

interim report

for the year ending 25 January 2014



Directors, Officers & Advisors

President Mr H Smallman
Vice President Mr H Cairney

Directors

Mr J Anderson, Mr I Bailey, Mr P Devenney, Mr J Gilchrist, Mr J Miller,
Mr D Paterson, Mr T McKnight, Mrs G Smallman, Mr J Watson, Miss A Williamson

Management Executive

Chief Executive Officer John Brodie
Head of Corporate Communications Malcolm Brown
Chief Financial Officer & Secretary John Dalley
Head of Property & Development Services Adrian Lorimer
Head of Human Resources Steve McDonald
Chief Operating Officer Colin McLean

Advisors

Auditors Deloitte LLP
Bankers The Royal Bank of Scotland plc
Solicitors Anderson Strathern LLP

Registered Office

Hillwood House, 2 Harvest Drive, Newbridge, EH28 8QJ

www.scotmid.coop

Directors' Report



Pictured: Society Vice President Harry Cairney joins store staff and guests at the opening of the new look Prestonpans store.

The Directors of Scottish Midland Co-operative Society are pleased to present their interim report to members.

Last year-end we predicted that 2013 would be "challenging with the expectation that the marketplace will at best remain static for a number of years". This has proven to be the case, but with the benefit of business innovation and initiatives the Society has delivered a steady performance with an operating surplus of £2m for the 26 weeks ended 27 July 2013, £0.1m down on the first half last year. Total turnover at £210m was down £1m but the Society continues to enjoy a strong balance sheet with assets of £95m. The Society continues to focus on new initiatives, this report includes examples of a number of these business improvements that have been implemented recently.

An exciting development for the Society was the announcement of our potential merger with Penrith Co-operative, expanding our food convenience business into England for the first time in our 154 year history. Scotmid is delighted to report that this merger has now been approved by Penrith members and we look forward to the transfer of new members and colleagues into the enlarged Society in October.

The good summer weather gave a strong boost to our Retail trading businesses helping to catch up with the adverse effect of the prolonged cold weather in winter and spring. The result in our food convenience business was also underpinned by the successful rollout of in-store bakery counters, the extension of the 'Premium Fresh' store trial and new local, fresh and ambient ranges, all of which have helped to highlight a

point of difference from our competitors. Our Semichem business continues to face a number of significant challenges, but we are working hard to develop and introduce a number of customer-led initiatives and other improvements.

The Society's non-retail businesses - Property and Funeral - have once again shown good growth. Property was a particular highlight in a challenging marketplace and Funeral continues to grow its reputation for providing the best care and attention to our clients at their time of need.

We continued to develop the Society's membership and democratic structure with the successful transition and creation of a North Regional Committee, culminating in the election of the co-opted committee members at the AGM in 2013.

Although there have been some reports of economic recovery, this appears to be specific to certain locations and sectors and is not evident in the retail and consumer sectors in Scotland, Northern Ireland and Northern England. There will normally be a significant time lag before any recovery filters down to consumers, so the outlook for the second half of 2013 remains challenging. We continue to sound a note of caution as the erosion of real terms disposable income is the everyday reality for our customers. We will therefore continue with a measured approach to these difficult times, looking to develop new initiatives with a strong focus on continuous improvement.

Directors' Report



Pictured above: The new Premium Fresh format store at Haymarket in Edinburgh.

Pictured below: The opening of the new store in Duddingston.



Directors' Report

Food Retail

The first four months of the new financial year were particularly challenging for Scotmid food community convenience stores, with the poor winter and spring weather impacting on sales. However, a stronger than anticipated performance in the summer months, helped by good weather, the impact of business initiatives and additional promotional activity has compensated for this. The promotional activity included "spend and save" coupons and price-led product specific promotions. This combination of factors over the period has put the business back on track.

During the period, a priority for our food business has been the roll out of in-store bakery counters, which are now in 40 stores. Scotmid has developed partnerships with six award-winning Scottish bakeries including Stephens the Bakers, J G Ross, Aulds, Goodfellow & Steven, Stuart's of Buckhaven and The Breadwinner Bakery. Based on the success to date, the roll out programme has been accelerated with a target of 90 stores with a specialist bakery offer by the end of this financial year.

Development work on store segmentation has continued aiming to find formats that fit local customer needs. The new 'Premium Fresh' store format, which includes an extended range of fresh produce and locally supplied products, completed a successful trial in our Warrender Park store. The store has been well received by customers and was awarded the Best Multiple Convenience Store in the UK at the 2013 Convenience Retail Awards. This new format has now been rolled out to 10 locations in Edinburgh, Fife, Glasgow and Aberdeenshire, with more to follow this year. A trial of a community value

format has also commenced with a pilot store at Prestonpans. The store stocks new product ranges from local and Scottish suppliers, more £1 products and a larger range of value products. The new layout of the store will make it easier for customers to shop and the store's design has been refreshed with a new fascia and colour scheme.

The main focus of the business is to develop and create 'points of difference' in our stores taking the best of the Co-operative Retail Trading Group and then using our local skills and knowledge to tailor our stores to get the best for our customers in the communities that we serve. We have new local, fresh and ambient ranges, with an emphasis on truly local products helping to protect local jobs and cater for customer demand. We have continued to focus on improving our fresh ranges with a major re-launch of ready meals, savouries and sandwiches.

Highlighting our commitment to our communities and responding to customer feedback, our store in South Queensferry has introduced both Stephen's the Bakers and the award winning butcher, Stuart's of Buckhaven. Queensferry High Street had no local bakery or butcher, the opening of these within our store has led to an enhanced shopping experience.

A new Scotmid Food website (www.scotmid.co.uk) has been launched with recipes, special offers, cooking videos and a new blog from food expert, Fiona Faulkner. Two new stores in Edinburgh (Duddingston and Haymarket) were opened and the success of our 40 in-store Post Offices was acknowledged, for the second year in succession, by being awarded Post Office Top Multiple Partner.

Directors' Report



Semichem

Following a sluggish start to the year, Semichem's performance was boosted by the good weather over the summer months. Poor weather in the first four months and the continuing tough economic conditions had impacted on the Semichem group of businesses. However, the past few months have seen a sales recovery, with signs of customer confidence returning. Northern Ireland continues to prove the most difficult marketplace, with better results from our stores in the North of England and Scotland.

While the general marketplace continues to be difficult, a number of initiatives to improve the Semichem offer have been implemented including a trial of 'value bays' in seven stores and new customer services in selected stores, including lottery, Paypoint, cashback and E-top up. Additional footfall has been generated by the introduction of cigarettes to 48 stores, with more stores planned. The rollout of the Semichem "local" format has continued with 17 stores benefitting from a refresh in the period.

Seasonal events have proved popular with customers, with merchandising in-store enhancing the customer shopping experience. Semichem has also continued to successfully control cost through distribution efficiencies and store process improvements. There has been tight control of expenses generally including reduced rents as landlords acknowledge the difficult trading conditions on the high street.

The Fragrance House

The Fragrance House stores have seen a positive impact on sales from a promotional campaign over the summer together with the benefit of tight control of costs. However, the marketplace in which The Fragrance House operates - premium fine fragrances - continues to prove extremely challenging as a number of key competitors continue with heavy discounting.

Directors' Report



Above left: A flat in Edinburgh in the Society's residential property portfolio. **Above right** The new funeral home at Boswall Parkway in Edinburgh.



Property

Scotmid Property produced a good set of results delivered by a combination of rental income growth and cost control. Both commercial and residential portfolios contributed to the income growth. Market conditions remain favourable for the private rented sector in Edinburgh where the Society's portfolio is concentrated. Demand for commercial property continues to be weak, particularly in the retail sector, so it is pleasing to report growth in our commercial rental income. Some signs of economic recovery have emerged and activity in the residential sales market is increasing, which should lead to modest improvements in residential capital values in the near future. Commercial property values, especially in the secondary property market where our portfolio is concentrated, remain subdued, but the potential for wider economic recovery and continued low interest rates would be a positive for this market.

In the first half of 2013, new commercial lettings were secured in South Queensferry, Edinburgh and Uddingston, generating additional rental income. The Society is also at the advanced stage of purchasing 12 flats in central Edinburgh. This purchase will help to re-balance the property portfolio adding to the strongly performing residential portfolio and will be partly funded by

the selected disposal of commercial property. Preparatory work continued on a potential nine flat scheme to the rear of our Gorgie Road store in Edinburgh and a development site adjacent to our food store in Prestonpans was re-acquired to enhance the Society's trading options in the town.

Funeral

The reputation of Scotmid's funeral business for quality compassionate service continues and this is reflected once again in another strong set of results and the numbers of funerals conducted. This is despite the decline in the underlying death rate and increasing local competition.

New funeral homes in Edinburgh (Liberton opened in 2011, Leith opened in 2012 and Boswall Parkway opened this year) are all performing well and we continue to research locations for potential new funeral homes.

Capital investment in our existing funeral homes continued during the period with service room works recently completed at Thomas Brown in Broxburn. Vehicle capital investment has also continued, with the delivery of a Mercedes private ambulance to Thomas Brown.

Directors' Report



Pictured: Staff from the Human Resources, Compliance and Community teams attended the launch of Edinburgh's Community Alcohol Partnership.

Governance

The first North regional AGM for many years was held in April 2013 and was well supported by members, who exercised their right to elect the Board nominated Regional Committee members. Moving on to the next stage of development and continuous improvement of the Society's governance structures the Board has established a new Governance and Strategy sub-committee. This committee's responsibilities include a review the operational and working practices of the Regional Committees, recommendations for the strategic framework for the Society's democratic structure over the next 5-10 years and consideration of and response to the consultation on a revision of Co-ops UK's Governance Code.

Support Services and Corporate Matters

The main priority for service teams over the last six months has been the support of business improvement initiatives. For example, the rollout of bakery counters and fresh projects in Food and cigarettes in Semichem have required cross-functional support in the form of training,

IT, property, profit protection, finance and other support disciplines. Cross-functional teams have also been heavily involved in the due diligence and integration planning for the Penrith transfer of engagements.

A significant amount of project work has been completed to re-shape and re-launch our pension offering. This included the cessation of final salary future accrual, the launch of a Retiral Cash Balance scheme and the implementation of pensions Auto Enrolment using NEST as the pension provider.

Examples of other projects include the launch of Edinburgh's first Community Alcohol Partnership, major enhancements to our Sharepoint health and safety system, the implementation of P-Pos (which allows Paypoint services to be available on our store tills), 'simple payments' and the deployment of store detectives and mobile response officers.

The Society's corporate website www.scotmid.com was re-launched with a new design. It features a new mobile-friendly version, has an improved careers section, an interactive membership hub and enhanced social media connectivity.

Directors' Report



Pictured: Maggie's and Scotmid celebrate raising £260,000 - a record fundraising total for the Society.

Membership Development

The Society continues to engage with members and progress with our membership strategy. Key elements of this have been our member benefits trial where 500 members have received regular offers via email; the creation of active members groups in our East and West regions, which have the added benefit of encouraging more members to attend our member meetings; the completion of a series of member profile films to encourage our members to get even more out of their membership; the introduction of a new member benefit with David Urquhart Travel and an improved on-line membership hub on the Scotmid corporate website, with new features to engage and interact with members. Two more issues of our members' magazine, Jigsaw, were distributed with the money off vouchers proving to be very popular once again.

Community and Charitable Activities

The Regional Committees continue to support a wide range of local community initiatives throughout Scotland via the Scotmid Community Grant Fund. These include Uddingston Fun Day; North Edinburgh Dementia Care; Aberdeen Atoms Netball Team and Preston Lodge High School Pipe Band. Other community initiatives include the extension of the community defibrillators project to ten new store locations, as well as sponsorship of community events such as the Leith and Prestonpans Gala and the Royal National Lifeboat Institution AGM.

Fairtrade continues to play an important role within the Society through the support of Fairtrade groups and schools. We are delighted to have played our part in Scotland becoming a Fairtrade nation and assisting several communities in becoming Fairtrade towns.

This year Scotmid played a key part in Co-operatives Fortnight where the Society helped develop and produce the Co-operatives Fortnight Collaborative Film Project to highlight the superb work of co-operatives. The film asked co-operatives throughout the United Kingdom to film and comment on what co-operation means to them.

It was a very special year for charity fundraising as our staff, members and customers raised over £260,000 for our charity of the year - Maggie's Cancer Caring Centres - a record fundraising total for the Society and our Semichem stores in Northern Ireland raised over £10,000 for the Children's Heartbeat Trust.

Appreciation

The Directors would like to thank our members, customers and staff for their ongoing support over the last six months.

Signed on behalf of the Directors

Hollis Smallman, President

Harry Cairney, Vice President

The Society in Focus



Above: Staff participants get geared up for the Maggie's Monster Bike and Hike.

Organisations that have benefited from Society Community Grants and sponsorship:



left: Prestonpans Gala Day with Society Vice President Harry Cairney and Iain Gray MSP. Below: Strathkelvin talking newspaper. Bottom left: Drummond High School intergenerational project.



The Society in Focus



Organisations that have benefited from Society Community Grants and sponsorship:

Top left: Nairn Synchronised Swimming Club. **Top right:** Dalry Primary School football team. **Above left:** Edinburgh Schools Fairtrade Awards. **Above right:** "Keep Scotland Beautiful" community litter pick in South Queensferry
Below: Greenhead Moss Easter Funday.



Interim Statement of Group Trading Activities

	27 July 2013 £000	28 July 2012 £000
Turnover		
Total turnover	209,800	211,109
Profit		
Operating profit before exceptionals	2,032	2,167
Exceptional items	<u>(255)</u>	<u>(516)</u>
Profit before interest	1,777	1,651
Net interest payable	<u>(698)</u>	<u>(883)</u>
Profit before distributions	1,079	768
Share interest/grants and donations	<u>(309)</u>	<u>(363)</u>
Surplus before taxation	<u>770</u>	<u>405</u>
Net Assets		
Fixed assets	148,433	152,588
Net current assets	4,176	3,528
Long term liabilities	(43,320)	(47,894)
Pension fund liability	<u>(14,588)</u>	<u>(11,608)</u>
Net assets	<u>94,701</u>	<u>96,614</u>
Cash Flow		
Inflow from operating activities	6,547	7,281
Net interest paid	(811)	(996)
Corporation tax payment	(562)	(279)
Capital expenditure/acquisitions	(3,982)	(3,400)
Proceeds from sale of fixed assets	29	443
Decrease in members' share capital	<u>(13)</u>	<u>(13)</u>
Reduction in net debt	<u>1,208</u>	<u>3,036</u>
Net Debt		
Opening net debt	(32,498)	(35,312)
Reduction in period	1,208	3,036
Closing net debt	<u>(31,290)</u>	<u>(32,276)</u>

Notes to the Interim Statement

1. The financial information does not constitute statutory accounts and is not audited.
2. The interim statement has been prepared on the basis of the accounting policies set out in the year ended 26 January 2013 Annual Report and Accounts.
3. No provision has been included in the net assets statement for any possible tax charge, either current or deferred, which may arise.
4. Investment properties revaluation adjustments are made annually at the year end. A property revaluation is not undertaken for the interim results.
5. FRS17 pension adjustments are made annually at the year end and consequently are not reflected in this interim statement.

Notice of Meeting and Agenda of Business

Notice is hereby given that an Ordinary General Meeting of the Society will be held on Monday, 30 September 2013 at The Hilton Edinburgh Grosvenor Hotel, Grosvenor Street, Edinburgh and on Tuesday, 1 October 2013 at South Lanarkshire Council Headquarters, Almada Street, Hamilton, ML3 0AA and at the Northern Hotel, 2 Clerk Street, Brechin, Angus, DD9 6AE.

Agenda of business

1. Synopsis of Minutes of Annual General Meeting held on 29 and 30 April 2013.
2. Appointment of Tellers.
3. Directors' Report/Interim Accounts.
4. Penrith Co-operative Society Limited - Transfer of Engagements.
5. Consider Rule changes to facilitate: the integration of Penrith into the West Region; the transfer of West Lothian into the East Region (as identified by the Society's Constitutional Review in 2008 - 2010); to complete the transitional arrangements necessary to increase the democratic representation in the North Region; and after a transitional period the creation of a new Regional Committee to include the Penrith membership area.
6. Nominations for Regional Committees:
East Regional Committee: 4 Members to serve for 3 years;
North Regional Committee: 2 Members to serve for 3 years;
West Regional Committee: 4 Members to serve for 3 years and 1 Member to serve for 2 years.
7. Elections to the Board:
East: 1 Regional Committee Member to serve for 3 years
North: 1 Regional Committee Member to serve for 3 years
West: 2 Regional Committee Member to serve for 3 years
8. Membership and Community Development Report.
9. General business.

Admission to General Meeting

If you have been a Member for 6 months or more and wish to attend the meeting please complete the registration form on the Society's website or by telephone 0131 335 4433. The deadline for registration is Monday 23 September 2013.

Members will be admitted to the General Meeting by presenting their admission ticket and Share Book. Only Members whose principle residential address lies within the geographic boundaries of that region will be entitled to vote for individuals to represent that region unless approval is granted by the Secretary in advance of the meeting.

The meeting will start at 7.00pm prompt and to ensure there are no disruptions late entry will not be permitted.

The next General Meeting (Annual General Meeting) will be held on Monday 28 April 2014 at Edinburgh and Hamilton and on Tuesday 29 April 2014 in Brechin.

Board Members

The following tables show the number of meetings attended by each member of the Board or Committee compared to the total of number of meetings held in the period (shown at the bottom of each table).

Board Directors	Board Meetings	General Purposes	Audit	Remuneration	Search
Mr H Smallman (P)	6	1 (C)			2 (C)
Mr H Cairney (VP) *	6	1		1 (C)	
Mr J Anderson *	5	1	2		
Mr I Bailey *	6		2		2
Mr P Devenney	6				2
Mr J Gilchrist *	5			1	
Mr T McKnight	5	1	2		
Mr J Miller	6			1	
Mr D Paterson	5				2
Mrs G Smallman	6				2
Mr J Watson	6		2 (C)		
Miss A Williamson	6	1		1	
Total meetings held	6	1	2	1	2

Key: P - President, VP - Vice President, C - Board Committee Chair

* Board Members due to retire by rotation at the Ordinary General Meeting on 30 September/1 October 2013 who have been nominated by their Regional Committees and are eligible for re-election.

Two meetings of the Governance and Strategy Review Committee were also held in the period.

John Anderson is a Director of Co-operatives UK. Hollis Smallman, Harry Cairney and David Paterson are Trustee Directors of Scotmid Pension Trustee Limited, the sole trustee of the Scottish Midland Co-operative Society Limited Pension Plan.

Regional Committee Members

East Regional Committee		West Regional Committee		North Regional Committee	
Miss A Williamson (C) ◊	4	Mr T McKnight (C)	5	Mr J Anderson (C)	4
Mr H Cairney (VC) ◊	4	Mr J Watson (VC)	5	Dr R McCready (VC) ◊	5
Mr D Paterson (MS)	5	Mr J Gilchrist (T) ◊	5	Mrs M Smith (MS)	3
Mr K Kelly ◊	4	Mr M Ross (MS)	4	Mrs A Anderson	4
Mr J Mackenzie	4	Mr I Bailey ◊	4	Mr A Cullen	5
Mr J Miller	3	Mr P Devenney ◊	4	Mrs S Downie	4
Mr D Reid	5	Mr I Gilchrist	5	Mr A Maclean ◊	3
Mrs J Reid ◊	5	Mrs M Kane ◊	5	Mr A Stokes	5
Mr D Jamieson	5	Mr R Kelt	5		
Mrs G Smallman	5	Mr D Muirhead	5		
Mr H Smallman	5	Mr G Randell	5		
Mr E Thorn	4	Mr A Simm	4		
Total meetings held	5		5		5

Key: C - Committee Chair, VC - Vice Committee Chair, MS - Minute Secretary,
T - Treasurer

◊ Regional Committee Members due to retire by rotation in April 2014 and are eligible for re-nomination to the Regional Committee.

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