England Co-operative Limited. Costs associated with the transfer of engagements amount to £6,539,000 and include redundancy, integration costs associated with the pension scheme and other costs.

The Group's investment in the Energy Saving Co-operative has been written off following the closure of this start-up co-operative venture.

6. NET INTEREST PAYABLE

	Note	2014 52 weeks £'000	2013 52 weeks £'000
Interest payable on borrowings	16	(142)	(83)
Interest and dividends receivable	11	525	1,104
Other interest		(35)	(128)
		348	893
Interest unwind on Central Asset Reserve		(2,372)	(2,163)
Net interest payable		(2,024)	(1,270)

Notes to the Financial Statements

7. PAYMENTS TO AND ON BEHALF OF STAKEHOLDERS

	2014 52 weeks £'000	2013 52 weeks £'000
Member benefits	322	276
Member relations	562	668
Members' dividend	1,333	1,667
Total members' distributions	2,217	2,611
Co-operative Party	115	117
Community dividend	274	270
Employee dividend	1,272	1,318
	3,878	4,316

8. TAXATION

	2014 52 weeks £'000	2012 52 weeks £'000
Current tax:		
Provided on chargeable income and gains in the year	(6,626)	(6,964)
Adjustments in respect of prior years	(2)	543
	(6,628)	(6,421)
Deferred taxation:		
Origination and reversal of timing differences	3,333	1,349
Adjustments in respect of prior years	290	(197)
	(3,005)	(5,269)

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013.

This will reduce the Society's future current tax charge accordingly. The deferred tax asset at 25 January 2014 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

Notes to the Financial Statements

8. TAXATION (CONTINUED)

Factors affecting the tax charge for the current year

The current tax charge for 2014 is higher (2013: higher) than the standard rate of corporation tax in the UK of 23.18% (2013: 24.36%).

The differences are explained below:

	2014 52 weeks £'000	2013 52 weeks £'000
Profit before taxation	7,781	15,311
Current tax at 23.18% (2013: 24.36%)	(1,803)	(3,730)
Effects of:		
Expenses not deductible for tax purposes	(775)	(1,080)
Capital allowances for the year less than depreciation	(29)	(586)
Short term timing differences	190	(203)
Profit on disposal of assets not subject to corporation tax	199	53
Expenses allowable not in revenue account	58	63
Adjustments in respect of prior years	(2)	543
Pension expenses allowable	330	45
Losses created	(4,766)	(1,493)
Income taxable not in revenue account	(30)	(33)
Total current tax charge	(6,628)	(6,421)

9. INTANGIBLE FIXED ASSETS - GOODWILL

	Note	2014 £'000	2013 £'000
Cost			
Total brought forward		49,151	44,643
Additions	22	501	4,508
Finalisation of Shaws Petroleum Ltd fair values	22	44	-
Acquired on transfer of engagement		1,703	-
Disposals		-	-
Total carried forward		51,399	49,151
Amortisation			
Total brought forward		18,911	17,059
Charge for the year		2,098	1,835
Impairment	5	1,264	17
Disposals		-	-
Total carried forward		22,273	18,911
Net book value		29,126	30,240

In line with the Group's accounting policies, an impairment review of loss making units has been performed during the period, and this gave rise to an impairment of £1,264,000 (2013: £17,000).

Where appropriate, cash flows for relevant operating units have been discounted using a discount rate between 7.5% - 10% (2013: 8%).

Notes to the Financial Statements

10. TANGIBLE FIXED ASSETS

	Note	Investment Properties £'000	Trade Properties £'000	Machinery & Plant £'000	Transport £'000	Total £'000
Cost or valuation						
Total brought forward		82,974	219,956	156,265	13,463	472,658
Additions		8,491	15,466	13,321	2,408	39,686
Acquisition	22	-	1,700	-	-	1,700
Acquired on transfer of engagement	1	2,530	38,926	5,264	690	47,410
Transfers		19,241	(12,929)	(6,312)	-	-
Disposals		(1,861)	(2,125)	(504)	(2,155)	(6,645)
Revaluation adjustment		(15,122)	-	-	-	(15,122)
Total carried forward		96,253	260,994	168,034	14,406	539,687
Depreciation						
Total brought forward		-	52,276	111,937	9,449	173,662
Provided this year		3	3,415	9,977	1,408	14,803
Impairment	5	-	1,422	-	-	1,422
Transfers		9,969	(4,318)	(5,651)	-	-
Disposals		-	(464)	(366)	(1,895)	(2,725)
Revaluation adjustment		(9,972)	-	-	-	(9,972)
Total carried forward		-	52,331	115,897	8,962	177,190
Net book value						
At 25 January 2014		96,253	208,663	52,137	5,444	362,497
At 26 January 2013		82,974	167,680	44,328	4,014	298,996

BNP Paribas Real estate, independent qualified valuers, (Andrew Oliver MRICS and Peter Fletcher BSc MRICS) have inspected and revalued approximately one fifth of investment properties as at 25 January 2014. The remainder have been valued by BNP Paribas Real estate at 25 January 2014 on a 'desk top' basis and will be inspected and revalued over the course of the next four years. All valuations were carried out at a market value basis in accordance with the RICS Appraisal and Valuation Manual.

These valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve. The revaluations during the year resulted in a revaluation loss of £5,150,000 (2013: revaluation loss of £14,594,000).

No deferred tax is provided on timing differences arising from the revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the assets has been entered into and it is unlikely that any gain will be rolled over.

Notes to the Financial Statements

10. TANGIBLE FIXED ASSETS (CONTINUED)

Assets in the course of construction included within trade properties amounts to £8,327,000 (2013: £3,395,000). Assets under construction are not depreciated.

The Group no longer capitalises borrowing costs connected to the purchase of a fixed asset. The cumulative value of finance costs previously capitalised and included within fixed assets (cost or valuation) amounts to £1,380,000 (2013: £1,397,000).

Included within fixed assets are assets with a net book value of £776,000 (2013: £131,000) relating to assets held under finance lease. Depreciation charged on these assets amounted to £67,000 (2013: £35,000) during the year.

Transfers arise to reflect the most appropriate class for each asset and include two properties transferring from investment to trade and six properties transferring from trade to investment.

In line with the Group's accounting policies, an impairment review of loss making units was performed during the year and gave rise to an impairment of £1,422,000 (2013: £4,555,000). Cash flows for relevant operating units were discounted using a discount rate between 7.5% - 10% (2013: 8%).

	2014 £'000	2013 £'000
The net book value of land and buildings comprises:		
Investment properties:		
Freehold	92,472	79,415
Leasehold over 50 years	632	737
Leasehold under 50 years	3,149	2,822
	96,253	82,974
Trade properties:		
Freehold	197,763	157,775
Leasehold over 50 years	4,588	6,566
Leasehold under 50 years	6,312	3,339
	208,663	167,680
Total properties:		
Freehold	290,235	237,190
Leasehold over 50 years	7,263	7,303
Leasehold under 50 years	7,418	6,161
	304,916	250,654
The historical cost of investment properties now included at valuation:		
Cost	92,745	66,051
Accumulated depreciation	(13,534)	(4,179)
Net book value	79,211	61,872

Notes to the Financial Statements

11. INVESTMENTS

	Fixed assets		Dividends / interest	
	2014 £'000	2013 £'000	2014 52 weeks £'000	2013 52 weeks £'000
The Co-operative Group Limited – shares	2,677	2,340	151	140
Other I&P societies – shares	25	75	-	-
Other I&P societies – loans	63	53	-	-
Companies – quoted	1,585	799	-	9
Companies – not quoted	8,500	6,000	-	-
British Government – quoted	31	26	1	1
Other	4	-	-	-
Funeral plans	50,492	35,369	-	-
	63,377	44,662	152	150
Interest earned on cash balances			352	772
Other interest			21	182
			525	1,104
Market values of quoted investments	1,819	914		

12. STOCKS

	2014 £'000	2013 £'000
Goods for resale	40,272	36,698
Consignment stock	812	476
	41,084	37,174

13. DEBTORS

	Note	2014 £'000	2013 £'000
Trade debtors		9,307	9,437
Funeral plans		10,351	9,488
Deferred tax	17	13,821	15,450
Other debtors		2,985	2,488
Prepayments and accrued income		12,389	7,348
		48,853	44,211

Notes to the Financial Statements

14. ASSETS HELD FOR RESALE

	Note	Land & Buildings £'000	Fixtures £'000	Total £'000
Bought in on transfer of engagement	1	3,629	960	4,589
		3,629	960	4,589

15. CREDITORS

	Within one year		After one year	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Trade creditors	36,562	28,658	-	-
Central Asset Reserve liability	6,400	6,400	95,549	98,902
Funeral plans	6,377	4,486	56,095	40,373
Corporation tax	10	57	-	-
Other taxation and social security	3,803	4,941	-	-
Other creditors	5,515	2,662	-	-
Accruals and deferred income	20,808	14,661	-	-
Payments to and on behalf of stakeholders	1,328	1,050	-	-
	80,803	62,915	151,644	139,275

Trade creditors includes £812,000 (2013: £476,000) in respect of commitments to purchase vehicles on consignment and obligations. The corresponding assets are included in stocks.

16. BORROWINGS

	Within one year		After one year		Interest payable	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 52 weeks £'000	2013 52 weeks £'000
Bank overdraft	-	-	-	-	-	6
Bank loan – unsecured	-	-	-	-	-	3
Bank loan	-	-	22,882	-	130	-
Finance leases	234	35	569	87	12	5
Other interest	-	-	-	-	-	69
	234	35	23,451	87	142	83
Borrowings falling due within:						
One year					234	35
Between one and two years					23,399	35
Between two and five years					52	52
					23,685	122

The Group has a revolving credit facility of £29,000,000 which is repayable on 26 September 2016, £23,000,000 of which was drawn down at the year end.

Notes to the Financial Statements

17. PROVISIONS FOR LIABILITIES AND CHARGES

	Note	Deferred taxation £'000	Onerous leases £'000	Discontinued operations £'000	Other provisions £'000	Total £'000
Opening balance		1,237	2,728	-	4,003	7,968
Reclassification of dilapidations		-	(110)	-	110	-
Charged to the revenue account		-	155	(77)	-	78
Created this year		-	-	-	6,451	6,451
Bought in on transfer of engagement	1	-	2,745	14,222	-	16,967
Utilised this year		(534)	(495)	(602)	(3,270)	(4,901)
Released this year		-	(246)	-	(483)	(729)
Closing balance		703	4,777	13,543	6,811	25,834

The deferred taxation provision comprises:

	Note	2014 £'000	2013 £'000
Accelerated capital allowances		(703)	(1,237)
The deferred taxation asset comprises:			
Spread pension contributions	13	5,717	13,150
Other timing differences	13	1	210
Unutilised losses	13	8,103	2,090
		13,821	15,450

As a result of the Central Asset Reserve, the Society will receive a deduction against current tax of £28.6m (2013: £57.2m) over the course of the next year. Consequently a deferred tax asset of £5.7m (2013: £13.2m) has been recognised at 25 January 2014. No provision has been made for deferred taxation relating to revalued investment properties for which the potential liability has not been quantified, because of the availability of indexation and other reliefs. No provision has been made for deferred tax assets of £4.1m (2013: £2.9m) relating to capital losses that are currently carried forward of £20.5m (2013: £12.6m). These amounts will be utilised should the Group have any chargeable gains in the future. There is an unrecognised deferred tax asset of £2.4m in respect of tax losses carried forward of £12.0m.

The onerous lease provision represents an assessment of the costs to cover rent and rates for leasehold premises where the Group is committed to future rental payments on properties that are in excess of incomes received, taking account of the anticipated period until the leases are assigned or reassigned. The assessment, which is undertaken at the end of each accounting period, is made on a property by property basis. The provision is expected to be utilised within the next 13 years (2013:14 years).

Other provisions represent an assessment of the future redundancy costs associated with the Anglia transfer of engagements of £6.1m, the decommissioning of petrol filling stations of £0.3m and other of £0.4m, which includes dilapidations on investment properties and other redundancy.

The discontinued operations provision represents an estimate of amounts payable under contracts relating to property costs, redundancy and computer costs which are expected to unwind in the next 1 to 15 years.

Notes to the Financial Statements

18. PENSION COMMITMENTS

The Group operates two defined benefit schemes; the Midlands Co-operative Society Limited Employees' Pension Scheme and the Anglia Regional Co-operative Society Limited Employees' Superannuation Fund. Details of both schemes are set out below.

Midlands Co-operative Society Limited Employees' Pension Scheme

The Society implemented a pension deficit reduction arrangement (Central Asset Reserve) in the year ended January 2012 which has resulted in additional scheme assets of £97.9m (2013: £97.9m) being recognised within the FRS17 valuation at 25 January 2014. The scheme assets are underpinned by way of subordinated pledges given by Central Midlands Estates Limited, a subsidiary of the Society.

During the year the Group made normal contributions to the scheme amounting to £Nil (2013: £Nil), special contributions of £Nil (2013: £Nil) and payments under the Central Asset Reserve of £498,000 (2013: £477,000).

The latest full actuarial valuation for the Midlands Co-operative Society Limited Employees' Pension Scheme was carried out at 31 December 2011 using the projected unit basis and was updated for FRS17 purposes to 25 January 2014 by a qualified independent actuary. The principal assumptions used by the actuary were:

	2014	2013
Rate of increase in pensions in payment	3.20%	3.20%
Discount rate	4.50%	4.65%
Inflation assumption	3.30%	3.30%

The mortality assumptions used are based on the "SAPS" standard tables with an allowance for future mortality improvements using the CMI 2013 projections with a long-term rate of improvement of 1.25% pa. The assumptions are such that a current 45 year old non-pensioner member who later retires at age 65 will live on average a further 24 (2013: 24) years after retirement if they are male and a further 27 (2013: 27) years if they are female. A current pensioner member aged 65 will live on average a further 22 (2013: 22) years if they are male and for a further 25 (2013: 25) years if they are female.

The assumptions used by the actuary are the best estimates chosen in accordance with FRS17 requirements from a range of possible actuarial assumptions which, due to the timescale covered, 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 cashflow projections over long periods and thus inherently uncertain were:

	2014 £'000	2013 £'000
Fair value of scheme assets	433,650	430,363
Present value of funded obligations	(487,645)	(477,166)
Deficit in the scheme	(53,995)	(46,803)
Related deferred tax asset	10,799	10,765
Net pension liability	(43,196)	(36,038)

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets.

Notes to the Financial Statements

18. PENSION COMMITMENTS (CONTINUED)

Changes in the fair value of scheme assets:

	2014 52 weeks £'000	2013 52 weeks £'000
Opening fair value of scheme assets	430,363	413,608
Expected return	24,482	23,502
Actuarial (losses) / gains	(4,691)	10,080
Contributions by employer	498	477
Contributions by employees	-	-
Benefits paid	(17,002)	(17,304)
Closing fair value of scheme assets	433,650	430,363

Changes in the present value of scheme obligations:

Opening obligation	477,166	417,465
Service cost	-	-
Interest cost	21,797	19,623
Members contributions	-	-
Actuarial losses	5,684	57,382
Benefits paid	(17,002)	(17,304)
Closing obligation	487,645	477,166

Analysis of other pension costs charged in arriving at trading profit:

Current service cost	-	-
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Analysis of amounts included in other finance income:

Expected return on pension scheme assets	24,482	23,502
Interest on pension scheme liabilities	(21,797)	(19,623)
	2,685	3,879

Analysis of amounts recognised in statement of total recognised gains and losses:

Cumulative at beginning of year	(174,193)	(126,891)
Recognised during the year	(10,375)	(47,302)
Cumulative at end of year	(184,568)	(174,193)

Assets in the plan as a percentage of total plan assets:

Bonds	44%	48%
Equities	50%	46%
Other	6%	6%

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

Notes to the Financial Statements

18. PENSION COMMITMENTS (CONTINUED)

History of experienced gains and losses	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Benefit obligation at end of year	(487,645)	(477,166)	(417,465)	(397,693)	(393,617)
Fair value of plan assets at end of year	433,650	430,363	413,608	308,400	279,115
Deficit	(53,995)	(46,803)	(3,857)	(89,293)	(114,502)
Actual return less expected return on pension scheme assets	(4,691)	10,080	(13,895)	17,733	45,126
Experience gains and (losses) arising on the scheme liabilities	-	751	(2,880)	(1,021)	(7,451)

Anglia Regional Co-operative Society Limited Employees' Superannuation Fund

On 1 December 2013 the Group became the principal and statutory employer to the defined benefit scheme, the Anglia Regional Co-operative Society Limited Employees' Superannuation Fund. The notes below cover the period 1 December 2013 to 25 January 2014.

During the period the Group paid contributions to the Fund amounting to £748,000.

The latest full actuarial valuation for the Anglia Regional Co-operative Society Limited Employees' Superannuation Fund was carried out at 31 December 2012 using the projected unit basis and was updated for FRS17 purposes to 25 January 2014 by a qualified independent actuary. The principal assumptions used by the actuary were:

	25 Jan 2014
Rate of increase in pensions in payment	3.20%
Discount rate	4.50%
RPI Inflation assumption	3.30%

The mortality assumptions used are based on the "SAPS" standard tables with an allowance for future mortality improvements using the CMI 2013 projections with a long-term rate of improvement of 1.25% pa. The assumptions are such that a current 45 year old non-pensioner member who later retires at age 65 will live on average a further 24 (Dec 2013: 24) years after retirement if they are male and a further 27 (Dec 2013: 27) years if they are female. A current pensioner member aged 65 will live on average a further 22 (Dec 2013: 22) years if they are male and for a further 25 (2013: 25) years if they are female.

The assumptions used by the actuary are the best estimates chosen in accordance with FRS17 requirements from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the Fund'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 cashflow projections over long periods and thus inherently uncertain were:

	2014 £'000
Fair value of fund assets	124,169
Present value of funded obligations	(160,889)
Deficit in the scheme	(36,720)
Related deferred tax asset	7,211
Net pension liability	(29,509)

Notes to the Financial Statements

18. PENSION COMMITMENTS (CONTINUED)

Fund assets do not include any property occupied by the Group. The expected return on Fund assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets.

Changes in the fair value of Fund assets:	8 weeks to 25 Jan 2014 £'000
Opening fair value of scheme assets	124,906
Expected return	1,149
Actuarial gains / (losses)	(1,917)
Contributions by employer	748
Contributions by employees	-
Benefits paid	(717)
Closing fair value of scheme assets	124,169

Changes in the present value of Fund obligations:

Opening obligation	160,209
Service cost	-
Interest cost	1,127
Members contributions	-
Actuarial losses	270
Plan curtailments	-
Recognition of pensioner increase exchange	-
Benefits paid	(717)
Closing obligation	160,889

Analysis of other pension costs charged in arriving at trading profit:

Current service cost	-
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Analysis of amounts included in other finance income:

Expected return on pension scheme assets	1,137
Interest on pension scheme liabilities	(1,127)
	10

Analysis of amounts recognised in statement of total recognised gains and losses:

Recognised during the year	2,187
Cumulative at end of year	2,187

Assets in the fund as a percentage of total fund assets:

Bonds	39%
Equities	61%
Other	-

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

Defined Contribution Schemes

The costs of contributions to both the Midlands Co-operative and Anglia Regional Co-operative defined contribution scheme amounted to £4,546,000 (2013: £4,531,000).

Notes to the Financial Statements

19. SHARE CAPITAL

	Note	2014 52 weeks £'000	2013 52 weeks £'000
Contributions		152	1,273
Withdrawals		(1,398)	(1,349)
		(1,246)	(76)
Interest		161	176
		(1,085)	100
Bought in on Anglia transfer of engagements	1	7,391	-
Bought in on Shepley transfer of engagements	1	17	-
Movement in year		6,323	100
Opening balance		16,602	16,502
Closing balance		22,925	16,602

At 25 January 2014 the Society had a total of 1,410,608 (2013: 999,184) members comprising of 405,134 Anglia 1,005,474 Midlands who are each entitled to one vote. At the balance sheet date the whole of the share capital comprises non-equity shares of £1 each attracting interest at rates between 0% and 2.25% (2013: between 0% and 2.25%).

Share capital is generally withdrawable on demand; however, in accordance with the Society rules, the Board may suspend the right of withdrawal for a limited time and may impose a notice period for withdrawals should they consider it to be in the best interests of the Society. The Society rules for the distribution of the final surplus in the event of winding-up after repayment of the paid-up, share capital state that such assets shall not be paid to or distributed among the members of the Society but shall be:

- transferred to one or more other societies in membership of the Co-operatives UK Limited having the same or similar rule provisions as regards surplus distribution as this rule, as may be determined by the members at an ordinary or special meeting; or
- if not so transferred shall be paid or transferred to the Co-operatives UK Limited.

Dividends to members are paid by way of vouchers redeemable against purchases.

The Group operates a Share Incentive Plan (SIP) to benefit employees. Employees can invest a proportion of their salary which may not exceed the lower of £1,495 or 10% of an employees take home pay, on which they earn a return of 2.25% in that period. Interest earned is recognised in the share capital note. At the end of five years an employee may withdraw their shares.

The Society is allowed to allocate matching shares under rules governed by HMRC. As an incentive to colleagues to join and remain in the SIP, the Society will match the first £10 paid in by each colleague for the purchase of partnership shares in the first year of the scheme by awarding £10 in matching shares. Each year colleagues who continue to contribute will receive a further £10 in matching shares for the first £10 of partnership shares acquired in later years. A year for the purposes of matching shares will be the Society's financial year.

As long as the matching shares are held for at least five years, they can be redeemed with the Society free of income tax and national insurance contributions. If they are redeemed before this date, income tax and national insurance contributions will normally be payable.

The issue of matching shares is discretionary. The Society therefore reserves the right to amend or withdraw the issuing of matching shares at its discretion.

Notes to the Financial Statements

20. MOVEMENTS IN RESERVES

	Note	Revaluation Reserve £'000	Revenue Reserve £'000
At 26 January 2013		21,102	209,869
Retained profit for the year		-	4,776
Actuarial loss on pension scheme		-	(12,562)
Movement on deferred tax relating to pension scheme		-	206
Transfer of realised gains		(561)	561
Deficit on revaluation of property	10	(5,150)	-
Share interest	19	-	(161)
Transfer of engagements	1	-	(21,156)
At 25 January 2014		15,391	181,533

21. RECONCILIATION OF TRADING PROFIT TO TRADING CASH FLOWS

	2014 52 weeks £'000	2013 52 weeks £'000
Trading profit	10,109	16,908
Depreciation and impairments	17,489	19,677
Amortisation of goodwill	2,098	1,852
Payments to and on behalf of stakeholders	(3,599)	(4,156)
Increase in debtors	(856)	(1,708)
Increase in creditors	5,444	4,326
Increase / (decrease) in stocks	2,863	(396)
Increase in provisions	2,129	1,397
Cash contribution for retirement benefit obligations	(498)	(477)
	35,179	37,423

Notes to the Financial Statements

22. ACQUISITION AND DISPOSAL OF BUSINESS

During the year the Group acquired a trading site. An analysis of the assets and liabilities acquired at book value which equated to the provisional fair value is:

	Note	£'000
Tangible fixed assets		1,700
Net assets acquired		1,700
Goodwill	9	501
Finalisation on prior year acquisition	9	44
Consideration satisfied by cash		2,245

23. FINANCING

	Note	2014 52 weeks £'000	2013 52 weeks £'000
Capital element of finance lease rentals repaid		(132)	(35)
Debt due beyond one year:			
Decrease in utilisation of bank loans		-	(547)
Decrease in debt		(132)	(582)
Decrease in share capital	19	(1,230)	(76)
		(1,362)	(658)

Notes to the Financial Statements

24. ANALYSIS OF NET CASH

	2013 £'000	T of E Cash £'000 (Note 1)	T of E Debt £'000 (Note 1)	Cash flow £'000	Other £'000	2014 £'000
Cash at bank and in hand	38,608	581	-	(14,195)	-	24,994
Debt due after one year	-	-	(22,860)	(22)	-	(22,882)
Finance leases due within one year	(35)	-	(202)	55	(52)	(234)
Finance leases due after one year	(87)	-	(550)	77	(9)	(569)
Loan capital investment	-	-	42	-	11	53
	38,486	581	(23,570)	(14,085)	(50)	1,362

25. COMMITMENTS

Finance leases

The minimum finance lease payments to which the Group is committed in future years are:

	2014 £'000	2013 £'000
Within one year	234	35
In the second to fifth years inclusive	517	87
Over five years	52	-
	803	122

Obligations under finance leases are shown as part of loans in note 16.

Operating leases

At 25 January 2014 the Group had the following annual commitments under non-cancellable operating leases, excluding onerous lease commitments of £882,000 per annum (2013: £814,000) which are fully provided for as described in note 17.

	Land and buildings 2014 £'000	Other 2014 £'000	Land and buildings 2013 £'000	Other 2013 £'000
Operating leases expiring:				
Within one year	1,126	441	597	181
In the second to fifth years inclusive	1,576	906	974	102
Over five years	5,216	1	2,340	361
	7,918	1,348	3,911	644

As part of the disposal of the travel business Thomas Cook Travel (TCT) took occupation under licence of the Society's former leased travel branches. The terms of the licence are that as from 4 October 2011 TCT are wholly responsible for all outgoing and costs associated with these properties. At 25 January 2014 the lease commitments on these operating leases expiring within one year, in the second to fifth years and over five years are as follows: £1,460,000; (2013: £1,074,000), £917,000 (2013: £1,173,000) and £244,000 (2013: £373,000).

Capital commitments

Amounts contracted for but not provided for in the financial statements were £9.8 million (2013: £8.1 million).

Notes to the Financial Statements

26. FINANCIAL INSTRUMENTS

The Group holds an interest rate swap with a principal value of £12,500,000 which had a market value of £228,000 as at 25 January 2014, which matures on 28 February 2016.

27. SUBSIDIARIES AND ASSOCIATES

	% of Equity owned	Principal activity
Central Midlands Estates Limited	100	Property Management
Terry Smith Limited	100	Coffin Manufacturer
M.C.S. Funeral Services Limited	100	Funeral Services
Shaws Petroleum Limited	100	Petrol Filling Station
Oakwell Stores Society Limited	100	Corporate Trustee
Midlands Co-op Scottish Limited Partnership	83	Investment in Corporate Bonds
Midlands Co-op General Partner Limited	100	Partnership Administration
Advantage Motor Group Limited	100	Motor Dealership
Leicester Carriage Builders 2002 Limited	100	Non-Trading
Metro Discount Stores (Midlands) Limited	100	Non-Trading
Ilkeston Travel Services Limited	100	Non-Trading
Ken Ives Motors (Derby) Limited	100	Non-Trading
Ilkeston Motor Finance Limited	100	Non-Trading
Ilkeston Consumer Co-operative Society Pension Trustees Limited	100	Non-Trading
Midlands Co-op Pension Trustee Limited	100	Non-Trading
Anglia Co-operative (Food) Limited	100	Food Retailing
Anglia Co-operative Properties Limited	100	Property Management
Co-operative Funeral Services (Anglia) Limited	100	Funeral Services
Food & Funerals Properties Limited	100	Property Management
Westgate Optical Limited	100	Optical Retailing
Yaxley Farm Limited	100	Farming

All subsidiaries are registered within the United Kingdom.

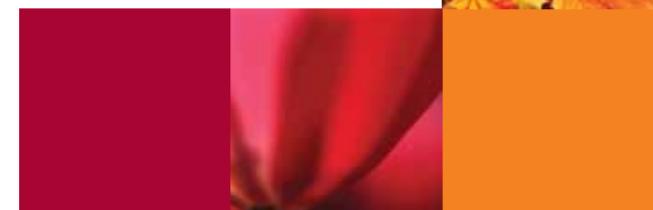
The Group currently holds investments in the following entities:

Associated undertakings	Principal activity	Country of incorporation	Class of shares held
Anglia Home Furnishings Limited	Furniture retailing	United Kingdom	Preference

Notes to the Financial Statements

28. RELATED PARTY TRANSACTIONS

Central England Co-operative Limited continues to hold a preference share interest in Anglia Home Furnishings Limited and maintains certain trading relationships relating to its normal trading activities which give rise to payables and receivables being due at the balance sheet date. The net amount due from Anglia Home Furnishings Limited in respect of these relationships was £62,000 (2013: £306,000).

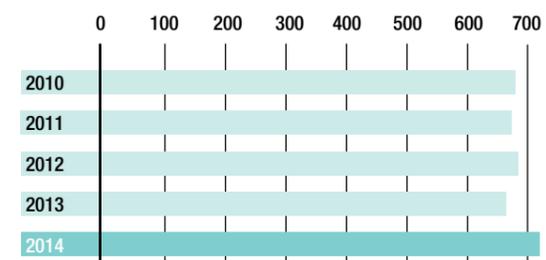


Five-Year Financial Record

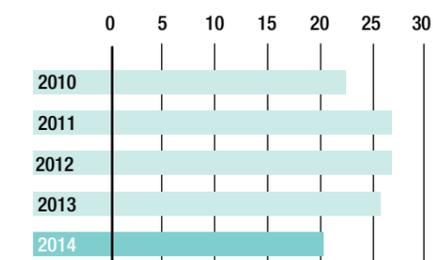
	2010 52 weeks £'000	2011 52 weeks £'000	2012 53 weeks £'000	2013 52 weeks £'000	2014 52 weeks £'000
Gross Sales (excluding VAT)	918,420	942,890	878,782	669,683	727,463
Turnover	670,566	669,669	675,939	663,635	717,845
Depreciation and Amortisation (excluding exceptional items)	16,982	17,035	17,243	16,957	16,901
Trading Profit	17,355	18,853	32,108	16,908	10,110
Trading Profit before Exceptional Items	22,343	26,434	26,550	25,436	20,462
Profit before Taxation	17,737	27,727	35,211	15,311	7,781
Retained profit for the year	10,684	23,233	26,275	10,042	4,776
Share Interest	182	176	176	176	161
Payments to and on Behalf of Stakeholders	3,098	3,321	4,001	4,316	3,878
Tangible Fixed Assets	299,538	300,927	307,639	298,996	362,497
Net Cash	19,919	45,311	40,579	38,486	1,362
Share Capital	16,604	16,534	16,502	16,602	22,925
Revaluation Reserve	36,072	36,788	35,883	21,102	15,391
Revenue Reserve	202,388	241,761	237,793	209,869	181,533
Members' Funds (Net Assets)	255,064	295,083	290,178	247,573	219,849
Cash Flow from Operating Activities	8,730	33,264	39,983	37,423	35,179
Cash Flow from Sale of Tangible Fixed Assets	8,339	18,887	1,085	775	4,767
Capital Expenditure	40,058	22,577	34,289	30,718	41,931
Number of Members	931,246	938,683	992,865	999,184	1,410,608
Trading Profit (before Exceptional Items) / Turnover Ratio	3.3%	3.9%	3.9%	3.8%	2.9%
Gearing Ratio (Net Borrowings/Net Assets)	Nil	Nil	Nil	Nil	10.7

Five-Year Comparison

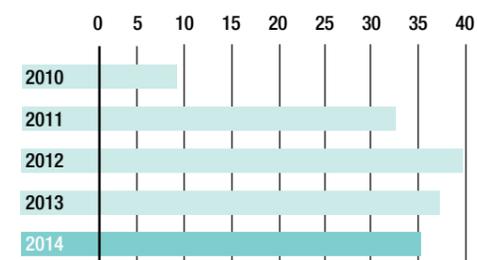
Turnover
£ million



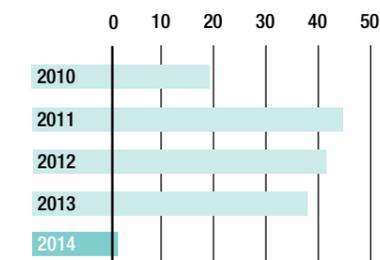
Trading Profit before Exceptional Items
£ million



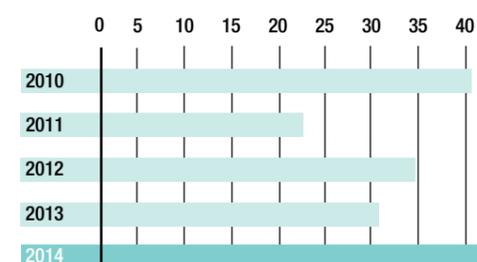
Cash Flow from Operating Activities
£ million



Net Cash
£ million



Capital Expenditure
£ million



Members' Funds
£ million



Regional Committees

Attendance at Board / Regional Committee Meetings for the year ended 25 January 2014

The attendance record of Directors and Regional Committee members during the year under review is provided below.
The number of meetings attended is the bold figure, which is compared to the number of meetings that each person was eligible to attend (in brackets).

Anglia Region:	Board	RC
Chair: Whitelock, Harry	2 (2)	2 (2)
Vice-Chair: Boyall, Douglas	2 (2)	2 (2)
Arbon, Andrew		2 (2)
*Ayres, Lynne	2 (2)	2 (2)
Bennett, Hugh		2 (2)
Brewer, John		2 (2)
Humphreys, Jean		2 (2)
*Mackie, Neil	2 (2)	2 (2)
Moon, Vince		2 (2)
Watkins, Graeme		2 (2)

Eastern Region:	Board	RC
Chair: Howells, John	15 (16)	12 (12)
Vice-Chair: Maltby, John	16 (16)	9 (12)
Alcock, Susan		12 (12)
Clothier, Sean		12 (12)
Dawswell, Paul		10 (12)
Farrell, Robin	16 (16)	11 (12)
Findley-Patel, Andrea		11 (12)
Howells, Vicky		8 (9)
Hunt, Max		9 (12)
King, Ray		12 (12)
Unwin, Stuart	15 (16)	11 (12)
Walne, Barry		12 (12)

Southern Region:	Board	RC
Chair: Lee, Maria	14 (16)	12 (12)
Vice-Chair: Mayhew, Marta	3 (3)	11 (12)
Althorpe, Michael	16 (16)	11 (12)
Brown, David		11 (12)
Dack, Joanne		9 (12)
Duncombe, Gaye		11 (12)
Kibble, John		11 (12)
Pringle, Bill		9 (12)
Sawford, Phil		11 (12)
Shepherd, Nathan		10 (12)
Smith, Peter	12 (13)	10 (12)
Weston, Glenda		11 (12)

Western Region:	Board	RC
Chair: Croft, Frank	15 (16)	12 (12)
Vice-Chair: Lees, Helen	14 (16)	11 (12)
Bickle, Richard		8 (9)
Comelio, Simone		11 (12)
Dunn, Adrian		12 (12)
Ellgood, Dave	15 (16)	11 (12)
Franklin, Neil		11 (12)
McGlade, John		11 (12)
Loughran, Angela	11 (13)	10 (12)
Parry, Bernard		11 (12)
Redfern, Keith	15 (16)	12 (12)
Rushton, Susan		12 (12)
Singh, Paul	3 (3)	3 (3)

Northern Region:	Board	RC
Chair: Dean, Elaine	14 (14)	9 (11)
Vice-Chair: Hepworth, Kevin	16 (16)	11 (12)
Allen, Tina		11 (12)
Beeston, David		10 (12)
Briggs, John		12 (12)
Dean, Peter	16 (16)	9 (12)
Elliott, David		4 (6)
Fee, Philip	13 (13)	12 (12)
Garton, Matthew		8 (9)
Goodwin, Patricia		11 (12)
Grayling, Mark		11 (12)
Kenney, John		10 (12)
Lomas, Liz	3 (3)	3 (3)

Board = Attendance at Board meetings (Directors)
RC = Attendance at Regional Committee meetings
* = Independent Non-Executive Director

Notice of Annual Meeting

The Annual Meeting of Members will be held as follows:

Tuesday 29 April 2014 at 7.00 p.m.

COALVILLE • Snibston Discovery Museum, Ashby Road, Coalville. LE67 3LN

LEICESTER • Keith Weller Suite, Leicester City Football Club, King Power Stadium, Albert Way, Leicester. LE2 7FL

NORWICH • De Vere Hotel Dunston Hall, Ipswich Road, Norwich. NR14 8PQ

Wednesday 30 April 2014 at 7.00 p.m.

KETTERING • Kettering Conference Centre, Thurston Drive, Kettering. NN15 6PB

MARKET HARBOROUGH • The Conference Centre, Three Swans Hotel, High Street, Market Harborough. LE16 7NJ

MELTON MOWBRAY • The Conference Hall, Pera Conference Centre, Nottingham Road, Melton Mowbray. LE13 0PB

Thursday 1 May 2014 at 7.00 p.m.

PETERBOROUGH • Henry Royce Suite, Peterborough Marriott Hotel, Peterborough Business Park, Lynch Wood, Peterborough. PE2 6GB

Tuesday 6 May 2014 at 7.00 p.m.

CHESTERFIELD • Barcelona Suite, Casa Hotel, Lockoford Lane, Chesterfield. S41 7JB

DERBY • The Carriage Shop Theatre, Derby College, The Roundhouse, Roundhouse Road, Pride Park, Derby. DE24 8JE

EASTWOOD • Eastwood Hall, Hayley Conference Centre, Mansfield Road, Eastwood. NG16 3SS

Wednesday 7 May 2014 at 7.00 p.m.

BIRMINGHAM • Halls 9 & 10, International Convention Centre (ICC), Broad Street, Birmingham. B1 2EA

BURTON UPON TRENT • The Albion Suite, Burton Albion Football Club, The Pirelli Stadium, Princess Way, Burton upon Trent. DE13 0AR

STAFFORD • The Royal Suite, Tillington Hall Hotel, Eccleshall Road, Stafford. ST16 1JJ

Members are requested to note the following:

ELECTIONS: Details of the Elections are available from the Registered Office at Lichfield (telephone 01543 414140) or online www.centralengland.coop. The results of the Election will be announced on Thursday, 8 May at 12 noon. Details will be posted that day on the Society website www.members/elections, and on posters in food stores as soon as practically possible.

TO GAIN ADMISSION members must present their valid membership card or valid share book and have held at least £1 in their share account for at least six months prior to the date of the meeting.

REFRESHMENTS: Tea, coffee and biscuits will be available prior to the meeting from 6.15 p.m.

AT THE CONCLUSION OF THE MEETING members are invited to remain for refreshments and take the opportunity to talk to Directors and Management on an informal basis.

Agenda of Annual Meeting

1. Minutes of the Interim & Special Meetings of Members held 15, 16, 22, 23 October 2013, and the minutes of the Special Meeting of Members held on Wednesday 15 January 2014.

2. Annual Report of the Board of Directors and Financial Statements for the year ended 25 January 2014, including the Annual Report of the Remuneration Committee.

3. Appointment of Auditors: Deloitte LLP, Four Brindleyplace, Birmingham. B1 2HZ

4. Distribution of Trading Surplus. The Board of Directors proposes the following distributions from trading surplus:

- Members:
 - Dividend: **1 pence per point***
 - Member Relations Activities: **£580,000**
- Colleague Dividend: **£1,211,000**
- Community Dividend: **£198,000**

* On purchases made between 11 August 2013 and 25 January 2014 and between 8 September 2013 and 25 January 2014 in respect of points earned in the former Anglia Society business.

5. Membership & Community, including Member Relations Annual Report.

6. Annual Report & Accounts of the Society Co-operative Party Councils.

(Anglia, Midlands Northern, Midlands Eastern & Southern and Midlands Western Regions).

J. Watts

Secretary

28 March 2014



Minutes

of the Interim & Special Meetings of Members held in 2013:

Eastern Region

Tuesday 15 October 2013 at 7.00 p.m.

COALVILLE • Snibston Discovery Museum, Ashby Road, Coalville
161 members present • Stuart Unwin in the Chair

LEICESTER • The 1880 Suite, Caterpillar Stand, Leicester Tigers, Aylestone Road, Leicester
267 members present • John Howells in the Chair

Southern Region

Wednesday 16 October 2013 at 7.00 p.m.

KETTERING • The Kettering Park Hotel, Kettering Parkway, Kettering
167 members present • Peter Smith in the Chair

MARKET HARBOROUGH • The Conference Centre, Three Swans Hotel, High Street, Market Harborough
151 members present • Maria Lee in the Chair

MELTON MOWBRAY • Pera Conference Centre, Nottingham Road, Melton Mowbray
97 members present • Michael Althorpe in the Chair

Northern Region

Tuesday 22 October 2013 at 7.00 p.m.

CHESTERFIELD • Ringwood Suite, Ringwood Hall Hotel, Brimington, Chesterfield
132 members present • Elaine Dean in the Chair

DERBY • The Roundhouse, Derby College, Roundhouse Road, Pride Park, Derby
146 members present • Peter Dean in the Chair

EASTWOOD • Eastwood Hall, Hayley Conference Centre, Mansfield Road, Eastwood
142 members present • Kevin Hepworth in the Chair

Western Region

Wednesday 23 October 2013 at 7.00 p.m.

BIRMINGHAM • International Convention Centre (ICC), Broad Street, Birmingham
261 members present • John Maltby in the Chair

BURTON • The Albion Suite, Burton Albion Football Club, The Pirelli Stadium, Princess Way, Burton on Trent
235 members present • Dave Ellgood in the Chair

STAFFORD • The Royal Suite, Tillington Hall Hotel, Eccleshall Road, Stafford
127 members present • Helen Lees in the Chair

1. **Apologies** received were read to the meetings at respective venues.

2. **Minutes** of the Annual Meeting of Members held 23, 24, 30 April; and 1 May 2013, including Results of Elections, were approved as a correct record.

3. **Interim Report of the Board of Directors** - Resolved: "That the Interim Directors' Report for the 28 weeks ended 10 August 2013 be adopted".

4. **Distribution of Trading Surplus** - Members' Interim Dividend. The interim dividend of one pence per point was approved by a show of hands.

5. **Membership & Community, including Member Relations Interim Reports** - Verbal reports of the Northern, Eastern & Southern and Western Regional Member Relations Committees for the half year ended July 2013 were received and adopted.

6. **Results of Election** of one Members' Delegate from each Region to attend Co-operative Congress 2014:

Elected unopposed:

Northern Region – Kevin Reeve

Eastern Region – Robin Bennett

(Southern & Western Regions – no nominations received)

7. **Written Reports** of the members' delegates to Co-operative Congress 2013 were received (Northern & Western Regions only).

Special Meeting held at the conclusion of the ordinary business:

To consider and, if thought fit, to adopt the following resolution:

"That the Rules of the Society are amended in accordance with the document presented to this meeting, subject to the members of Anglia Regional Co-operative Society Limited agreeing to transfer its engagements to Midlands Co-operative Society Limited, and the payment of compensation for loss of office to any serving Director, Regional Committee member or Regional Member Relations Committee member who does not become a Director or Membership & Community Council member in 2014 or is (in the circumstances set out in the supporting document) unsuccessful in elections to the Board or Membership & Community Councils in 2015 or 2016, be approved."

On being put to the Meeting, this proposal received the necessary two-thirds majority and was declared carried.

Special Meeting of Members held on Wednesday 15 January 2014:

LEICESTER • The 1880 Suite, Caterpillar Stand, Leicester Tigers, Aylestone Road, Leicester. LE2 7TR
217 members present • John Maltby in the Chair

To consider and, if thought fit, to adopt the following resolution:

"That the name of the Society be changed to CENTRAL ENGLAND CO-OPERATIVE".

On being put to the meeting, this proposal was approved.



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