

Interim Report

for the 26 weeks ended 26 July 2014



SCOTTISH MIDLAND CO-OPERATIVE SOCIETY LIMITED

SCOTMID
co-operative



SCOTMID
CO-OPERATIVE
FUNERAL DIRECTORS
EST. 1927

Lakes & Dales
co-operative

Directors, Officers & Advisors

DIRECTORS

President

Mr H Cairney

Vice President

Mr J Watson

Mr J Anderson

Mr P Devenney

Mr J Gilchrist

Mr J Miller

Mr D Paterson

Mr T McKnight

Mrs G Smallman

Miss A Williamson

MANAGEMENT EXECUTIVE

Chief Executive Officer

John Brodie

Head of Corporate Communications

Malcolm Brown

Chief Financial Officer & Secretary

John Dalley

Head of Innovation & Change

Stewart Dobbie

Head of Property & Development Services

Adrian Lorimer

Head of People & Performance

Steve McDonald

Chief Operating Officer

Colin McLean

ADVISORS AND REGISTERED OFFICE

Independent Auditors

Deloitte LLP

Bankers

The Royal Bank of Scotland plc

Solicitors

Anderson Strathern WS

Registered Office

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

Directors' Report

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

Scotmid's 'measured approach' to the challenging economic climate has seen Scotland's leading independent co-operative deliver results marginally ahead of the equivalent period last year. This was achieved despite a number of negative external factors including a decline in the food retail market in Scotland and less favourable summer weather. For the 26 weeks ended 26th July 2014, the Society's operating surplus was £2.1m and turnover of £212m was up by over £2m. The Society continues to enjoy a strong balance sheet with net assets of £91m.

In general, there has been a mixed performance from our trading businesses in the period. Our food convenience business responded to the sales decline in the Scottish food retail market with a focus on differentiation, including the continued roll out of bakery counters and the introduction of additional local products. The tight control of costs has also been an important feature. The integration of Lakes & Dales has continued with the former Penrith Society stores helping to drive the Society's overall sales growth. Our Semichem business delivered an improved trading result with the benefit of hard decisions taken before the year-end and implemented in 2014. The Funeral business has had a difficult start to the year, relative to a strong performance in 2013, due to a number of factors such as the declining death rate and increased competition. Scotmid Property delivered another encouraging performance benefitting from investment in 2013.

Recent development of the Society's democratic structure has focussed mainly on the implementation of Co-Op UK's updated



Society President, Harry Cairney, Chief Executive, John Brodie and Vice President, Jim Watson.

Code of Corporate Governance. In particular, this saw members approve the replacement of the 'age rule' with a new 'balanced' approach to the composition of the Board and Regional Committees. In addition, Scotmid played an active role in the consultation process leading up to changes in The Co-operative Group's governance structure. The Society has also strengthened membership and community activity in the Lakes & Dales area and reported a record fund raising total for Prostate Cancer UK, our charity partner for the year.

At the year-end we predicted that there would be no meaningful recovery in 2014 despite the widely reported indicators of economic recovery in other locations and sectors. Unfortunately in the case of the food retail market in Scotland, specific factors have resulted in a further general decline. In this context and given the significance of food convenience to the Society, actions taken to differentiate our stores from those of our competitors and to control costs have been very important. We will therefore continue with our considered response to these difficult times, taking the hard decisions, supported by a focus on continued improvement.

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Directors' Report



Above and below right: The award winning Breadwinner Bakery now available in six stores.



Left: The Premium Fresh store at Barnton in Edinburgh.
Below: The Scotmid tent at the Scotmid School Run, part of the celebrations to launch the Queen's Baton Relay.



Directors' Report

FOOD RETAIL

Despite a difficult food marketplace and a generally challenging retail environment, Scotmid's like-for-like food sales outperformed both the Scottish Retail Consortium figures and those of other independent co-operatives. The difficult market saw the first food deflation since 2006, driven by price wars on key staples such as vegetables, milk and bread. Competition continues to intensify as the multiples seek growth in the convenience sector and the discounters increase their market share. Another factor that impacted on recent relative performance was a return to more normal Scottish weather in 2014, compared to the hot summer in 2013.

In total, turnover growth for Scotmid's food convenience estate was mainly driven by new space, including the nine Lakes & Dales stores. Following the merger with Penrith Society in October 2013, these stores have been successfully integrated onto Scotmid processes and we continue to build up knowledge of the local trading area and identify opportunities for development.

A priority for our food business over the period has been the continued roll out of in-store bakery counters, local sourcing and brand modernisation. Bakery is now in over 150 stores supplied by award winning Scottish bakers. Our new exclusive artisan bread and bakery offer from Breadwinner is on trial in six stores.

Local sourcing highlights our differentiated customer offer supported by locally produced

chilled foods, fresh produce and ambient ranges. A dedicated supply chain is helping to deliver increased sales.

Brand modernisation can be seen in many areas including our Premium Fresh format stores, the installation of self-checkout tills into 25 convenience stores and the roll out of Scotmid Radio. In addition a new on-line customer feedback system has been introduced and over 10,000 customers so far have taken the opportunity to feedback their opinions and suggestions.

Food price deflation, investment in customer promotional activity and the discontinuation of the corporate dividend from The Co-operative Group all added pressure on margins. This was partially offset by action taken to control costs and increase the income generated from other services.

Cost control measures included a focus on store productivity, the efficiency of support processes and energy saving initiatives. The work on energy includes the investment in more efficient lighting and fridges to help reduce our carbon footprint. We are pleased to report that our Moredun store in Edinburgh has been chosen as a model efficiency store by Resource Scotland and will receive some grant funding towards the cost of upgrading the energy efficiency of the store. Increased income from other services has been achieved by working in partnership with our suppliers who support the Society's ATMs and Post offices.

Local sourcing highlights our differentiated customer offer supported by locally produced chilled foods, fresh produce and ambient ranges

Directors' Report



SEMICHEM

In the first half of the financial year Semichem delivered an improved trading result driven by like-for-like sales growth and the benefit of decisions taken on loss-making stores. These decisions included a number of closures where it was not possible to negotiate reduced rents. However, it is pleasing to report that a number of unprofitable stores were saved from potential closure through successful lease negotiations. This policy will continue as and when leases come up for negotiation.

The general marketplace in which Semichem operates continues to be difficult with Northern Ireland still proving to be a challenge. The trading environment remains very competitive with the continued expansion of general discounters and pound stores. Comparable sales growth was driven by categories such as food, tobacco and baby care. Sales of seasonal

products such as sun preparations were impacted by the cooler summer weather in 2014. The price competitive market place and the changes in sales mix resulted in downward pressure on margin.

The previously announced review of Semichem strategy is on-going. With a focus on a new approach to category management and working in partnership with key suppliers we have recently launched a trial of competitively priced new products in selected stores.

FRAGRANCE HOUSE

The decision to conclude our six store Fragrance House trial and target the Society's investment in other areas was announced last year. These stores have been closing as their leases came up for renewal with the final store due for closure at the start of 2015.

A number of unprofitable stores were saved from potential closure through successful lease negotiations

Directors' Report



PROPERTY

Scotmid Property continued to perform well, with solid progression achieved through net rental income growth and tight cost control.

Commercial income has remained robust during the period assisted by new lettings and rent reviews. In terms of capital values the commercial investment market in our investment areas (mainly retail) has shown modest improvement. Work has commenced on the creation of four new commercial lettings by the sub-division of retail units in Newmains and in the Moredun area of Edinburgh.

Residential income has continued to strengthen with low void levels and the benefit of the block of flats acquired in central Edinburgh at the end of last year. Capital values have shown modest appreciation as the Edinburgh residential market has continued to grow. There has been a general increase in the level of sales activity but this has not had a dampening effect on demand for lettings in our core market.

FUNERAL

The growth of the Society's Funeral business continued with the development of recently opened Dundas Fyfe funeral homes in East Kilbride and Hamilton (pictured above). We now have 12 funeral homes operating in the central belt of Scotland, including eight in the Edinburgh area which carry the Scotmid brand. They operate in an increasingly competitive local market with more funeral homes opening despite a decline in the death rate in the first half of this year – a pattern which is consistent across the United Kingdom.

In line with the strategy for growth, we continue to research locations for potential new funeral homes and focus on the delivery of a high quality service to our clients at their time of need. The programme of continuous improvement of our fleet included the delivery of a new Mercedes hearse for the Forrester Park branch in Edinburgh. We continue to engage with local communities and were pleased to assist St Columba's Hospice with support services until their refurbished mortuary facilities were opened in April.

Directors' Report



GOVERNANCE

In April Scotmid members approved the introduction of a 'Balanced Board' approach to refresh the Board and Committees as a replacement to the 'age rule' (pictured above). The phased transfer of West Lothian into the East Region also continued and the change in member constituencies is due to take place in September 2014. Transitional arrangements for members living in West Lothian will enable them to attend and vote in either East or West Regional Members' meetings. Work also continues with a review of Society policies and working practices to demonstrate compliance with Co-op UK's new Governance Code.

SUPPORT SERVICES

The main priority for the service teams over the last six months has been the support of initiatives to help drive the trading businesses forward. Cross functional teams have supported a range of projects including the bakery counter rollout, self-checkout deployment and the further development of our processes to control price, margin and stock.

Self-checkout devices are now in 25 of our stores and have already taken over 2m

transactions. This has been a complex cross functional project covering process, cash handling technology and food operations. Innovation within the Society has been recognised with the digital media signage in our Barnton Store (Edinburgh) winning the Digital Innovation Award from Convenience Magazine. Scotmid has also received a ROSPA silver award for Health & Safety, commending the Society for its processes, strong Health & Safety culture and dashboard monitoring and reporting system.

Training support during the period was mainly focussed on alcohol personal licence holders refresh training to help ensure that we comply with legislation. This has been delivered to over 450 staff. Store security measures have been further developed with investment in proactive measures to combat the increasing risk of shop theft. New detection equipment supported by mobile security response teams and detectives have had a positive impact on this risk. The Society has also worked in partnership with the Police, retailers and other authorities in encouraging information sharing to combat security risks.

Directors' Report



Above left: Scotmid's Membership & Community Team. **Above right:** Scotmid sponsored the European Pipe Band Championships in Forres.



MEMBERSHIP

Following the merger with Penrith Co-operative, the Society has started to introduce our membership offer into Cumbria and Weardale with the support of a dedicated Membership and Community Officer. Scotmid's community grant scheme has been introduced in the Lakes & Dales area and members also receive Jigsaw magazine.

There has been an increase in the communication to our members. We have extended the use of electronic communication with regular update emails which include exclusive member competitions and offers. Work has also started on an update to our Membership Strategy which will increase member engagement and modernise our membership processes to attract younger members in the future.

During Co-operatives Fortnight, the Society implemented a social media campaign to engage with our followers as well as co-operators across the UK.

COMMUNITY & CHARITY ACTIVITY

The Regional Committees continue to support a range of different local community initiatives via the Scotmid community grant scheme. These include Craigmillar Books for Babies, Edinburgh Student Housing Co-operative, Loanhead Community Learning Centre, Beauly Bowling Club, Aberdeen Action on Disability, Blackburn Family Centre, Lyvennet Community Pub, Weardale Community Partnership and Shap Swimming Pool.

Other community initiatives include sponsorship of Piping Hot Forres, the European Pipe Band Championships and the provision of two new bee hives and a bee colony to Penrith Beekeepers Association. Lakes & Dales Co-operative received a Silver CardiacSmart award for installing a community public access defibrillator at our Lazonby store and providing staff with emergency life support training.

The Society continues to support many Fairtrade groups and schools in Scotland. Scotmid sponsored a Fairtrade Carnival & Concert held in Edinburgh on World Fairtrade Day to mark Scotland's Fairtrade Nation status and worked in partnership with The Royal Zoological Society of Scotland to highlight Fairtrade to children attending their summer school.

The Society's staff, customers and members have raised over £280,000 for Prostate Cancer UK – the highest amount ever raised by the Society during the charity partnership year.

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

Harry Cairney, President
Jim Watson, Vice President

The Society in Focus



Scotmid continues to support local community groups and projects. **Clockwise, from top:** A community grant for Laurencekirk Scout Group helped fund a new climbing wall; Life-saving defibrillators were donated to Penrith Mountain Rescue; Children attending Edinburgh Zoo summer school learnt about Fairtrade thanks to a donation from Scotmid; Shopping vouchers were donated to Hamilton Food Bank to help provide emergency food to people in crisis.

The Society in Focus



Above: Scotmid launched a new charity partnership with blood cancer charity, Anthony Nolan, in September 2014. **Below right:** Scotmid's charity partnership with Prostate Cancer UK raised a record total of £280,000. **Bottom left:** On-shelf magnifiers have been installed in selected stores to help shoppers with sight problems read product labels. **Below left:** The Cumnock Stroke Support Group features in a new film about Scotmid's work in the local community.



Interim Statement of Group Trading Activities

26 July 2014
£000

27 July 2013
£000

TURNOVER

Total turnover 212,314 209,800

PROFIT

Operating profit before exceptionals	2,055	2,032
Exceptional items	(100)	(255)
Profit before interest	1,955	1,777
Net interest payable	(708)	(698)
Profit before distributions	1,247	1,079
Share interest/grants and donations	(355)	(309)
Surplus before taxation	<u>892</u>	<u>770</u>

NET ASSETS

Fixed assets	145,395	148,433
Net current assets	5,435	4,176
Long term liabilities	(46,273)	(43,320)
Pension fund liability	(13,580)	(14,588)
Net assets	<u>90,977</u>	<u>94,701</u>

CASH FLOW

Inflow from operating activities	2,877	6,547
Net interest and distributions paid	(913)	(811)
Corporation tax payment	(114)	(562)
Capital expenditure/acquisitions	(3,193)	(3,982)
Proceeds from sale of fixed assets	305	29
Decrease in members' share capital	(100)	(13)
(Increase)/reduction in net debt	<u>(1,138)</u>	<u>1,208</u>

NET DEBT

Opening net debt	(39,091)	(32,498)
(Increase)/reduction in period	(1,138)	1,208
Closing net debt	<u>(40,229)</u>	<u>(31,290)</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 25 January 2014 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 & Agenda of Business

Notice is hereby given that an Ordinary General Meeting of the Society will be held on Monday, 29 September 2014 at The Hilton Edinburgh Grosvenor Hotel, Grosvenor Street, Edinburgh and on Tuesday 30 September 2014 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 28 and 29 April 2014.
2. Appointment of Tellers.
3. Directors' Report/Interim Accounts.
4. Interim dividend payment to Members of the former Penrith Society
5. Consider rule changes to: remove references to the Industrial and Provident Societies Act 1965 and replace with The Co-operation and Community Benefit Societies Act 2014; remove references to Financial Services Authority and replace with Financial Conduct Authority; amend Rule 59 to remove the upper age limit to serve on the Regional Committee of 72.
6. Nominations for Regional Committees:
East Regional Committee: 4 Members to serve for 3 years;
North Regional Committee: 4 Members to serve for 3 years;
West Regional Committee: 4 Members to serve for 3 years;
and 2 Members to serve from the Penrith area for 3 years
7. Elections to the Board:
East: 2 Regional Committee Member to serve for 3 years;
and 1 Regional Committee Member to serve for 2 years
West: 1 Regional Committee Member to serve for 3 years
and 1 Regional Committee Member to serve for 2 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 22 September 2014 at 4.00pm.

Members will be admitted to the General Meeting by presenting their admission ticket and Share Book. With the exception of Members living in West Lothian who may now attend and vote at the meetings in either Edinburgh or Hamilton all other Members whose principle residential address lies within the geographic boundaries of that region will only 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 27 April 2015 at Edinburgh and Hamilton and on Tuesday 28 April 2015 in Aberdeen.

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). Meetings held from 25 January 2014 - 26 July 2014

Board Directors	Board Meetings	General Purposes	Audit	Remuneration	Search
Mr H Cairney (P) (A 22/5/14)	7	1(C)		1(C)	
Mr J Watson (VP (A 22/5/14)	7	1	2(C)		
Mr J Anderson	7	1	2		
Mr I Bailey ‡ (R 3/9/14)	5		2		2
Mr P Devenney	7				2
Mr J Gilchrist	6			1	
Mr T McKnight *	7	1	2		
Mr J Miller *	7			1	
Mr D Paterson	5				2
Mrs G Smallman *	6				2
Miss A Williamson	6	1		0	
Total meetings held	7	1	2	1	2

Key: P - President, VP - Vice President, C - Board Committee Chair, A - Appointed, R - Retired

* Board Members due to retire by rotation at the Ordinary General Meeting on 29 & 30 September 2014 who have been nominated by their Regional Committees and are eligible for re-election.

‡ Ian Bailey retired from the Board and West Regional Committee on 3 September 2014 with our thanks and appreciation for his long service to the Society.

Following his appointment as President in May 2014, Harry Cairney resigned from the Remuneration Committee and was appointed to the Search Committee. A review of the Board Committees was undertaken in July 2014 resulting in the following changes: Harry Cairney was appointed as Chairman of the Search Committee; Jim Watson resigned as Chairman of the Audit Committee and was appointed as Chairman of the Remuneration Committee; John Anderson was appointed as Chairman of the Audit Committee and Jim Gilchrist resigned from the Remuneration Committee and was appointed to the Audit Committee.

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

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

Regional Committee Members

East Regional Committee		West Regional Committee		North Regional Committee	
Miss A Williamson (C)	4	Mr T McKnight (C)	3	Mr J Anderson (C) ◇	4
Mr H Cairney (VC)	3	Mr J Watson (VC)	4	Dr R McCready (VC)	4
Mr D Paterson (MS)	3	Mr J Gilchrist (T)	4	Mrs M Smith (MS) ◇	4
Mr K Kelly	3	Mr M Ross (MS) ◇	4	Mrs A Anderson	4
Mr J Mackenzie	4	Mr I Bailey	2	Mr A Cullen	2
Mr J Miller ◇	4	Mr P Devenney	4	Mrs S Downie ◇	4
Mr D Reid ◇	4	Mr I Gilchrist ◇	4	Mr A Maclean	4
Mrs J Reid	3	Mrs M Kane	4	Mr A Stokes	3
Mr D Jamieson	3	Mr R Kelt	4		
Mrs G Smallman ◇	4	Mr D Muirhead ◇	4		
Mr E Thorn †	3	Mr G Randell ◇	2		
		Mrs K Scott	2		
		Mr A Simm	4		
Total meetings held	4	Total meetings held	4	Total meetings held	4

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

◇ Regional Committee Members due to retire by rotation in April 2015 and are available for nomination to the at OGM 2014

† Regional Committee Member nominated by the East Regional Committee and is eligible for election to the Board.

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Scottish Midland Co-operative Society Limited,
Hillwood House, 2 Harvest Drive, EH28 8QJ