

SCOTMID

co-operative



interim report

for the year ending 29 January 2011

Directors, Officers & Advisors

President..... Mr H Smallman

Vice President Mr H Cairney

Directors

Mr J Anderson, Mr I Bailey, Mr J Gilchrist, Mr J Hill, Mr D Jamieson, Mr T McKnight,
Mr D Paterson, 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



OVERVIEW

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

In a difficult marketplace, Scotmid delivered an operating profit of £4.2m for the first half of the financial year, a robust performance marginally ahead of the £4.1m for the equivalent 26 week period last year. The Society's half year turnover increased by 5% to £178m. Our trading businesses in Scotland performed well but the market in Northern Ireland was very challenging, mainly as a result of a reduction in cross border trade.

In line with our convenience-led strategy, the Food retail business sold its large supermarket in Leith, realising a substantial exceptional gain. The majority of the proceeds from this sale were reinvested in our trading businesses, including four new food convenience stores. Our robust trading performance and the gain from Leith helped to

increase net assets to £99m at 31 July 2010. Cash flow of £4m was generated in the period, providing the Society with funds for future investment.

Over the course of the last six months, work has continued to improve our business management and democratic processes, including the establishment of our new regional committees.

The markets in which we operate are challenging, and are likely to be particularly so in the early part of next year as austerity measures bite and the next VAT rate increase takes effect. The ongoing focus on continuous improvement remains core to our approach and we will continue to monitor potential growth opportunities afforded in the current environment.

Directors' Report



Directors' Report



FOOD RETAIL

The Food business reported a strong performance in the face of continuing difficult economic conditions in the overall marketplace. The robust performance of the business is pleasing given the impact of increased competition and the fact that we have still to see the full benefits in margin from CRTG (Co-operative Retail Trading Group) from the integration of Somerfield.

Food trading continued to benefit from our investment in the upgrade and reformat of stores over the past three years. In the first half of the

year this investment programme continued with 12 further store refits and the opening of four new stores. 92 stores now display the new branding, representing 67% of the total estate. Earlier in the year we sold our 40,000 sq ft Leith supermarket and realised a significant gain on sale.

Continued focus on availability saw further improvements in key Round the Clock Hero lines. Daily availability monitoring has been successfully rolled out for the majority of our ranges.

“In the first half of the year this investment programme continued with 12 further store refits and the opening of four new stores”

Directors' Report



Directors' Report



SEMICHEM

The non-food market continues to prove very challenging, given the external market conditions. Whilst this has been a period of consolidation for the brand, Semichem continues to grow, as both price and value for money become even more important to our customer.

Our Scottish business has out-performed the overall market over the past six months, with a number of categories, such as food, performing exceptionally well. However, it has been a very difficult period for our stores in Northern Ireland, largely due to a reversal in cross border trading. In England, our stores are establishing themselves in their new markets and sales are showing encouraging growth.

In a highly price competitive market our margins were held back by the re-introduction of the 17.5% VAT rate, and we anticipate another challenging transition period when rates increase to 20% next year. We have had further success in relocating existing stores and implementing our fragrance counter proposition across nearly 50% of the estate. New ranges are being trialled and the building blocks are being put in place to realise our ambitions for long-term growth.

Semichem's online presence, Semichem.co.uk, has continued to grow sales and consolidated its range to around 1,000 profitable fragrance and skincare lines. The website has also been upgraded, including an improvement in product search.

“The building blocks are being put in place to realise our ambitions for long-term growth”

Directors' Report



PROPERTY

The Division performed well in a volatile market, with strong indications that the marketplace will not stabilise in the immediate future. However, one of the positive consequences is an increased demand for private rented sector flats so residential voids have been very low during the period.

The property portfolio has been largely static during the first half of the year but we have been investing successfully in 'carving out' additional retail units from redundant shop space in Currie, Drumbrae, Fauldhouse and St Margaret's in Leith. These are currently being marketed.

In relation to investment property developments, RSP, one of the largest mechanical and electrical design engineers in Scotland, took occupation of 5,200 sq ft in Rosewell House, our new Newbridge office development. Rosewell House is now 50% let. The 'Factory Shop' has moved into a large vacant unit owned by us in Blairgowrie whilst a lease to furniture retailer 'Gillies of Broughty Ferry' in Montrose has completed the letting of this development alongside anchor tenant Argos Extra and a gym operator.

Our application for a supermarket site in Armadale was considered by West Lothian Council along with six other applications. Unfortunately, despite being the only town centre site tabled, the Council turned down the application in favour of their own site and an out-of-town development. We are currently appealing this decision.



FUNERAL

The past six months brought a good performance from our Funeral Division as they continued their ongoing investment programme in the business, including upgrading their properties and vehicle fleet. This included new signage and refurbished interiors in Penicuik and Portobello. A major interior and exterior refurbishment of Forrester Park in Edinburgh has also started. New vehicles including limousines and a hearse have been added to the funeral fleet.

The growth in the business over the period has also been helped by an increase in Funeral Bond sales.

NEW VENTURES & CORPORATE MATTERS

Work continues on the new fine fragrance brand, The Fragrance House, which aims to target customers looking for a broader selection of fine fragrances. We now have three stores open in Livingston, Dundee and Buchanan Galleries in Glasgow, with plans to grow the brand in the future.

At Head Office, Scotmid continues to invest in its communication infrastructure which will lead to service improvements and cost reductions.

The Training Academy is playing a key role in the development of staff, including the introduction of the supervisor development programme for the Food business, with 50 delegates already enrolled.

Directors' Report

MEMBERSHIP/ COMMUNITY DEVELOPMENT

The Society completed its review of the Constitution at the Annual General Meetings in April when members approved the rule changes and adopted a new rule book. One of the most significant changes will be the opportunity for members to directly elect Directors to represent their region on the Board at the Ordinary General Meetings in October. The membership team is encouraging customer members in the North to actively participate in the democratic side of the Society, with a view to forming a North Regional Committee in the next few years.

Membership

A new Membership and Community team is now in place to help develop membership and community links in each of the regions – East, North and West. The team is currently working on a new National Membership Strategy. A key element in their work has been the organisation of the first Active Members Group meeting in Montrose. The members magazine, Jigsaw, is now on its sixth edition and continues to receive positive feedback.

Community

The Regional Committees have responded favourably to a large number of requests to support a range of local community initiatives. Support has been provided via the new Community Fund with grants given to worthy causes such as Fraserburgh's Junior Wardens Scheme; Gorebridge Community Trust and Broxburn Primary School.

Other community initiatives have included the Healthy Smiles recipe book distributed to all primary six pupils in the Lothian area; The Leith Festival and the See Me Mental Health Campaign. The team's smoothiebike has been taken to 22 different locations including an Eco Schools conference and Saughton Prison.

In August, the Society launched its charity partnership with RNLI Lifeboats. For the second year running, the Society will be one of the main sponsors of Pedal for Scotland.

Fairtrade continues to play an important role within the Society and we have committed to further three years of sponsorship of the Edinburgh City Fairtrade group.

APPRECIATION

The Directors would like to thank our members, customers and staff for their support over the last six months, as the business continues to build its financial and democratic strength.

Signed on behalf of the Directors

Hollis Smallman, President

Harry Cairney, Vice President

“The membership team is encouraging customer members in the North to actively participate in the democratic side of the Society, with a view to forming a North Regional Committee in the next few years”

The Society in Focus



Above: Former Olympic Athlete Kriss Akabusi (centre) injected a real sense of enthusiasm and energy at our Food Summer Conference



Below: Bonnybridge store in conjunction with central Police handed out "Purse Bells" to pensioners to ensure safety of their pension money

Above: Scotmid's Fairtrade Stand at the first Universities & Colleges Fairtrade Conference at Edinburgh University

Below: Harry Cairney, Vice President of the Society, lends a helping hand to get Bankton store ready for its relaunch



The Society in Focus

Right: Scotmid supports a performance of "Brand New Andrew and Fairtrade Fred" at Luthermuir Primary School

Below: Semichem sponsorship of the "See Me" photography competition



Right: Sponsorship of the Junior Wardens scheme in Fraserburgh



Below: Launch of the Healthy Smiles dental recipe book funded by Scotmid and given to all P6 pupils in the Lothians



Interim Statement of Group Trading Activities

	26 weeks to 31 July 2010 £000	26 weeks to 1 August 2009 £000 (restated)	28 weeks to 15 August 2009 £000
Turnover			
Total turnover	177,685	169,733	182,974
Profit			
Operating profit before exceptionals	4,171	4,135	4,620
Exceptional items	5,888	65	65
Profit before interest	10,059	4,200	4,685
Net interest payable	(745)	(738)	(763)
Profit before distributions	9,314	3,462	3,922
Share interest/grants and donations	(325)	(308)	(331)
Surplus before taxation	8,989	3,154	3,591
Net Assets			
Fixed assets	140,596		139,479
Net current assets/(liabilities)	349		(17,438)
Long term liabilities	(29,673)		(18,724)
Provisions for liabilities and charges	(416)		(1,172)
Pension fund liability	(11,788)		(8,442)
Net assets	99,068		93,703
Cash Flow			
Inflow from operating activities	3,836		9,567
Net interest paid	(790)		(792)
Corporation tax payment	(641)		(1,351)
Capital expenditure/acquisitions	(7,982)		(7,744)
Proceeds from sale of fixed assets	9,868		383
(Decrease)/increase in members' share capital	(6)		2
Reduction in net debt	4,285		65
Net Debt			
Opening net debt	(29,260)		(26,020)
Reduction in period	4,285		65
Closing net debt	(24,975)		(25,955)

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 30 January 2010 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. The interim statement of group trading activities has been prepared for a 26 week period for the first time. It was previously reported for a 28 week period. Restated profit figures for the 26 weeks to 1 August 2009 have been shown above to aid comparison.

Notice of Meeting and Agenda of Business

Notice is hereby given that an Ordinary General Meeting of the Society will be held on Monday, 4 October 2010 at 7.00 p.m. at the following places, The Hilton Edinburgh Grosvenor Hotel, Grosvenor Street, Edinburgh and Motherwell Football Club, Fir Park, Motherwell.

Agenda of business

1. Synopsis of Minutes of Annual General Meetings held on 26 April 2010.

2. Obituary References.

3. Directors' Report/Interim Accounts.

4. Appointment of Tellers.

5. Nominations for Regional Committees:

East Regional Committee: 4 Members to serve for 3 years and 1 Member to serve for 2 years;

West Regional Committee: 4 Members to serve for 3 years and 1 Member to serve for 1 year

6. Elections to the Board:

East: 1 Regional Committee Member to serve for 3 years and 2 Regional Committee Members to serve for 2 years;

North: 1 Regional Committee Member to serve for 3 years;

West: 2 Regional Committee Members to serve for 3 years and 2 Regional Committee Members to serve for 2 years

7. Share Capital: Large Balance Policy

8. Share Capital: Interest Rate

9. Society Co-operative Party Council

10. Membership and Community Development

11. General business

Admission to General Meeting

Members will be admitted to the General Meeting by presenting their Share Book and will be eligible to vote if they have held a minimum shareholding of £1.00 for a qualifying period of 6 calendar months from the date of their admission to membership. 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 next General Meeting (Annual General Meeting) will be held on Wednesday, 27 April 2011 at Edinburgh and Motherwell.

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	4			2
Mr H Cairney (VP) Δ	6	4		1	
Mr J Anderson (MS) Δ	5	1	1		
Mr I Bailey Δ	6		2		2
Mr J Gilchrist Δ	6			1	
Mr J Hill Δ	5				1
Mr D Jamieson	6				2
Mr T McKnight	6	4	2		
Mr D Paterson	4			1	
Mr J Watson Δ	6	1	1		
Miss A Williamson Δ	6	4			
Total	6	4	2	1	2

Key: P - President, VP - Vice President, MS - Minute Secretary

Δ Joe Hill, Jim Watson and Sandra Williamson were due to retire by rotation as Directors in May 2009 and John Anderson, Ian Bailey, Harry Cairney and Jim Gilchrist were due to retire by rotation as Directors in April 2010. Their terms of office were extended until October 2010 by the Constitutional Review and they are all eligible for re-election and have been re-nominated by the Regional Committees.

Φ Patrick Devenney is eligible for election to the Board and has been nominated by the West Regional Committee.

The total number of meetings of the General Purposes Committee shown above includes 1 meeting relating to the Constitutional Review.

Regional Committee Members

East Regional Committee		West Regional Committee	
Miss A Williamson (C) Δ *	6	Mr T McKnight (C)	6
Mr J Hill (VC) Δ	5	Mr J Watson (VC) Δ	6
Mr J Anderson (MS) Δ	5	Mr J Gilchrist (T) Δ *	6
Mr D Jamieson (T) *	5	Mr M Ross (MS)	4
Mrs A Anderson	5	Mr I Bailey Δ *	6
Mr H Cairney Δ *	6	Ms C Bartholomew *	6
Mr K Kelly *	6	Mr P Devenney Φ *	6
Mr J Mackenzie	6	Mr I Gilchrist (A 26/04/10)	3
Mr J Miller	5	Mr R Kelt	6
Mr D Paterson	6	Mr D Muirhead	5
Mr D Reid	6	Mr A Simm (A 26/04/10)	3
Mrs J Reid *	6		
Mrs G Smallman	6		
Mr H Smallman	6		
Mrs M Smith	5		
Total meetings held	6		6

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

* Regional Committee Members due to retire by rotation in April 2011 and are eligible for nomination to the Regional Committee

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At the heart of
Scottish communities

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