



Scottish Midland Co-operative Society Limited

# Annual Report & Financial Accounts

For Year ended 25 January 2014





## Hollis Smallman

27 February 1943 - 28 February 2014

John Brodie, Chief Executive Officer has paid tribute on behalf of the Society to Hollis Smallman, President of the Society, who passed away recently following a short illness "It was with deep sadness that I had to announce to the Co-operative movement that Hollis Smallman, our President passed away aged 71. Hollis had been associated with St Cuthbert's Co-operative and Scotmid for well over 50 years, both as an employee and, since 2005, as President.

"His contribution to the Society is, in simple terms, immeasurable. Hollis will be a huge loss to the co-operative movement in general, and to Scotmid in particular. Hollis was proud of the way that this Society has developed and it gave him great satisfaction to see Scotmid move south of the border with our food convenience business for the first time in over 150 years, when we merged with Penrith Co-operative last October. His tremendous legacy will live on. Our thoughts are with Hollis' wife Grace, their daughter Lesley and his family and friends at this very sad time."

As Hollis said himself when he knew he was seriously ill, "I never dreamt that when I started with St Cuthbert's over 50 years ago that I would have been elected as President. I just can't put into words how proud I am to have achieved that. I am also proud that even in difficult times Scotmid has remained and will continue to remain an independent co-operative.

"We have achieved so much as a Society and as a business. When you see all the names that have disappeared from our High Streets I am filled with pride when I see so many Scotmid stores right at the heart of Scottish and English communities.

"I have worked with so many great people in a great Society. I pass over the baton to the safe hands of Acting President Harry Cairney and our Chief Executive, John Brodie."

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## DIRECTORS

### Acting President

Mr H Cairney

### Acting Vice President

Mr J Watson

Mr J Anderson

Mr I Bailey

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



# Overview

The Directors are pleased to present their report for the year ended 25 January 2014. As predicted, there was no discernible improvement in consumer confidence in the Society's core markets, with the Scottish Retail Consortium recording a like-for-like sales decline for the 2013/14 year. In the context of a challenging retail market with increased pressure on margins, Scotmid delivered an operating surplus before exceptionals of £4.5m compared to £6m last year. Like-for-like retail sales were ahead of the Scottish market and with the benefit of a merger with Penrith Co-operative, total sales increased by £3m to £381m. The Society continues to enjoy a strong balance sheet with net assets of £90m.

The Society's ongoing investment in business improvements and process developments delivered significant benefit in the year, helping to mitigate the impact of some of the external market factors. The roll-out of in-store bakery counters, the refit of 10 more stores to the award winning Premium Fresh format, a strategic property investment in central Edinburgh and pension de-risking measures were particular highlights. Downward pressure on prices and a further reduction in the Co-operative Group corporate dividend impacted on margins.

In October, the Society completed a successful transfer of engagements with Penrith Co-operative Society. Their stores have been integrated into our food convenience business and will trade as Lakes & Dales Co-operative. The merger extended the geography of our food convenience business into England for the first time with 12,000 members and 170 colleagues transferring into the enlarged Society.

Semichem store sales outperformed the market with the benefit of the introduction of tobacco; however the high street non-food retail sector, particularly in Northern Ireland, proved extremely challenging. In 2013, the Society had success in keeping a number of unprofitable Semichem stores open by negotiating more favourable rents with landlords: this remains an important objective in 2014. However, during the period it was necessary to take the difficult decision to close six unprofitable Semichem stores and end the Fragrance House trial that will result in closure of these six stores. The Society's non-retail businesses continued to make progress with Property showing good growth and Funerals continuing to grow with the opening of a further three funeral homes.

Scotmid members continued to support the development of the Society's membership and democratic structures with the approval of regional changes to include West Lothian in our East Region and transitional arrangements for Lakes & Dales to operate within our West Region. A membership development process similar to that used successfully in our North Region has commenced in the Lakes & Dales area.

A year ago we sounded a note of caution that the year ahead would continue to be challenging, this has proven to be the case. We do not anticipate any meaningful recovery in 2014, as the reported economic recovery appears to be specific to certain locations and sectors and is still not evident in the retail and consumer sectors in Scotland, Northern Ireland and Northern England. We will therefore continue with a measured approach to these difficult times, making hard decisions where necessary but with a focus on the development of new initiatives and continuous improvement.

# Food Retail



Above Enhancing the range of locally sourced speciality foods has been a major focus throughout the year.

Below A Lakes & Dales store formed through the merger with Penrith Society.



The Scottish food retail market was sluggish in the year ending January 2014 reflecting low consumer confidence and the impact of austerity measures on customers' disposable income. The Scottish Retail Consortium reported a like-for-like food sales decline of 0.4% in the year, the worst market performance for a number of years. With the benefit of a range of initiatives Scotmid's convenience business was ahead of the market in sales terms, but margins came under pressure through funding promotional activity and a reduction in the rate of corporate dividend receivable from the Co-operative Group. The market pressure on prices intensified in 2013 and has continued into the first quarter of 2014 with the multiples announcing a range of price-led measures.

Further progress was made differentiating stores in line with our 'Food Vision'. Partnering with award winning local bakers, in-store bakery counters were rolled out to 84 more stores, a further 10 stores were converted to the Premium Fresh format and our fresh offer was enhanced in 90 stores.

New trials were conducted including a Value concept and a butchery concession. In addition, our range of locally sourced food to supplement the Co-op range was extended. In the final quarter of the year, a trial of self-scanning tills was launched in three stores and is now being extended into further stores. Customer feedback on these changes has been very positive and the wider retail industry recognised the success of the Premium Fresh format with our Barnton store winning two national Convenience Store Magazine awards.

## the year in summary



Fairtrade Fortnight 2013.



Maggie's "half-way stage" cheque presentation.



Scotmid Clarkston re-launches with a fresh look.

In October, the merger between Scotmid and Penrith Co-operative was completed, increasing our estate by nine stores in the Lake District and the Wear Valley in Northern England. Since then we have started a rebranding process with Keswick and Lazonby reformatted as Lakes & Dales Co-operative 'Premium Fresh' stores. We would like to take this opportunity to thank the former directors of Penrith; the staff, members and customers for helping us with the successful merger and transition.

In Scotland two new stores were opened in Duddingston and Haymarket (both Edinburgh). With the main focus on initiatives such as bakery counters and the rollout of 'Premium Fresh', other store development work included the conversion of our larger stores to comply with new legislation restricting the display of tobacco and the launch of Scotmid Radio in 60 stores. To re-enforce the ongoing evolution of the Scotmid brand we have utilised the strap line "take a fresh look" and sponsored the Drivetime radio show on Forth One. We also embarked on our first TV sponsorship deals through our link up with ITV shows "The Chase" and "Nick and Pauls' Big Adventure".



**Above** The rollout of in-store bakery counters has continued with many new bakery partners coming on board.

**Below** Improved fresh food offering has also been a major emphasis with extended ranges in many stores.

**Below left** The new Lakes & Dales branding.



## February-March 2013



Local school children take part in the filming of our community video in Kirkliston.



Scotmid Warrender Park named best convenience store in the UK.



New and improved Semichem opens in Dumfries.

# Semichem & the Fragrance House



Above New product ranges have been introduced following customer feedback sessions.

Below The Christmas TV marketing campaign featured celebrity fragrances on the red carpet.



Semichem had a challenging year despite the stores outperforming the Scottish Retail Consortium non-food like-for-like sales performance. A number of successful business initiatives were implemented but they could not fully counteract the impact of local high street market conditions. A combination of a decline in sales of the higher margin fragrance category due to the continuing poor economic situation and the underperformance in the Northern Ireland market and increased discounter competition all impacted to make it a difficult year.

Christmas trading is a key time for Semichem and this festive period customers had less disposable income and were generally more "canny" and price sensitive. Semichem responded with a programme of selected discounts on seasonal best sellers that drove sales but restricted the bottom line result.

Business initiatives included the introduction of services (such as lottery and e-top up) and value bays into selected stores, together with an increase in the number of stores stocking tobacco which helped to drive customer footfall. Research on the changing shopping habits of our customers was undertaken. Customer panels focused on our new ranges, providing invaluable feedback on an improved range before its launch in store. An upgrade of our e-commerce systems including the launch of a new, more customer-friendly website and the integration of the warehouse stock control systems onto a common platform was also completed in the year.

## the year in summary



High school students learn retail skills with Scotmid.



Stores receive top honour for safer retailing.



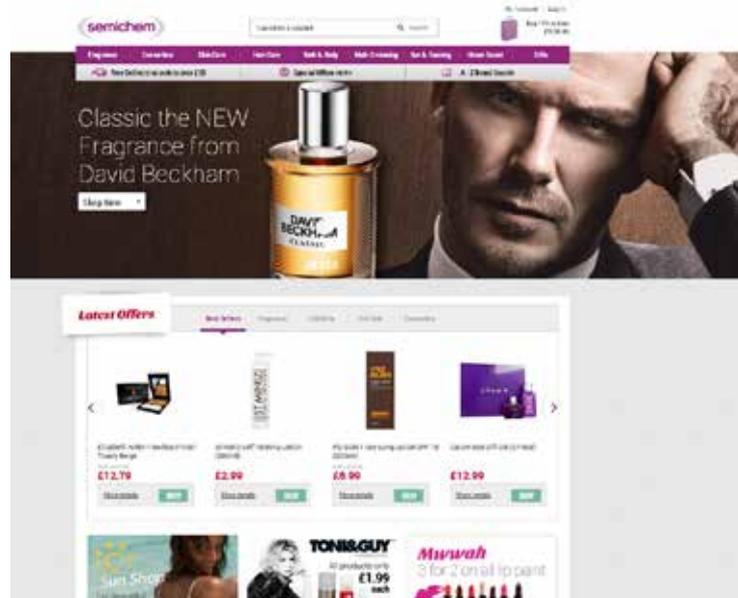
Boost for local primary school as new-look Scotmid Barnton opens.

Although we had success negotiating more favourable lease deals with landlords to keep a number of unprofitable Semichem stores open, Semichem announced the closure of six stores, resulting in 90 job losses, including a number of posts in the warehouse and central support services. There are also a number of marginal Semichem stores with lease breaks coming up in next couple of years. If their turnaround can be assisted by landlords through lower rents, stores which are currently loss-making can be kept open.

In the context of the trading performance in 2013 the Society has reviewed Semichem's asset values and recognised an impairment of the net book value as an item within exceptional costs. Semichem has a strong core of profitable stores and the actions announced to address loss making stores will help protect the majority of our workforce going forward. The action on loss makers and work that is underway on business strategy will put Semichem on a solid platform to focus on future opportunities and to drive profitable growth for the business.

**THE FRAGRANCE HOUSE**

After an extended four year trial of our Fragrance House brand, the Society has also taken the decision to close the six stores in 2014. Although the business has brought a number of benefits and store teams have provided good customer service, in an increasingly competitive market, the Fragrance House does not have the buying scale to compete at a reasonable level of profitability and the Society has decided to target investment in other business areas.



Above A new look website with improved interface and ease of use was launched during the year.

Below Enhanced value ranges such as food & confectionery have been introduced in Semichem stores.



April - May 2013



Staff take on Monster Bike and Hike challenge for Maggie's.



New food store at Haymarket opens its doors.



Scotmid opens new Duddingston food store.

# Funeral



Above The Funeral team held their first annual conference during the summer.

Below The interior of the new branch at Boswall Parkway in Edinburgh.



Scotmid Funeral made further progress in the year with the opening of three new funeral homes. Boswall in Edinburgh extends the coverage of the Scotmid Funeral brand into the north of the city whilst the opening of East Kilbride and Hamilton, under the Dundas Fyfe trading name, has increased the presence in the west of Scotland.

After a number of years of decline, the Scottish death rate has started to level off and according to Government predictions could remain constant for the next five years. Increased competition continues to impact on the funeral business; however, the opening of the new funeral homes illustrates the potential for future growth for the Society. The core strategy for the Scotmid Funeral business continues to be the delivery of high quality service by providing the best care and attention for our clients at their time of need.

In addition to the opening of the new funeral homes, there has also been further investment in the business with the refurbishment of the Penicuik branch and the purchase of two Mercedes private ambulances.

The funeral team continues to work closely with local communities, participating in a number of events and supporting the Society's nominated charities. They have also been active within the wider funeral industry, helping to promote best practice and share experience through representation on industry bodies and by hosting an annual conference.

## the year in summary



New food store opens in Duddingston.



Launch of Jack Vettriano charity bag in aid of Maggie's.



Saughtonhall store premium fresh re-launch.

# Property

Against the background of an uncertain property market, Scotmid Property had another good year with an improvement on last year's result. This performance was driven through net rental income growth and tight cost control with both commercial and residential portfolios contributing to the growth.

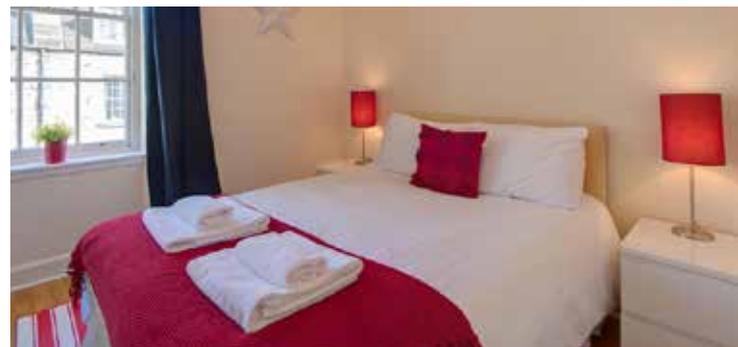
The progress of our commercial portfolio was driven by a combination of new lettings and positive rent reviews. Although the recent improvement in general economic indicators has not yet filtered down to the Society's retail customers, it has started to impact on sentiment in the property market and the outlook is now more positive than it was last year.

Occupational demand from tenants for our residential portfolio remained robust throughout the year. In addition there was an upturn in the residential sales market in the second half of the year but this didn't impact on the year-end capital value of our residential property portfolio. The annual valuation was level with last year on a like-for-like basis, however industry forecasts indicate a return to growth in 2014. On a cautionary note, the resurgence of the market may lead to some cooling of tenant residential property demand as existing tenants become first time buyers.

During the year the Society took advantage of the opportunities presented by the current property market by purchasing a block of flats in central Edinburgh. These flats have been acquired as a long term investment but they also provide the opportunity to trial holiday lettings given their central location. This residential acquisition was partly financed by the sale of commercial property as part of the strategic re-balancing of the portfolio.



Pictured The fully furnished holiday let flats in central Edinburgh.



Other developments during the year included the sub-division of units at South Queensferry and the conversion of a property unit, originally created out of excess space in a retail store, to a funeral home. The property business also managed the successful integration of Penrith's property portfolio taking on responsibility for eight commercial and four residential properties.

## June - July 2013



Scotmid and Penrith Co-operatives announce plans to merge.



First in-store concession butcher opens in South Queensferry.



High school pipe band opens revamped Prestonpans store.

# Corporate Matters & Central Services



Above The rollout of self scanning checkouts has involved teams from IT, Change Management and People & Performance.

Below Staff from the People & Performance, Compliance and Community teams attended the launch of Edinburgh's Community Alcohol Partnership.



During the year we completed the planned restructuring of Society pension schemes, 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 pension auto enrolment using NEST as the pension provider. The closure to future accrual of the final salary scheme has reduced the level of risk for the Society and has helped to contribute to a reduction in the scheme deficit. In December, Penrith Society's pension scheme, with a net deficit of £1.2m, was transferred into the Scotmid scheme. The Penrith section within the Scotmid scheme remains on a final salary basis at present, however the process has started to close it to future accrual and offer members the opportunity to transfer to the Retiral Cash Balance scheme.

Significant progress was made on working capital management, including a stock reduction in Semichem and less cash held in-store. Scotmid continued to invest for the long-term benefit of the Society, including incremental freehold capital investments (Blair St, Edinburgh and Broxburn) and the integration costs and transfer in of bank debt from Penrith. These investments together with a further £2m payment of deferred consideration for the Botterills acquisition accounted for a £6.6m increase in net debt. The Society has successfully agreed new six year banking facilities with RBS, including additional funds to repay the Penrith bank facilities and finance the Penrith integration costs.

## the year in summary



Pilrig Scotmid gets a premium makeover



Forth One's Boogie opens new look St John's Road Scotmid.



Merger agreed between Scotmid and Penrith Co-operatives.

The process improvement project that started in 2012 came to a conclusion in 2013 with a significant number of improvements implemented or identified for future action. Recognising the strategic importance of continuous improvement and to develop the work from the process improvement project, the Society has appointed a new member of the executive management team. Stewart Dobbie joined the Society in October 2013 to lead a new Innovation and Change function.

The Central Service teams' priority in the year was the support of strategic initiatives and improvements for our trading businesses. Cross functional teams supported projects for the Food Retail business, such as the rollout of in-store bakery counters and Premium Fresh refits and the migration of Penrith onto Scotmid systems and operational procedures. Reflecting the importance of training and development our HR support team has been renamed People & Performance. Members of this team have been accredited to provide Personal Licence training in both Scotland and England. Additionally the team have been instrumental in providing a series of skills training workshops across Scotland to help tackle youth unemployment. Profit protection and security enhancement measures implemented to date include improved intruder alarm monitoring, an automated key holder management system and the deployment of mobile response teams. These measures have delivered cost benefit and a more effective service to our retail colleagues, targeting shoplifting and anti-social behaviour in and around our stores.



Above Cross functional teams have supported the rollout of in-store bakery counters and Premium Fresh refits.

Below The People & Performance team help deliver a skills training workshop to help tackle youth unemployment.



## August - September 2013



Over a quarter of a million raised for Maggie's in record charity year.



Semichem raises £10k for Children's Heartbeat Trust in Northern Ireland.



Prostate Cancer UK chosen as new charity partner.

# Membership Development, Community & Charity Activity

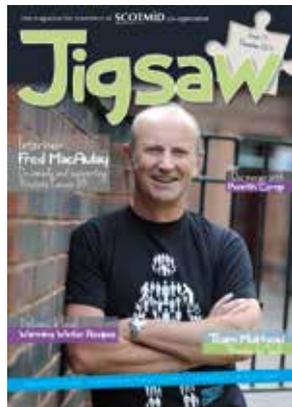
Further progress was made with the implementation of the Society's Membership Strategy. A number of activities and developments were instigated during the year. Highlights include the introduction of a trial membership card for a representative sample of members to test the response to special offers; a refresh of co-operative training for employees; rebranding of membership materials (using the infographic characters) and the introduction of some new member benefits (e.g. discounts from David Urquhart Travel). The Society website was upgraded to be more suitable for mobile phones and tablets and to offer a more interactive and informative portal for our members and the wider browsing public. The new membership branding has also been applied in-store with a number of new membership and community boards installed.



Above New high profile membership, community and charity boards have been installed in selected stores.

Below Two issues of the members' magazine Jigsaw were published and distributed during the year.

The merger with Penrith Co-operative Society in October resulted in the Society welcoming 12,000 new members and the challenge of blending two distinct memberships into one. Integration has gone well and the Lakes & Dales area is already benefiting from our community and charity initiatives.



Two issues of Scotmid membership magazine Jigsaw were distributed to our membership featuring Fred MacAulay, in his role as an ambassador with Prostate Cancer UK, and The Proclaimers. The Society also supported Co-operatives Fortnight 2013 by the sponsorship of a collaborative film highlighting the work of Scotmid and other UK co-operatives.

The Society's Community Grant Scheme managed by our Regional Committees remains popular with our local communities. The scheme has helped charities and projects the length and breadth of the country with

## the year in summary



Scotmid holds skills workshops to tackle youth unemployment.



First self service tills installed.



Warrender Park wins Scotland's store of the year.

over £250,000 distributed in the year. The breadth and scale of groups supported is illustrated on pages 14 & 15, which lists organisations that have benefited.

In August the Society announced a record breaking fundraising total of £267,000 for Maggie's Cancer Care Centres and a further £10,400 raised for the Children's Heartbeat Trust in Northern Ireland. Prostate Cancer UK is our new Charity of the Year and after 21 weeks £150,000 has been raised. Thank you to all staff, members and customers.

Scotmid has worked with the police and local and national government to deliver the first Scottish Community Alcohol Partnership (CAP) established in the East Edinburgh area. The Society also purchased a further ten community defibrillators, a total of 45 for the Scotmid estate. The Society continues its support for Fairtrade by providing assistance and guidance to groups including schools and organisations such as Edinburgh Fairtrade and is proud to support the curling world champions and Olympic bronze medallists Team Muirhead.

**POLITICAL DONATIONS**

Donations to the national Co-operative Party amounted to £14,000 and the Scottish Co-operative Party of £6,500.

**APPRECIATION**

The Directors would like to thank our members, customers and staff for their support over the year.

Signed on behalf of the Directors  
 Harry Cairney, **Acting President**  
 Jim Watson, **Acting Vice President**  
 27 March 2014



Above Prostate Cancer UK is our new Charity of the Year and after 21 weeks of activity £150,000 has been raised.

Below Members of the South Queensferry Fairtrade Group celebrate the start of Fairtrade Fortnight with Malcolm Brown, Head of Corporate Communications.



October - November 2013



Store managers zipslide the Clyde for charity.



Semichem launches TV celebrity fragrance campaign.



First Lakes & Dales store opens in Lazonby.

# Directors' Report

1 Way Klub, Fauldhouse • 1st East Calder Boys Brigade • 1st Montrose Scout Group • 1st Uddingston Girls Brigade • 25th Edinburgh Boys Brigade • 2nd Montrose Cubs • 2nd Montrose Scout Group • 3 Platoon Newmans ACF • 3Ms Youth Partnership • 6th East Kilbride Scouts • 6th Prestonpans Brownies • 870 (Dreghorn) Squadron • A-Team Productions • Abercromby Primary School, Tullibody • Aberdeen Synchronised Skating • ABK Seniors • Action for Children • Action Medical Research for Children • Action on Depression • Addiewell Primary School, West Calder • African Adventures • Age Concern • Alyth & District Pipe Band • Alzheimer Scotland • Amina Muslim Women's Resource Centre • Angus Adult Learners • Anthony Nolan • Arbroath Lads Club • Archie Foundation • Armadale Children's Gala Day • Armadale Primary School • Armadale Sports Club •

## Organisations that have benefited from Scotmid's support during the year

Armadale Parish Church • Armadale SWRI • Armadale Together for Health • Arriston Rangers Youth Football Club • Art in Healthcare • Arthritis Care Prestonpans • Ashgill Mothers & Toddlers • Auchinairn & Crowhill Tenants Association • Auchinairn Nursery, Bishopbriggs • Auchinairn Primary School, Bishopbriggs • Auchinleck Academy, Cumnock • Auld Reekie Roller Girls • Auldearn Primary School • Autism Initiatives Scotland • Avoch Amenities Association • Avoch Community Rowing Club • Avonbridge Primary School • Ayr Boswell Colts • Baillieston Community Care Ltd • Balerno Children's Gala Day • Balerno Community High School • Balerno Fairtrade Group • Balerno Footsteps 4 Fitness • Balerno FT Village Celebration • Balerno Music Festival • Balerno Theatre Company • Balerno Village Trust • Balgreen Primary School, Edinburgh • Ballantrae Bowling Club • Ballantrae Scout Group • Ballantrae Smugglers Festival • Ballantrae Village Gala Day • Balloch Primary School Senior Citizens • Balloch Village Trust • Banff Playgroup • Bank Auld Pit Trades Shop • Bannockburn High School • Bannockburn Riding for the Disabled • Barlanark 50+ Club • Barlanark Greyfriars Church Xmas Fayre • Barnardo's • Barrhead Dance School • Barrhead Gala Day • Bathgate Stroke Support Group • Beattie School, Livingston • Beaulie Business Group • Beaulie Camanachd Club • Bent Primary School, Kirkmuirhill • Bent Primary School, Lesmahagow • Bervie Gala Day • Bervie Skate Park • Bervie Youth Football • Bethankit Over 60's Club • Bethany Christian Trust • Bielh Housing & Care • Blackburn Children's Gala Day • Blackfalds Court Nursing Home, Fauldhouse • Blackwood Primary School • Blackwood Rainbow, Brownies & Guides • Blackwood & Kirkmuirhill Gala Day • Blairgowrie & Rattray Lighting Fund • Blairgowrie Highland Games Association • Blairgowrie Pipes • Blenheim House • Blood Bikes Scotland • Blue Triangle Housing Association • Bo'ness Public Primary School • Bonnybridge Bowling Club • Bonnybridge Parents Group • Bonnyrigg & Lasswade Football Cup • Bonnyrigg & Lasswade Seniors Forum • Borrowfield Bonanza • Borrowfield Community Group • Borrowfield Primary School • Bothwell & Uddingston Albion Amateur Football Club • Bothwell Castle Pipe Band • Bowel Cancer Care • Braidwood Playgroup • Brain Tumour Research • Breast Cancer Care • Brechin Big Lunch • Brechin Buccaneers • Brechin Music Festival • Bridge of Don 50+ Wednesday Group • Brighter Days Support Group • Brington Place Sheltered Housing • British Heart Foundation • Broomhouse Health Strategy Group • Broxburn & District Amateur Swim Club • Broxburn Academy • Broxburn Children's Gala Day • Broxburn Colts Reds 2002 • Broxburn Primary School • Bruntsfield Parents Forum • Buchanan High School, Coatbridge • Bucksburn in Bloom • Burghhead Coastal Rowing Club • Burghhead in Bloom • Burghhead United • Burrelton & Woodside Senior Club • Burrelton Tennis Club • Cairneyhill Children's Gala Day • Cairneyhill in Bloom • Cairneyhill Primary School • Calderbank Tiny Tots • Calderbraes Football Club, Viewpark • Caldervale High School • Calderwood Library • Cambusnethan Miners Amateur Boxing • Cambusnethan Old Folk • Camping & Caravanning Club • Canberra Primary School, East Kilbride • Cancer Research UK • Cannongate School • Cardinal Newman High School • Caring in Craigmillar • Carluke Highlanders Association • Carluke Primary School • Carluke United Football Club • Carntyne Primary School, Glasgow • Carousel Nursery, Alexandria • Carrick Knowe Parish Church • Carrick Knowe Primary School, Edinburgh • Carse Community Cafe • Castle Douglas Civic Week • Castlehill Bowling Club • Castlehill Primary School • Cats Protection • Children with Cancer & Leukaemia (CCLASP) • City of Edinburgh Council (Service of Communities) • Chapelhall Girls Brigade • Chapelton Primary School • Charity Week • CHAS • Chloe Jackson, Dogs Charities • Christ the King Primary School • Christian Aid • Cinema Nairn • Clackmannanshire Older Adults Forum • CLAN Fochabers • Claremont Primary, Alloa • Clark Community Choir • Clarkston Primary School, Airdrie • Cleland Boys Club • Cleland Community Council • Clermiston Primary School • CLIC Sargent • Clincarthill Parish Church • Coalburn Bronze Band • Coaltown of Balgonie Primary School • Cocksennie Star Football Club • Collydean Baptist Church • Colquhoun Park Primary School, Bearsden • Comas • Community One Stop Shop • Compass Playgroup • Cornhill Village Hall • Corstorphine Fairtrade Group • Corstorphine Primary School, Edinburgh • Cosy Cafe at Larkhall Academy • Coupar Angus Pipe Band • Coupar Angus Pride of Place • Craightinny Primary School, Edinburgh • Craighead Primary School, Milton of Campsie • Craigmount High School, Edinburgh • Craigray Park Primary School, Edinburgh • Craigrayton Boys Club • Craigshill Festival Association • Craigview Sheltered Housing Complex • Cramond Angling Club • Crohn's & Colitis UK • Cromarty Youth Cafe • Crookston Community Group • Crossreach • Crossroads Caring Scotland • Cults Parish Church • Cumnock Academy • Cumnock & District Stroke Group • Currie High School • Currie Parish Horticultural Society • Curves for Clan • Cystic Fibrosis • Dalketh & Monktonhall Brass Band • Dalmeny Primary School • Dalry Primary School, Edinburgh • Dalsef Bowling Club Senior Section • Dance NRG, Penilee • David Livingstone Memorial Primary School, Blantyre • Deaf Blind Scotland • Deانبurn Primary School, Bo'ness • Deans Community High School • Deans Gala Day • Deans Primary School, Livingston • DEBRA • Dementia Scotland • Diabetes UK • Dollar Court Sheltered Housing • Donaldson's School • Doodlebugs Macduff • Down Syndrome Scotland • Dr Gray's Hospital • DRB Scottish Women's History Group • Dreamz 4U • Drum Castle • Drum Field Archers • Drumbrae Library • Drumadrochit Baby & Toddler Group • Drumadrochit Fishing Club • Drumadrochit Flower Forum • Drylaw Neighbourhood Centre • Duddingston Primary School, Edinburgh • Dulnain Village Fete • Duncan Forbes Primary • Dundee Fairtrade Forum • Dundee Russian School • Dundee Spectrum • Dundin Dance Academy • Dunfermline Cricket Club • Eaglesham Fair • Early Steps Nursery • Eassie Nevey & Kirkinch Community Association • East Ayrshire Council • East Calder & Wilkieston Gala Day • East Calder Community Council • East Calder Homing Society OAP Party • East Calder Playgroup • East Craigs Primary School, Edinburgh • East End United Boys Club • East Kilbride & District Crime Prevention Panel • Eastertoun Primary School, Armadale • Eastfield Nursery, Cumbernauld • Ecclesmachan & Threemiletown Hall • Echline Primary School • Eddlewood Bowling Club Senior Section • Edinburgh Archaeology Outreach Project • Edinburgh Brass Band • Edinburgh Cat & Dog Home • Edinburgh College • Edinburgh Dynamic Twirlers • Edinburgh Leisure • Edinburgh Moonwalk • Edinburgh Pre-Nursery Services • Edinburgh Social Enterprise Network • Edinburgh South Football Club • Edinburgh's Got Soul • Edzell Curling Club • Eilidh Brown Memorial Fund • Elgin Fairtrade Group • Elgin Junior Ice Hockey Club • Elgin Street Pastors • Elizabeth Maginnis Residents Group • FACT - Fozia Salim • Fairhill Fun Day • Falkirk Council Care Team • Falla Hill Primary School, Fauldhouse • Fallside Playscheme, Uddingston • Fallside Secondary School • Families of Auchinairn Coming Together • FARE • Fauldhouse Children's Gala Day • Fauldhouse Penguins Swimming Club • Fauldhouse Playgroup • Feel Fantastic Friday's Parent Carer Group, Motherwell • Feis Dhun Eideann • Ferry Fair • Fettercairn Lunch Club • Fiddlesticks Orchesta, East Lothian • Figgat Fair • Fintry Scouts • Fintry Sheltered Housing Association • Firpark Primary School, Motherwell • First Steps Playgroup • Flippin Brilliant Fundraisers • Flora Stevenson Primary School • Fochabers Gala Day • Fochabers Lunch Club • Forget Me Not • Fort Youth & Community Association • Forth Dimension Musical Productions • Forward Coupar Angus • Fowles Mother and Toddlers • Fox Covert Nursery • Fox Covert Primary School, Edinburgh • Fox Covert RC Primary School, Edinburgh • Friends of Autism • Friends of Bervie Primary School • Friends of Chernobyl's Children • Friends of Muir Wood Park • Friends of Saltergate School • Friends of Seaview Charitable Trust • Friends of the Pentlands • Fun First • Gaidhlig Dumal • Gartocharn Nursery • Gastro paresis UK • Gilmerton Playgroup • Gilmerton Primary School, Edinburgh • Glasgow Girls Football Club • Glasgow Simon Community • Glen Urquhart Public Hall • Glenafton Athletic FC, New Cumnock • Glenrothes Art Club • Glenrothes Gala Day • Glenrothes Strollers 1998 • Glenurquhart Childcare Centre • Glenurquhart Highland Games • Glenurquhart High School • Glenurquhart Highland Games • Glenurquhart Shinty Club • Gorebridge & District Environmental Group • Gorebridge Gala Day • Gracemount Primary School • Grampian Police Basketball • Grampian Multiple Sclerosis • Granton Baptist Church • Granton Primary School, Edinburgh • Grantown on Spey Bowling Club • GRC Triathlon Club • Greenburn Golf Club Junior Section, Fauldhouse • Greenhead Moss Community Group • Greenhead Moss Community High • Greenrigg Primary School, Harthill • Guild of Old Nairn Church for Mary's Meals • Habitat for Humanity • Ham and Egg Productions • Hamilton Caledonian Thistle • Handicapped Children's Pilgrimage • Hareleeshill Primary School, Larkhall • Harnemy AC Pentland Runners • Harthill Benhar & District Horticultural Society • Harthill Gala Day • Hayocks Primary School • Health in Mind • Heart of Midlothian Amateur Swim Club • Hearts and Minds • Heedrum Hodrum, West Calder • Help for Heroes • Help for Kids • Hermitage Park • Hermitage Primary • High Blantyre Primary School • Highland

## the year in summary



Foodbank in Hamilton receives funding from Scotmid.



Keswick Lakes & Dales store opens its doors.



Loony Dook is sponsored by Scotmid.

Hospice Golf Day • Highland Youngsters Diabetes • Highland Youngsters with Diabetes • Highlife Highland • Hillhead Nursery, Kirkintilloch • Hillwood Primary • Hilton Primary School • Hollies Day Centre • Holmes View Nursing Home, Broxburn • Holy Family Primary School, Winchburgh • Holytown Primary School • Homeless World Cup • Hope Church Coatbridge • Hope Cottage Nursery • Hounds for Heroes • Hutchison Vale FC • Hypercyber Youth Project • Hypermobility Syndrome Association • Inverbervie Daddy Dook • Inverclyde Animal Rescue • Inverclyde Hospital • Inverkeithing Community Council • Inverkeithing Nursery School • Inverness Presbytery • Isabel Neilson Breast Cancer • Jack and Jill Support Group, Bellshill • James Gillespie's Primary School • James Gillespie's High School • Jesmond Care Home • Jumping Beans PlayClub • Junior Joggers Fun Run • Juniper Green Community Council • Kayleighs Wee Stars • Kettins Primary Health Week • Kidney Support Scotland • Kilbryde Hospice • Kincardine & Deeside Befriending • Kincardine O'Neil Primary School • Kinneil Primary School, Bo'ness • Kirklandside Hospital, Kilmarnock • Kirkliston Children's Gala • Kirkliston Community Council • Kirkliston Parish Church • Kirkliston Playgroup • Kirkliston Primary School • Kirknewton Gala • Kirksnows Primary School, Coatbridge • Knightsridge Primary School, Livingston • Laburnum Nursery Centre • Lamlash Nursery School • Lanarkshire Cancer Care Drivers • Laurencekirk Bowling Club • Laurencekirk Business Club • Laurencekirk Guild • Laurencekirk Scout Group • Law Primary School PTA • Lawfield Primary School Parent Council • Le Dance Studio, Barrhead • Leith Athletic 2000's • Leith Late • Leith St Andrews Playgroup • Leng Resource Centre • Les Hoey Children's Party • Leslie Baptist Church • Lesmahagow Bowling Club • Lesmahagow High School • Leukaemia Care Scotland • Levenvale Primary School, Alexandria • Larbert High School Drama Society • Liberton Nursery School • Lifeline Crafts • Lincluden Primary School • Lincraig Boys Football Club • Lisa Logie Fundraiser • Little Flyers Nursery, Broxburn • Little Sisters of the Poor • Little Steps • Living Well North Edinburgh • Livingston Station Playgroup • Livingston and District Horticultural Society • Liz MacIntyre Highland Hospice • Loanhead Children's Gala Day Association • Loanhead Community Learning Centre • Lochardil Primary School Parent Council • Lochardil Scouts • Lochend Youth Football Club • Lochside Playgroup • Lomond Folk Festival • London Road Church • Lossiemouth Toy Box • Lothian Laryngectomee Club Raffle • Lothian Running Club • Macduff Primary School • Mackie Academy Badminton team • Macmillan Cancer Support • Maggie Law Maritime Museum • Maggie's Centres • Marchmont & Sciennes Community Council • Marchmont Playgroup • Marie Curie Cancer Care • Maryhill RAF Cadets • Marykirk School • Mary's Meals • Mashucubia FC • Mayfield & Easthouses Development Trust • Mayfield & Easthouses Youth 2000 Project • McCready Family Centre • McLean Primary School • Meallmore House Raffle • Mearns & Coastal Healthy Living Network • Mearns & Coastal Living Network • Mearns Academy • Mearns Chaplaincy • Mearns Court Sheltered Housing • Meigle Primary School • Meningitis Awareness • Meningitis Research Foundation • Menstrie Toddler Group • Mental Health Foundation • Mid Calder Mother and Toddlers • Midlothian Sure Start • Midlothian Young Bowlers Association • Milne's Football Club • Milne's Primary School • Milton of Campsie Bowling Club • Milton of Campsie Parish Church Justice and Peace • Milton Rovers FC • MND Scotland • Momentum Scotland • Montrose Access Centre • Montrose Emergency Services Group • Montrose OAPs • Montrose Stroke Club • Montrose Town Hall Bowling Club • Moodiesburn Gala Day • Moray Cats Protection • Moray Rugby Club • Morningside Primary School • Motor Neurone Disease • Move It Dance School • Mrs Caroline Leslie • Muirhouse Youth Development Group • Multiple Sclerosis • Munloch Christmas Lights • Murrayburn Primary School, Edinburgh • Murrayfield Allotments • Musselburgh Grammar • Nairn ATC Fundraising • NAS Dundee Branch • Netball Dundee • Nethy Bridge Winter Decorative Lighting Association • New Age Kurling Club • New Caldergen Care Home • New Cumnock Bowling Club • New Cumnock Community Council • New Cumnock Primary School • New Elgin Primary School • New Farm Primary School, Kilmarnock • New Stevenson United AFC • New Stevenston Football Club • Newhills Primary School • Newland Concert Brass • Newmains & District Gala Day • Newmains & District OAP Association • Newmains Community Trust • Newmains Primary School • Newport on Tay Church of Scotland • Newport on Tay Traders Association • Newport on Tay Primary School • Newport Skate Park Collective • Newtongrange Primary School • NHS Tayside Substance Abuse • North Edinburgh Dementia Care • North Lanarkshire Council Children's Carers Team • Ochil Writers' Group • Old & St Andrews Church Mission • Old Kilpatrick Bowling Church Fete • Old Monkland Primary School • Oldmarchar Community Playgroup • Open Door Accommodation Project • Open Secret • Our Lady of Lourdes Primary School, Blackburn • Outreach Community Church • Overton Primary School • Oxfam • Oxfangs Primary School • Paradykes Primary School, Loanhead • Parcels4Troops • Parkhead Children's Gala • Parkhead Primary School, West Calder • Parkinson's UK • Pass it On • Pathhead Youth Project • Penicuik Churches • Penicuik Horticultural Society • Petal • Pilton Equalities Project • Pilton Youth & Children's Work Project • Pinewood School, Blackburn • Plains Community Futures, Airdrie • Polbeth Children's Gala Day • Polbeth United • Port of Leith Housing Association • Portobello Fairtrade Group • Portobello Timebank • Pregnancy Sickness Support • Preston Lodge High School • Prestonpans Primary School • Prestonpans Infant School • Project Trust • Pumpherstoun & Uphall Station Community Primary School • Pumpherstoun Bowling Club • Pumpherstoun United FC Under 15s • Quarries • Queens Care Home, Prestwick • Queensferry clean up • Queensferry Fairtrade Group • Queensferry High School • Queensferry Lifeboat Branch • Queensferry Primary School • Queensferry Sea Cadets • Queensferry Hospital • Raigmore Youth Club • Raith Rovers Girls • Ratho Children's Gala • Ratho Cub Scouts • Ratho Station Residents Association • Reach Autism • Redhall School • Refugee Survival Trust • Regent Community Bowling Club • Renton Primary School • Retts Syndrome UK • Royal High Youth Rugby • River Kids • Riverside Early Education Centre, Renton • Rosefield Park Clean Up • Roslin Primary School • Rosslyn Bowling Club • Rotaract Club of Moray • Rothes Junior Under 17s • Round Strathaven 50 Cycle • Sandcastle Playgroup • Sandwood Primary School, Crookston • Saughtonhall Community Summer Fete • Scotia Taekwondo • Scottish Association for Mental Health • Scottish Cot Death • Scottish Fire and Rescue Service • Scottish Pensioners' Association • Scottish Rottweiler Club • Scottish Society of the Prevention of Cruelty to Animals • Scottish Spina Bifida Association • Seniors Together, Barrhead • Shelter • Shettleston Juniors FC • Showstoppers Holiday Club • Sick Kids Friends Foundation • Silverlea Care Home • Silverwood Home and School Association, Kilmarnock • Simply Play • Simpsons Special Care Babies • Soldiers' and Sailors Families Association • Sorn Old Folks Welfare Association • Soupathon • South Edinburgh Arts Fair • South Edinburgh Cluster Youth Group • South Edinburgh Handball Club • Sparklers Nursery, Castle Douglas • Special Olympics Scotland West Swimming Team • Springholm Primary School, Castle Douglas • Springwells Episcopal Xmas Fayre, Airdrie • St Andrew's High School • St Andrew's Hospice • St Andrew's Primary School, Gorebridge • St Andrew's Church Foodbank, Bo'ness • St Andrew's Hospice • St Andrew's RC Primary School • St Anthony's Community Group, Armadale • St Anthony's Primary School • St Athanasius Primary School • St Bernadette's Wednesday Club • St Brigid's Primary School • St Columba's Hospice • St Columba's Parish Hall Committee • St David's High School, Dalkieth • St Dominic's Parish Church • St Flannans Primary School • St Gabriel's Parish Church • St Gabriel's RC Primary School • St George's School • St Gerard's Primary School, Bellshill • St James Playgroup, Portobello • St John's Primary School, Edinburgh • St John's Special Care Baby Unit • St Joseph's Primary School, Bonnybridge • St Mark's Primary School • St Mary's Primary School, Alexandria • St Mary's Primary School, Polbeth • St Maurice High School, Cumbernauld • St Mungos Old Folks Centre • St Ninian's Primary School, Dumfries • St Olaf's Care Home • St Paul's Primary School, East Calder • St Pius X RC Primary School • St Serf's Primary School, Airdrie • St Vincent de Paul • St Mark's Primary School • St Teresa's Youth Group • Stein's Thistle • Stenhouse, Saughton Mains & Whitson Community Council • Stillbirth & Neonatal Death (Sands) • Stockbridge Primary School • Stopover • Storehouse • Strange Town • Strathaven Agricultural Exposition • Strathaven Balloon Festival • Strathaven Fairtrade Group • Strathaven Golf Club • Strathaven Sheltered Housing Association • Strathaven Striders • Strictly for the Love • Tannadice Primary School • Taylor High School • Tayside Cancer Support • Teenage Cancer Trust • The Beatson Hospital • The Driving Force • The Fire Fighters Charity • The First Responders • The Forest • The Kiltwalk • The Libertie Project Limited • The Machan Trust • The Pilgrimage Trust • The Prince's Trust • The Richmond Fellowship Scotland • The Rotary Club of Bathgate • The Royalettes • The Stafford Centre • The Welcoming Association • Thistle Boys Club 2002 • Tiny Bubbles Toddlers, Holytown • Tollcross Community Council • Tollcross Primary School • Torphins Community Council • Torphins Gala Day • Torphins Golf Club • Torphins Primary Enterprise Group • Touchdown UK • Touched by Suicide • Towerbank Primary School • Tree of Hope (Hamilton) • Trinity Parish Church, Larkhall (Cosy Cafe) • Trinity Primary • Uddingston Bowling & Tennis Club • Uddingston Community Council • Uddingston Grammar • Uddingston Rugby Football Club • Union of Catholic Mothers • UNISON Kinneil Band • University of Edinburgh • Uphall Playgroup • Uphall Station Bowling Club • Uphall Station Pensioners Association • Uphall Station Youth Clubs • Vale Club • Venture Scotland • Victoria Park Primary School • Viewpark Family Centre • Viewpark Mothers & Toddlers • Villa Park Boys Club • W T Netball Aberdeen • Wee Windsor Football Team • Weir Blackbelt Academy • West Calder Fair in the Square • West Calder Senior Citizens Party • West Calder United • West Edinburgh Majorettes • West End Christmas Fortnight Committee, Dundee • West Fife Woodlands • West Lothian 50+ Network • West Lothian College • West Lothian Schools Pipe Band • Westhill Senior Citizens • Whale Arts Agency • Wild Hearts • Winchburgh Community Council (Tree Lighting) • Winchburgh Junior Youth Club • Winchburgh Primary School • With Kids • Woodlands School • Wormit Playgroup • Y Sort It Young Mums, Clydebank • YMCA Edinburgh • Yorkhill Children's Charity • Young at Heart, Blackburn

## December 2013 - January 2014



More defibrillators rolled out to stores.



Top crust awards for Scotmid bakery partners.

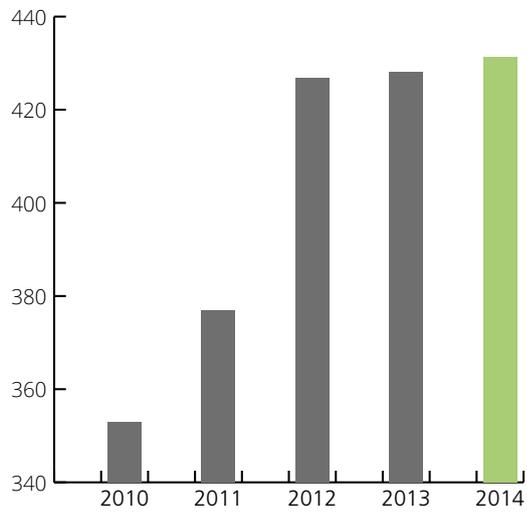


Healthy eating campaign launched in Mayfield and Easthouses.

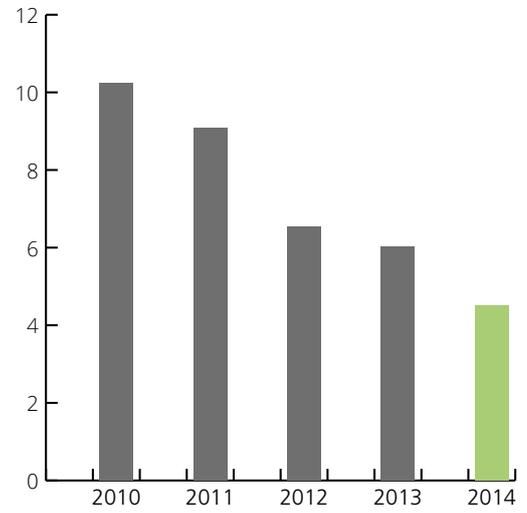
## Group Five Year Summary

	<b>2013-14</b>	<b>2012-13</b>	<b>2011-12</b>	<b>2010-11</b>	<b>2009-10</b>
	<b>52 Weeks</b>				
number of members	259,562	246,687	244,481	241,818	239,749
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
turnover	431,414	428,091	426,733	376,891	352,857
operating surplus before exceptionals	4,518	6,029	6,529	9,093	10,236
operating result after exceptionals	(1,020)	3,650	4,338	13,346	7,504
result before tax	(3,041)	1,201	2,030	11,166	5,561
retained (loss)/surplus	(3,394)	330	1,308	9,582	4,284
depreciation	9,241	9,280	9,282	8,713	7,846
net finance costs	1,401	1,736	1,610	1,516	1,333
purchase of fixed assets	10,493	7,822	7,861	14,034	13,712
fixed assets	147,439	150,057	154,989	163,252	141,191
net current assets/(liabilities)	3,421	2,635	1,464	(2,321)	(10,725)
total assets less current liabilities	150,860	152,692	156,453	160,931	130,466
less long term liabilities	47,244	44,357	48,851	50,121	28,456
less provision for liabilities and charges	-	-	-	378	416
less pension liability	13,430	14,391	11,358	10,026	11,509
net assets	90,186	93,944	96,244	100,406	90,085
share capital	5,964	5,312	5,249	5,162	5,094
revenue reserves	59,501	63,083	64,375	64,865	54,470
revaluation reserve	24,721	25,549	26,620	30,379	30,521
net assets	90,186	93,944	96,244	100,406	90,085

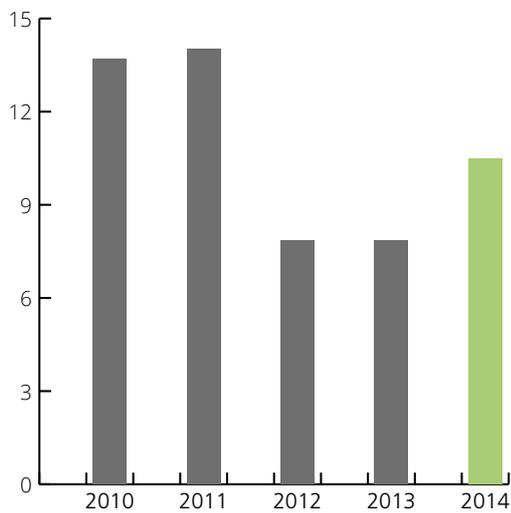
## TURNOVER (£ MILLIONS)



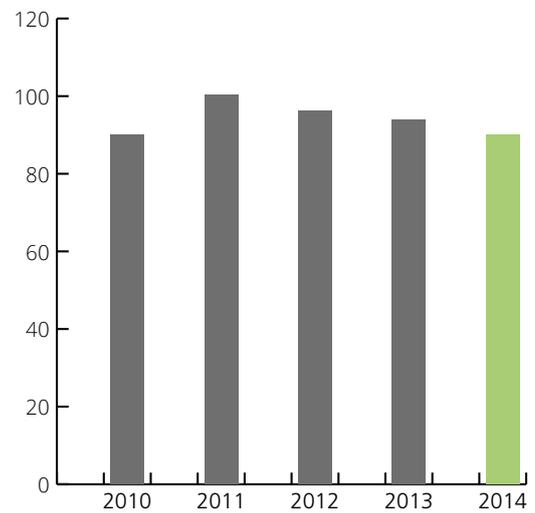
## OPERATING SURPLUS BEFORE EXCEPTIONALS (£ MILLIONS)



## PURCHASE OF FIXED ASSETS (£ MILLIONS)



## NET ASSETS (£ MILLIONS)



# Statement of Directors' Responsibilities & Governance Report

## DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the 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. The financial statements are required by the Industrial and Provident Societies Acts 1965 to 2002 to give a true and fair view of the state of affairs of the group and of the profit or loss of the group for the period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Society will continue in business.

The Directors are responsible for keeping proper accounting records which 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 Societies Acts 1965 to 2002. They are also responsible for the system of internal control, 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 corporate and financial information included on the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## GOING CONCERN

The Society's business activities, together with the factors likely to affect the future development, performance and position of the Society, are set out in the Directors' Report on pages 3 to 15. The Board remains satisfied with the Society's funding and liquidity position. The Society meets its funding requirements through a combination of term loans and an overdraft facility (renewable annually). The Board has undertaken a thorough review of the Society's financial forecasts and associated risks. These forecasts extend beyond one year from the date of approval of

these financial statements and show that the Society will continue to operate within the terms and financial covenants of its bank facilities.

The Directors consider that the Society has the flexibility to react to changing market conditions and the Society is well placed to manage its business risks successfully despite the uncertain economic outlook. Therefore, after reviewing projections and sensitivities and making all appropriate enquiries, the Directors have an expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Society's financial statements.

## GOVERNANCE REPORT CODE OF BEST PRACTICE

In November 2013 Co-operatives UK published an updated Code of Best Practice. The Board has reviewed the implications and changes to the code and has concluded that the Society substantially complies with the provisions in the new Code. To arrive at this conclusion the Board has implemented changes to a limited number of its working practices and updated policies to address some of the new administrative recommendations within the code. The main change requiring member approval relates to the recommended best practice for refreshing the Board. At the AGM in April the Board will propose a rule change to adopt the "balanced board" best practice approach recommended in the code.

Co-operatives UK recognise that as co-operative societies differ in scale, size and resources, compliance may vary for acceptable reasons and that there will be a transition period to enable migration to the new Code. The general approach taken 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 with the principles of the Code. Subject to approval of the proposed Board refresh rule change, the following explanations for non-compliance of the provisions of the new Code are therefore provided:

1. Percentage of Employee Directors on the Board: A maximum of 25% of the total membership of the Board may be employee directors compared with the Code of Best Practice recommended limit of 33%. The Society believes that this more restrictive limit provides enhanced protection for the Society.
2. Publicising the AGM: the Board considers the current notification periods and methods to be the most appropriate for our members. The date of the next AGM/OGM is provided on the Notice of Meeting

posted in store and on the Society's website thereby giving a notice period of approximately five months. The Notice of Meeting is posted in Scotmid stores eight clear days before a General Meeting.

3. Remuneration information disclosure: The individual remuneration packages of the Chair, Chief Executive Officer and members of the Executive team are shown in bandings within the Notes to the Accounts which is considered to be appropriate disclosure.
4. President Term of Office: Members approved changes at AGM 2010 to allow the President to serve for a maximum three terms of office, each term lasting normally three years in duration. A rule change that will be proposed at the 2014 AGM will reduce the maximum term of office to two terms of three years after a transition period.

In each case the Board has satisfied itself that the Society is better served by the current working practices and adherence to its rules and that they comply with the spirit of the Code.

In addition there are four provisions in the new Code where the Society complies with the underlying principle but further work is required to codify policy or formalise custom and practice to demonstrate compliance. Three of these provisions relate to membership matters that will be addressed by the Search Committee formalising policies for membership value, member training and monitoring member participation. The remaining provision is an administrative matter relating to the timing of Board papers.

### MEMBERSHIP MATTERS

As a member owned democratic organisation, the Board recognise the importance of encouraging members to play their part in the governance of the Society and to improve membership participation. The Search Committee of the Board is responsible for membership matters including membership strategy and development. They are supported by a Membership team who promote recruitment, organise membership events and communicate with members.

Details of the membership activities undertaken during the year are contained within the Membership Development, Community & Charity Activity report on pages 12 and 13.

### REGIONAL DEMOCRACY

The Society currently operates with three regions (North, East & West). Members' meetings are held in each region and are advertised in our stores, on our website, by email and in the local press. Each region is represented by a Regional Committee, and members who meet the

qualifying criteria are elected to the Committees by the membership at the Members' Regional Meetings. Regional Committee members are elected to serve on the Committee for a period not exceeding three years after which they may stand for re-nomination with elections held at the Annual General Meeting in their region. Regional Committees are also responsible for the nomination of Directors, from within the Regional Committee, to represent the members for that region.

The North Regional Committee became fully established in 2013 and has operated successfully since with eight members. As part of the development of the North Region, the Regional Committee will be increased in size to 12 by 2017. Following the merger with Penrith Society, the members from that area will join the West Region and be eligible for nomination and election to that Regional Committee. The Board wish to extend the Regional Committee structure over a period of time and aim to establish a new Committee to serve those members from the Lakes & Dales area at a future date.

At the OGM in October, members approved the transfer of West Lothian into the East Region and granted authority to the Board to determine the detailed transitional arrangements. The Board considered the implications of this change and will update members on the transition at the AGM.

A review of the Regional Committee working practices was undertaken by the Governance & Strategy Review Committee taking into consideration feedback from both new and established Regional Committees with changes being introduced in 2013.

### BOARD'S ROLE

The role of the Board and the details of the Directors' role and responsibilities are contained within the Society's Rules which are available to all members on the Society's website or on request. The Board consists of 12 Directors representing members in the Society's core trading area. Three retired employees are Board members, there are no recently retired employee Board members and no Board member is employed by the Society.

The Board is responsible for determining the Society's strategy in consultation with the Management Executive. It is responsible for monitoring the delivery of that strategy by management and identifying and managing risk. Given the distinctive nature of co-operative societies, the Board has a duty to ensure that the Society acts as a bona fide co-operative and adheres to the co-operative values and principles set out by the International Co-operative Alliance.

# Governance Report

All of the directors are collectively responsible for the success of the Society and are equally responsible in law for the Board's decisions and are bound by an overriding duty to act in good faith in pursuit of the best interests of the Society as a whole. During the year the Board reviewed its Code of Conduct which is based on Appendix 9 of the Governance code applicable at the time of the review. This code of conduct together with the Standing Orders covers the duties and responsibilities of directors.

The day-to-day management of the Society's activities is delegated to the Chief Executive Officer and the Management Executive who are responsible for execution of the Society's strategy within the framework laid down by the Board.

## INTERNAL CONTROL FRAMEWORK

The Board is ultimately responsible for the Society's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Co-operatives UK Corporate Governance Code of Best Practice requires Directors to review the effectiveness of the Society's system of internal controls. The review covers all material controls including financial, operational, compliance and risk management systems in compliance with the Turnbull guidance. Key elements in the Society's adopted internal control framework are detailed as follows. These are considered to be appropriate to the current size and complexity of the Society.

## CONTROL ENVIRONMENT

The Society is committed to the highest standards of business conduct 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. There are clear lines of responsibility, delegations of authority and reporting requirements.

## INFORMATION AND COMMUNICATION

The Society undertakes periodic strategic reviews which include consideration of long term financial projections and the evaluation of business alternatives. Annual capital and revenue budgets are approved by the Board. Trading performance is actively monitored and reported to the Board on a regular basis. All significant capital projects and Society acquisitions require Board approval. Through these mechanisms, Society performance is continually monitored, risks identified in a timely manner, the financial implications assessed, control procedures re-evaluated and the corrective actions agreed and implemented.

## BOARD COMMITTEES

There are four standing Board Committees, three of which have terms of reference as recommended in the Code: Audit, Remuneration and Search. There is also a General Purposes Committee which is responsible for addressing general matters not specified in the terms of reference of the above committees. The Board has also established a Governance & Strategy Review Committee to consider the implications of the new Governance Code and to recommend transitional arrangements to move West Lothian into the East Region.

## AUDIT

The Audit Committee is responsible for monitoring both internal controls and risk management. It is chaired by a director who is not the President, it consists of 4 directors and it met 3 times in 2013/14.

The Society has an Internal Audit Department reporting directly to the Chief Executive. An annual report for 2013/14 has been produced and audit plan for 2014/15 has been agreed with the Audit Committee. Any control weaknesses identified are highlighted to management and the Audit Committee which monitors Internal Audit activity and ensures that appropriate actions are taken.

The terms of reference agreed by the Board include:

- Consideration of the appointment of the external auditor and the scope of the audit;
- Review of the financial statements and auditors' management letter; and
- Review of the internal audit programme and internal audit reports.
- Review the effectiveness of the Society's internal controls and risk management systems.

The Board and Management Executive are responsible for the identification and evaluation of key risks applicable to the Society. These risks may be associated with a variety of internal or external sources, including control breakdowns, credit and liquidity risks, disruption of information systems, competition, natural catastrophes and regulatory requirements. Risk registers are maintained which highlight the likelihood and impact of risks occurring. These registers are updated at least twice a year and actions necessary to mitigate those risks are considered. This process enables resource to be focussed on key risk areas, helping to prioritise activities. The Audit Committee reviews the risks facing the Society twice a year to determine if adequate controls are in place.

The Chair of the Audit Committee reports the outcome of the meetings to the Board and the Board receives the minutes of the Audit Committee meetings.

In line with the Code of Best Practice, the Audit Committee has established a policy of rotating the audit partner every five years. A new audit partner was appointed in 2011 to replace the previous audit partner who retired having completed his five year rotation. The external audit contract was last put out to tender in 2006.

## REMUNERATION

The Remuneration Committee consists of four directors, none of whom were employees, recently retired employees or the President of the Society. The Committee makes recommendations annually to the Board on executive remuneration. External advice is provided to the Remuneration Committee by an independent advisor, mflhr, to ensure that the remuneration is appropriate to the scale and scope of the business. The Remuneration Committee is also responsible for making recommendations to the Board for the level of directors' remuneration and expenses. Details of the remuneration of directors and Management Executive can be found in Note 2 to the financial statements. The salary information in the bandings in Note 2 provides appropriate disclosure of Board and Management Executive remuneration for Scotmid Society although not in the format recommended in Co-operatives UK's best practice.

The Profit Related Pay scheme ensures that there is a link between performance and reward and that the interests of management and staff are aligned with those of the Society and members. All employees are included in the scheme. The importance of attracting, retaining and motivating senior management of appropriate calibre was considered when the scheme was designed.

In respect of the Management Executive a summary of the performance-related bonus schemes is provided below:

### 1) ANNUAL INCENTIVE SCHEME

All members of the Management Executive are eligible to participate in an annual performance-related bonus scheme. The committee reviews bonus targets and levels of eligibility annually. There is a maximum bonus potential of 50% of base salary for exceeding targets determined by the Board. For Management Executive members with trading unit responsibilities, a significant proportion of the annual incentive is derived from trading unit performance. Targets in the bonus year 2013/14 related to financial performance measured by Society profit and divisional trading profit, as appropriate to the individual's area of responsibility. A discretionary element, based on personal objectives, is also included within the annual bonus scheme, and is part of the maximum bonus potential.

### 2) LONG-TERM INCENTIVE PLAN (LTIP)

The Society operates an LTIP for the Management Executive in order to align these executives with the Society's longer-term interests. The scheme sets cumulative targets across a three-year period. Each year the committee reviews actual performance compared to target for the latest maturing three year scheme and sets targets for the next three-year period. The maximum payment level under the scheme is 35% of base salary for outperforming targets. Base salary is taken as the salary at year one of the three-year period. The performance measure selected by the committee is average return on capital employed, derived from the Society's three-year business plan

### SEARCH

The Search Committee consists of four directors and is responsible for establishing a process to evaluate the balance of skills and effectiveness of the Board and to consider director succession planning and the composition of Board committees. It is also responsible for membership matters including membership strategy and development.

The annual Board skills process was undertaken by self assessment with Directors evaluating their individual skills and performance and the collective Board performance. In addition to core training sessions, two new training sessions for Board and Regional Committee members were developed and delivered during the year to enhance the knowledge of the elected members. An evaluation of the Search and Remuneration Committees was also carried out which resulted in a small number of enhancements to working practices and the information supplied to the Board.

The Committee reviewed the Society's Membership Strategy in light of the merger with Penrith Co-operative, changes resulting from the introduction of the new Governance Code together with the ongoing development of and changes to the Regional Committee working practices. The Committee also considered the feedback arising from the survey undertaken at the 2013 AGM. Details of membership development activity in the year, including the launch of the new infographic membership branding, are provided in the Directors' Report on page 12.

For and on behalf of the Board

Harry Cairney – **Acting President**

John Brodie – **Chief Executive Officer**

John Dalley – **Secretary**

Scotmid is committed to social responsibility which is aligned with the original values and principles which formed the Co-operative movement. Co-operatives UK recommend a set of indicators which we use to measure our performance in this area. Scotmid has a diverse range of operations so these measures are not always readily available or the most relevant for all our individual businesses. To overcome this, estimates are used where appropriate or we use sample data from our Food Convenience business, our most significant trading division. In October the Society completed the transfer of engagements with Penrith Co-operative Society but because the integration process was not completed until January 2014, data for Penrith is only included for a limited number of indicators this year.

## MEMBER ECONOMIC INVOLVEMENT

Member economic involvement has remained consistent this year at 12%. This result is based on an independent exit survey conducted by Why Research at a sample of our stores.

## MEMBER DEMOCRATIC PARTICIPATION

220 (2012/13 - 260) members attended the Annual General Meetings on 29 and 30 April 2013 and 158 (2012/13 - 169) members attended the Ordinary General Meetings on 30 September and 1 October 2013. Following the establishment of a fully operational North Regional Committee in February 2013, the first North Regional AGM and OGMs were held in April and October 2013 with nominations taken for places on the Regional Committee.

## STAFF AND MEMBER TRAINING

This year 26,000 hours (2012/2013- 25,000) of formal staff training took place, averaging 5.4 hours per employee (2012/13 -5.2). These hours included 6,373 of e-learning activity (2012/13 - 8,700). Health and Safety training was re-freshed for all levels of management during the year.

In 2013, Members actively participated in a total of 316 hours of training compared with last year's total of 321. Two new training sessions were developed during the year to enhance the elected members' knowledge of pensions and property. The number of training hours per "active" member (where active membership for

training purposes has been defined as the number of members attending the AGM) increased to 1.44 hours (2012/13 - 1.23 hours).

## STAFF INJURY AND ABSENTEE RATES

Staff are encouraged to report all accidents, no matter how minor, and these are recorded to ensure that safety standards are maintained and improved. This year we had 21 (2012/13- 16) reportable accidents equating to 0.4 % (2012/13- 0. 3%) of the average total workforce. There were also 149 minor injuries (2012/13 - 156), which equates to 3.1% of the average total workforce. This gives a combined total of 3.5% (2012/13 - 3.5%).

The total of 30,853 (2012/13 -27,637) days lost due to absence equates to an average of 6.4 days per employee (2012/13 -5.7). Although this is showing a slight increase, the national trend for retail/ wholesale, at 8.4 days, is showing a return to pre-2011 levels per the CIPD Absence Report 2013.

## STAFF PROFILE

Scotmid had an average of 4,811 employees in 2013/14 (2012/13 - 4,832). The staff profile by gender at the year-end was 75% female and 25% male which remains in line with the prior year. Our staff profile by ethnicity is based on a sample of the workforce that responded to a 2006 survey, adjusted for subsequent starters and leavers. This exercise also showed that 1% of the staff surveyed classes themselves as disabled.

Ethnic Origin	% of workforce
Asian	2.8
Black	0.3
Other	0.1
White	96.8
Total	100

The most up to date census was carried out in 2011 and reports 96% as the proportion from a white ethnic background in the total population of Scotland. Our figures are broadly in-line with the census data however it is possible that the comparison could be distorted by the time lag since we collected the base data and therefore we acknowledge the need to update our base survey data.

### CUSTOMER SATISFACTION

Customer Satisfaction has once again been measured by the annual Harris International Marketing survey of the Convenience store sector. The survey includes a range of new measures and so the outcomes are not directly comparable to last year but continue to provide an accurate benchmark against the sector as a whole. The 2013 results describe 63% of Scotmid's customers as being very satisfied compared to an industry figure of 60%, and 83% of customers would be classified as satisfied which is 5% ahead of the industry result.

### ETHICAL PROCUREMENT

The majority of the Society's purchases are through the Co-operative Retail Trading Group (CRTG) and therefore we continue to benefit from their purchasing policies. CRTG is committed to the principles of sound sourcing, animal welfare, food integrity, health and ecological sustainability as set out in their Sustainability Report published in June 2013.

### INVESTMENT IN COMMUNITY & CO-OPERATIVE INITIATIVES

A total of £260,000 (2012/13 - £245,000) was spent on investment in both community and co-operative initiatives, amounting to 5.7% of our operating surplus before exceptional items (2012/13 - 4.0%). £29,000 was invested in co-operative initiatives, primarily the Co-operative Education Trust Scotland (2012/13 - £32,000). A further £123,000 was raised by the Society for Maggie's Cancer Caring Centres in 2013, bringing the total to £267,000 which concluded another successful relationship with our charity partner of the year. The new charity selected is Prostate Cancer UK, launched in September 2013 and to date £150,000 has been raised by our colleagues, members and customers.

### THE ENVIRONMENT

Scotmid aims to reduce net greenhouse gas emissions by 20% by 2020 (using 2008 levels as a base). The Society are continuing to invest in various initiatives to assist the business in achieving this objective with the introduction of smart meters, energy efficient lighting and more efficient refrigeration with doors to maintain the temperature.

We are again reporting on direct Greenhouse Gas (GHG) emissions in two ways: net emissions (that treat electricity from renewables as zero carbon emissions) and gross emissions (that treat electricity from renewables in the same way as 'brown' electricity). GHG includes carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O). Carbon dioxide emissions are produced as a direct result of burning fossil fuels.

The Society produced an estimated 2,505 tonnes of GHG (net) from on-site operations compared to 2,993 last year. The gross emissions, which include electricity from a renewable source, are 23,676 tonnes (2012/13 - 27,916 tonnes). This equates to tonnes of GHG per employee 0.52 (2012/13 - 0.62 tonnes of GHG). The gross emissions figure has been significantly reduced due to a new conversion rate for renewable energy as the basis has moved from a five year rolling average to a single year.

### PROPORTION OF WASTE RECYCLED/REUSED

Our waste to landfill has been significantly reduced this year through the increase in the use of anaerobic digestion for food waste and enhanced recycling. The year end estimated figure is around 1,000 tonnes compared to 1,700 tonnes last year, a 41% reduction.

Our cardboard recycling uses the same method as previously in that CRTG vehicles collect cardboard and plastic from our Food outlets for recycling and have provided an estimated percentage of the total amount of recycled waste attributable to Scotmid. Semichem outlets backload cardboard to our distribution warehouse for recycling. Our Head Office and Funeral offices recycle cardboard, paper and plastic through our waste uplift provider. As a result we estimate that we have recycled 2,600 tonnes of cardboard and plastic/paper/dry mixed waste and 620 tonnes of Food waste has been sent for anaerobic digestion. The proportion of waste recycled has increased to 77% from 60% last year following the completion of the anaerobic digestion programme.

We have audited the financial statements of Scottish Midland Co-operative Society Limited for the year ended 25 January 2014 which comprise the Statement of Accounting Policies, Group Revenue Account, Group Statement of Total Recognised Gains and Losses, Group Note of Historical Cost Profits and Losses, Group Balance Sheet, Group Cash Flow Statement and the related notes 1 to 24. 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 AUDITORS

As explained more fully in the Director's Responsibilities Statement, 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. 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

Chartered Accountants and Statutory Auditors  
Glasgow, United Kingdom

31 March 2014

### **BASIS OF ACCOUNTING**

The accounts are prepared under the historical cost accounting convention as modified by the annual revaluation of investment properties, and under applicable United Kingdom accounting standards. The principal accounting policies are summarised below and have been applied consistently throughout the current and preceding year. The Society's business activities, together with the factors likely to affect its future prospects, are discussed in the Directors' Report on pages 3 to 15. After making enquiries, the Directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

### **ACCOUNTING DATE**

The accounts are prepared for the 52 weeks to 25 January 2014 (2013 - 52 weeks to 26 January 2013).

### **TURNOVER**

Turnover includes cash sales, goods sold on credit and property rental income inclusive of value added tax.

### **INVESTMENTS**

Fixed asset investments are stated at cost less any provision for impairment.

### **INVESTMENT INCOME**

Interest and dividends received are accounted for on the basis of cash received during the year.

### **GOODWILL**

Purchased goodwill is capitalised in the year in which it arises and amortised over its estimated useful life up to a maximum of 20 years with no charge for amortisation in the year of acquisition. Provision is made for any impairment.

### **TANGIBLE FIXED ASSETS AND DEPRECIATION**

No depreciation is provided on freehold land and assets in the course of construction. For all other tangible fixed assets, depreciation is calculated to write down their cost or valuation to their estimated residual values by equal annual instalments over the period of their estimated useful economic lives, which are considered to be:

- Buildings - 40 years.
- Plant, vehicles and fixtures - between 3 and 10 years.

Investment properties are revalued annually and the aggregate surplus or deficit is transferred to the revaluation reserve except that a deficit which is expected to be permanent or the reversal of such a deficit, is charged (or credited) to the revenue account. On disposal of investment properties, any related balance remaining in the revaluation reserve is transferred to the revenue reserve. Depreciation is not provided in respect of investment properties. The Directors consider that this accounting policy, which is a departure from the statutory accounting rules, is necessary to provide a true and fair view as required under SSAP 19 "Accounting for investment properties". The financial effect of this departure is not material.

### **ASSETS LEASED TO THE SOCIETY**

Fixed assets leased under finance leases are capitalised and depreciated over the shorter of the lease term and their expected useful lives. The capital element of future lease obligations is recorded within liabilities, while the finance charges are allocated over the primary period of the lease in proportion to the capital element outstanding. The costs of operating leases are charged to the revenue account as they accrue.

### **ASSETS LEASED BY THE SOCIETY**

Rental income from property is accounted for on the accruals basis.

### **CAPITALISATION OF INTEREST**

Interest costs relating to the financing of major developments are capitalised up to the date of completion of the project.

### **STOCKS**

Stocks are valued at the lower of cost and net realisable value. Provision is made for any damaged, slow-moving and obsolete stock as appropriate.

### **DEBTORS**

Credit account balances are included at gross value, after providing for bad debts.

### **CONSOLIDATED FINANCIAL STATEMENTS**

The group financial statements consolidate those of the Society and its subsidiary Society and companies. In accordance with FRS 9, the group's interest in joint ventures is accounted for using the gross equity method of accounting.

### DERIVATIVES

The Society holds derivative financial instruments to reduce exposure to interest rate movements. The Society does not hold or issue derivative financial instruments for speculative purposes.

Derivatives entered into include interest rate swaps, caps and floors. The fair value of interest rate derivatives is the estimated amount that the Society would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current credit worthiness of the swap counterparties.

Interest payments or receipts arising from interest rate swaps are recognised within net finance charges in the period in which the interest is incurred or earned.

### TAXATION

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. No provision is made for taxation on capital gains deferred under the rollover provisions of the Taxation of Chargeable Gains Act 1992. Deferred tax assets are recognised to the extent that they are regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

### PENSION COSTS

The Society operates a defined benefit funded pension scheme and also contributes to a number of defined contribution schemes.

For the defined benefit scheme, the amounts charged to operating surplus are the current service costs and

gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the revenue account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other financial costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

For defined contribution schemes the amount charged to the revenue account in respect of pension costs and other post-retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

### SHARE BASED PAYMENT

The Society has applied the requirements of FRS 20 "Share Based Payment". The Society issues equity-settled share-based payment to employees who opt to join the all employee share option plan. Equity-settled share-based payments are measured at fair value at the date of the grant. This is expensed in the revenue account.

### EXCEPTIONAL ITEMS

Exceptional items include significant exceptional transactions and material one-off items. The Society considers such items are significant to the Revenue Account and their separate disclosure is necessary for an appropriate understanding of the Society's financial performance.

## Group Revenue Account for the year ended 25 January 2014

	notes	2013-14 £000	2012-13 £000
<b>turnover</b>		431,414	428,091
value added tax		(50,299)	(50,200)
<b>sales</b>	23	381,115	377,891
cost of sales		(278,153)	(272,886)
<b>gross profit</b>		102,962	105,005
other income		5,348	5,484
net expenses	1	(109,429)	(107,010)
<b>operating (loss)/surplus</b>	23	(1,119)	3,479
operating surplus excluding exceptional expenses		4,518	6,029
exceptional operating expenses	3	(5,637)	(2,550)
operating (loss)/surplus		(1,119)	3,479
share of joint venture operating profit		-	127
surplus on disposal of fixed assets		99	44
<b>(loss)/surplus before finance charges</b>		(1,020)	3,650
net finance charges	4	(1,401)	(1,736)
<b>(loss)/surplus for year before distributions</b>		(2,421)	1,914
distributions			
share interest		(75)	(71)
grants and donations	5	(545)	(642)
<b>(loss)/surplus for the year before taxation</b>		(3,041)	1,201
taxation	6	(353)	(871)
<b>(loss)/surplus for the year</b>	16	(3,394)	330

The results shown above relate entirely to continuing operations.

**Group Statement of Total Recognised Gains and Losses and  
Group Note of Historical Cost Profits and Losses** *for the year ended 25 January 2014*

	<b>2013-14 £000</b>	<b>2012-13 £000</b>
<b>group statement of total recognised gains and losses</b>		
(loss)/surplus for year	(3,394)	330
actuarial gain/(loss) relating to the pension scheme (net of tax adjustments) (note 19)	(10)	(1,935)
unrealised gain/(loss) on investment properties revaluation	<u>152</u>	<u>(758)</u>
total recognised gains and losses relating to the year	<u>(3,252)</u>	<u>(2,363)</u>
 <b>group note of historical cost profits and losses</b>		
(loss)/surplus for year before taxation	(3,041)	1,201
realisation of property revaluation gains of earlier years	<u>980</u>	<u>313</u>
historical cost (loss)/surplus for year before taxation	<u>(2,061)</u>	<u>1,514</u>
historical cost (loss)/surplus for year after taxation	<u>(2,414)</u>	<u>643</u>

## Group Balance Sheet as at 25 January 2014

	notes	2013-14		2012-13	
		£000	£000	£000	£000
<b>fixed assets</b>					
intangible assets	7		28,080		29,959
tangible assets	8		117,972		118,807
investments	9		1,387		1,291
			<u>147,439</u>		<u>150,057</u>
<b>current assets</b>					
stocks - goods for resale		26,853		28,808	
debtors and prepayments	10	13,614		10,868	
cash at bank and in hand		6,472		8,535	
			<u>46,939</u>		<u>48,211</u>
<b>current liabilities</b>					
amounts falling due within one year					
creditors	11	(43,518)		(45,576)	
<b>net current assets</b>			<u>3,421</u>		<u>2,635</u>
<b>total assets less current liabilities</b>			150,860		152,692
<b>long term liabilities</b>					
amounts falling due after more than one year					
creditors	12		(47,244)		(44,357)
<b>net assets excluding pension liability</b>			103,616		108,335
<b>pension liability</b>	19		(13,430)		(14,391)
<b>net assets</b>	23		<u>90,186</u>		<u>93,944</u>
<b>financed by</b>					
share capital	15		5,964		5,312
reserves	16		84,222		88,632
<b>shareholders' funds</b>	17		<u>90,186</u>		<u>93,944</u>

The financial statements of Scottish Midland Co-operative Society Limited were approved by the Board of Directors and authorised for issue on 27 March 2014. They were signed on its behalf by:

Harry Cairney **Acting President**  
 Jim Watson **Acting Vice President**  
 John Dalley **Secretary**

## Group Cash Flow Statement *for the year ended 25 January 2014*

	notes	£000	2013-14 £000	£000	2012-13 £000
<b>net cash inflow from operating activities</b>	20		9,588		13,445
<b>joint ventures and associates</b>					
dividends from joint venture			-		132
<b>returns on investment and servicing of finance</b>					
interest received		119		41	
interest paid		(1,215)		(1,296)	
share interest, grants and donations		(620)		(713)	
<b>net cash outflow from returns on investment and servicing of finance</b>			(1,716)		(1,968)
<b>taxation</b>					
corporation tax paid			(1,072)		(279)
<b>capital expenditure and financial investment</b>					
receipts from sales of investments		-		16	
purchase of investments		-		(15)	
receipts from sales of tangible fixed assets		1,129		641	
payments to acquire tangible fixed assets		(8,911)		(7,055)	
<b>net cash outflow from capital expenditure and financial investment</b>			(7,782)		(6,413)
<b>acquisitions, transfer of engagements and disposals</b>					
cash acquired with Penrith transfer of engagements		45		-	
overdraft acquired with Penrith transfer of engagements		(881)		-	
deferred acquisition consideration paid		(1,950)		(1,050)	
other acquisitions		-		(538)	
<b>cash outflow from acquisitions and disposals</b>			(2,786)		(1,588)
<b>net cash (outflow)/inflow before financing</b>			(3,768)		3,329
<b>financing</b>					
bank loans advanced		43,000		-	
repayment of bank loans		(39,375)		(1,500)	
repayment of Penrith bank loans		(1,206)		-	
members share capital issued and interest net of withdrawals		16		63	
repayment of finance leases		(730)		(473)	
<b>net cash inflow/(outflow) from financing</b>			1,705		(1,910)
<b>(decrease)/increase in cash</b>	21		(2,063)		1,419

## Notes to the Group Accounts

		<b>2013-14</b> <b>£000</b>	<b>2012-13</b> <b>£000</b>
<b>1. net expenses</b>			
personnel costs		53,887	53,861
occupancy costs (excluding depreciation)		20,435	20,871
depreciation of owned assets		8,792	8,748
depreciation of assets held under finance leases		449	532
amortisation of goodwill		1,879	1,862
operating lease rentals - equipment and vehicles		498	531
fees - directors and committee members		151	137
expenses and delegations - directors and committee members		47	61
auditors' remuneration		85	85
other expenses		17,569	17,772
		<u>103,792</u>	<u>104,460</u>
exceptional items - other costs	note 3	5,637	2,550
		<u>109,429</u>	<u>107,010</u>

Included within expenses is £7,734,000 relating to operating lease rentals for land and buildings (2012-13 - £8,044,000).

		<b>2013-14</b> <b>£000</b>	<b>2012-13</b> <b>£000</b>
<b>auditors' remuneration - other services</b>			
tax services		47	35
pension scheme audit		4	4
other services - pension restructuring		-	92
		<u>51</u>	<u>131</u>

		<b>2013-14</b> <b>number</b>	<b>2012-13</b> <b>number</b>
<b>2. employees</b>			
the average number employed was:			
full time		1,416	1,415
part time		3,395	3,417
		<u>4,811</u>	<u>4,832</u>

the costs incurred in respect of these employees were

		<b>£000</b>	<b>£000</b>
wages and salaries		50,085	49,572
social security costs		2,844	2,787
other pension costs		958	1,502
		<u>53,887</u>	<u>53,861</u>

## Notes to the Group Accounts

<b>2. employees - continued</b>	<b>2013-14</b>	<b>2012-13</b>
<b>directors' emoluments</b>	<b>£000</b>	<b>£000</b>

the total remuneration of the directors for their board duties was

fees and delegations	119	127
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the number of directors whose emoluments fell into each £2,500 bracket was

	number	number
£5,001 - £7,500	-	2
£7,501 - £10,000	9	9
£10,001 - £12,500	1	-
£12,501 - £15,000	-	1
£15,001 - £17,500	2	-
£17,501 - £20,000	-	1
	12	13

<b>management executive emoluments</b>	<b>£000</b>	<b>£000</b>
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the total remuneration of the management executive was

wages & salaries	1,124	1,074
taxable benefits	78	78
pension and pension allowance costs	191	194
profit-related pay and long-term incentive scheme	9	20
	1,402	1,366

the number of management executives whose emoluments, excluding pension and benefits fell into each £10,000 bracket was

	number	number
£20,001 - £30,000	1	-
£80,001 - £90,000	1	1
£100,001 - £110,000	1	1
£110,001 - £120,000	1	1
£170,001 - £180,000	1	1
£220,001 - £230,000	1	-
£230,001 - £240,000	-	1
£380,001 - £390,000	1	1
	7	6

the management executive team was increased by one part way through the year

<b>3. exceptional items</b>	<b>2013-14 £000</b>	<b>2012-13 £000</b>
fixtures & fittings impairment	(4,279)	(547)
business integration, disruption and rationalisation costs	(3,348)	(1,635)
net pension restructuring	1,990	(368)
	<u>(5,637)</u>	<u>(2,550)</u>

Following the decision to end The Fragrance House trial and a review of the Semichem business trading in the year the Society has recognised an impairment charge of the book value of the impacted stores' fixed assets. The prior year impairment charge relates to the closure and review of asset value of specific stores.

Business integration, disruption and rationalisation costs include the impact of the anticipated closure of Semichem stores, the associated costs of rationalising the support functions and costs associated with the integration of Penrith Society. The equivalent costs in the prior year primarily relate to the closure of a limited number of Semichem stores and the closure of a food store.

The closure to future accrual of the Society's final salary pension scheme during the year has given rise to a funding credit. Due to its size and irregularity this funding credit, after deducting further costs to restructure the Society's pension schemes, is recognised as an exceptional credit. The prior year costs relate to the early stages of the Society's review and restructuring of its pension schemes in advance of the introduction of Auto Enrolment.

<b>4. net finance charges</b>	<b>£000</b>	<b>2013-14 £000</b>	<b>£000</b>	<b>2012-13 £000</b>
<b>interest payable</b>				
bank overdraft and loan	1,036		1,154	
finance leases	90		83	
other interest	89		59	
interest cost on pension scheme liabilities	<u>2,873</u>		<u>2,889</u>	
		4,088		4,185
<b>less - interest receivable and investment income</b>				
expected return on pension scheme assets	2,568		2,408	
unlisted investments	118		37	
other interest	<u>1</u>		<u>4</u>	
		2,687		2,449
		<u>1,401</u>		<u>1,736</u>

<b>5. grants and donations</b>	<b>2013-14 £000</b>	<b>2012-13 £000</b>
member relation activities & grants	501	592
donations	44	50
	<u>545</u>	<u>642</u>

## Notes to the Group Accounts

6. taxation	2013-14 £000	2012-13 £000
<b>current taxation</b>		
UK corporation tax charge for the year	341	456
adjustment in respect of prior years	6	18
joint venture	-	22
<b>total current taxation</b>	<b>347</b>	<b>496</b>
<b>deferred taxation</b>		
origination and reversal of timing differences	(120)	412
adjustment in respect of prior years	21	(72)
adjustment due to change of tax rate	105	35
<b>total deferred taxation</b>	<b>6</b>	<b>375</b>
<b>total taxation charge</b>	<b>353</b>	<b>871</b>

### factors affecting tax charge for the year

(loss)/surplus before tax	(3,041)	1,201
tax on (loss)/surplus at standard rate of corporation tax in the UK of 23.16% (2012-13 24.33%)	(704)	292
factors affecting charge for the year		
expenses not deductible for tax	1,618	296
depreciation in excess of capital allowances	378	409
movement in short term timing differences	(1,027)	(898)
expenses and income upon consolidation not taxable	160	310
chargeable gains	71	48
share of joint venture tax	-	22
adjustments to tax in respect of prior years	6	18
effects of other tax rates	(155)	(1)
<b>current tax charge for the year</b>	<b>347</b>	<b>496</b>

No provision has been made for deferred tax on revaluing investment property to its market value. The tax on the gains arising from the revaluation would only become payable if the property were sold without rollover relief being available. These assets are expected to be used in the continuing operations of the business and, therefore, no tax is expected to be paid in the foreseeable future.

No provision has been made for deferred tax on the transfer in the prior year of properties to Scotmid Pension Limited Partnership. The tax on the gains arising from the transfer would only become payable if the properties were sold outwith the group. These assets are expected to be used in the continuing operations of the group and, therefore, no tax is expected to be paid in the foreseeable future.

No deferred tax has been provided in respect of certain historical gains on disposal of fixed assets as such tax would only become payable if the replacement asset is sold without rollover relief being obtained. The tax which would be payable in such circumstances has not been quantified in the absence of March 1982 values.

**7. intangible assets**

<b>goodwill</b>	<b>£000</b>
<b>cost at 25 January 2014 and 26 January 2013</b>	<u>52,401</u>
<b>amortisation</b>	
26 January 2013	22,442
provided for the year	1,879
25 January 2014	<u>24,321</u>
balance at 25 January 2014	<u>28,080</u>
balance at 26 January 2013	<u>29,959</u>

**8. tangible fixed assets**

	<b>land &amp; buildings £000</b>	<b>investment properties £000</b>	<b>plant vehicles &amp; fixtures £000</b>	<b>total £000</b>
<b>cost or valuation</b>				
26 January 2013	29,203	62,004	107,886	199,093
additions	-	3,304	7,189	10,493
disposals	-	(1,028)	(4,539)	(5,567)
transfer of engagements (see note 18)	3,288	1,018	915	5,221
reclassification	119	(175)	56	-
revaluation	-	152	-	152
25 January 2014	<u>32,610</u>	<u>65,275</u>	<u>111,507</u>	<u>209,392</u>
<b>depreciation</b>				
26 January 2013	10,454	-	69,832	80,286
provided for the year	702	-	8,539	9,241
disposals	-	-	(4,537)	(4,537)
impairment	-	-	4,279	4,279
transfer of engagements	1,523	-	628	2,151
reclassification	(20)	-	20	-
25 January 2014	<u>12,659</u>	<u>-</u>	<u>78,761</u>	<u>91,420</u>
balance sheet value at 25 January 2014	<u>19,951</u>	<u>65,275</u>	<u>32,746</u>	<u>117,972</u>
balance sheet value at 26 January 2013	<u>18,749</u>	<u>62,004</u>	<u>38,054</u>	<u>118,807</u>

The net book value of the group's fixed assets includes £2,212,000 (2012-13 - £1,577,000) in respect of assets held under finance leases. All assets classified as Land & Buildings are freehold properties. All assets under finance leases are held within plant, vehicles & fixtures.

The impairment charge in the year relates to the net book value of Semichem and The Fragrance House store tangible fixed assets. Following a review of the trading performance of these businesses and the decision to cease operating The Fragrance House stores it was determined that the net book value should be impaired. The key assumptions underlying this impairment review are outlined below:

Discount rate - For the purpose of assessing the carrying value of the Semichem and The Fragrance House store assets the weighted average cost of capital (WACC) was determined by assessing the costs and relative proportions of the Society's bank facilities and members' capital. The grants and donations expense is included as a cost of members' capital. The WACC was determined to be 8.8%.

Cash flow period - The approved trading cash flow budget and expenditure expectations were projected for five years on the basis of continuing current operations and appropriate sensitivities and expectations.

Investment properties were independently valued by Chartered Surveyors D M Hall LLP and Sanderson Weatherall LLP as at 25 January 2014 at open market value on the basis of existing use, in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors. The valuation was arrived at on the basis of an inspection and survey of a sample of the Society's investment properties.

The net book value of the group's fixed assets includes £13,654,000 (2012-13 £13,587,000) of properties held by Scotmid Pension Limited Partnership. These properties provide security for the Asset Backed Funding arrangement put in place during 2012-13.

Two properties transferred from the Penrith Society were, at the year end, the subject of security up to £750,000 in favour of the Penrith Co-operative Society Limited Superannuation Fund. After the year end this security was released.

## Notes to the Group Accounts

<b>9. fixed asset - investments</b>	<b>2013-14</b>	<b>2012-13</b>
	<b>£000</b>	<b>£000</b>
<b>unlisted shares</b>		
Co-operative Group shares	1,324	1,252
other I & P Societies	2	1
others	47	27
joint ventures	3	3
	<hr/>	<hr/>
	1,376	1,283
<b>listed shares</b>		
others	11	8
	<hr/>	<hr/>
	1,387	1,291

The market value of the listed investments at 25 January 2014 was £30,000 (2012-13 - £28,000).

The group's significant subsidiary undertakings include Botterills Convenience Stores Limited and Scotmid Pension Limited Partnership. The net assets and activities of the subsidiary undertakings are included in these group accounts.

During the year in advance of the transfer of engagements the Society made a £2,500,000 investment in Penrith Co-operative Society Limited. At the transfer of engagements on 12 October 2013, this investment was offset.

The group has an interest in two joint ventures. The principal activity of these companies is property development, they are incorporated in Great Britain and registered in Scotland. The Society's investment value in Scotmid - Miller (Great Junction Street) Limited and Scotmid - Bett (Fountainbridge) Limited represents 50% of the net assets/liabilities of the companies. The most recent balance sheets of the companies are shown below.

	<b>Scotmid - Miller</b>		<b>Scotmid - Bett</b>	
	<b>(Great Junction Street)</b>		<b>(Fountainbridge)</b>	
	<b>2013-14</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2012-13</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
gross assets	6	6	12	12
gross liabilities	(15)	(15)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
net (liabilities)/assets	(9)	(9)	12	12
	<hr/>	<hr/>	<hr/>	<hr/>
net investment	(9)	(9)	12	12

On 30 January 2003 the Society entered into certain guarantees in respect of obligations of Scotmid - Miller (Great Junction Street) Limited under its financing arrangements. In the event of a failure by Scotmid - Miller (Great Junction Street) Limited to meet certain obligations the guarantees require the Society (along with its joint venture partner) to meet any shortfall in interest payments, to fund any project cost overruns and to procure the completion of the project. On the basis that the property development within this joint venture has completed, no significant further liabilities are expected to arise.

<b>10. debtors and prepayments due within one year</b>	<b>2013-14</b>	<b>2012-13</b>
	<b>£000</b>	<b>£000</b>
trade debtors	393	415
prepayments and other debtors	10,836	9,641
deferred tax (see note 14)	2,223	812
corporation tax recoverable	162	-
	<hr/>	<hr/>
	13,614	10,868

<b>11. creditors falling due within one year</b>	<b>2013-14 £000</b>	<b>2012-13 £000</b>
trade creditors	17,871	18,077
holiday pay	611	720
VAT	1,745	1,993
other sundry creditors	4,608	5,520
accrued charges	13,330	13,044
PAYE and social security	714	702
bank loan (see note 12)	1,000	2,500
deferred consideration	2,700	1,950
obligations under finance leases (see note 12)	939	507
corporation tax (shown in note 10 due to being a recoverable balance this year)	-	563
	<u>43,518</u>	<u>45,576</u>
<b>12. creditors falling due after more than one year</b>	<b>2013-14 £000</b>	<b>2012-13 £000</b>
bank loans	42,000	36,875
deferred consideration	2,700	5,400
obligations under finance leases	1,624	1,151
other creditors	920	931
	<u>47,244</u>	<u>44,357</u>
borrowings are repayable as follows:		
<b>bank loans</b>		
between one and two years	1,000	2,500
between two and five years	13,000	28,500
after five years	28,000	5,875
	42,000	36,875
on demand or within one year	1,000	2,500
	<u>43,000</u>	<u>39,375</u>
<b>finance leases</b>		
between one and two years	833	535
between two and five years	791	616
	1,624	1,151
on demand or within one year	939	507
	<u>2,563</u>	<u>1,658</u>
<b>deferred consideration</b>		
between one and two years	2,700	2,700
between two and five years	-	2,700
	2,700	5,400
on demand or within one year	2,700	1,950
	<u>5,400</u>	<u>7,350</u>

## Notes to the Group Accounts

12. creditors falling due after more than one year - continued	2013-14 £000	2012-13 £000
<b>total bank loans, deferred consideration, and finance leases excluding bank overdraft</b>		
between one and two years	4,533	5,735
between two and five years	13,791	31,816
after five years	28,000	5,875
	46,324	43,426
on demand or within one year	4,639	4,957
	<u>50,963</u>	<u>48,383</u>

The above bank loans are secured by a standard security over specific properties owned by the Society and a bond and floating charge over the remaining assets held by the group, excluding certain properties held by Scotmid Pension Limited Partnership and a pre-existing £750,000 security held on two properties transferred from Penrith Society. After the year end the security on the Penrith properties was released, consequently these properties became part of the bank's floating charge.

The finance leases are secured on the assets to which they relate.

### 13. derivatives

The following table sets out the fair value for those derivatives that have not been included in the financial statements at fair value

	book value		fair value	
	2013-14 £000	2012-13 £000	2013-14 £000	2012-13 £000
derivative financial instruments held to manage interest rates				
interest rate derivatives (425)	-	-		(215)

The Society's interest rate derivatives have been taken out to hedge interest rate risk on the bank loan. The Society does not enter into derivatives for speculative purposes.

14. deferred taxation	£000
balance at 26 January 2013	812
revenue account credit amounts arising on acquisition of business	1,019 392
balance at 25 January 2014	<u>2,223</u>

The deferred tax balance is an asset and consequently, the balance is disclosed in note 10.

the provision for deferred tax consists of the following amounts	2013-14 £000	2012-13 £000
capital allowances in excess of depreciation	1,451	570
trading losses available	392	-
other timing differences	380	242
	<u>2,223</u>	<u>812</u>

During the year, the UK corporation tax rates of 21% and 20% were substantively enacted, these reduced rates will be effective from 1 April 2014 and 1 April 2015 respectively. The relevant deferred tax balances have been re-measured accordingly.

<b>15. share capital</b>	<b>2013-14 £000</b>	<b>2012-13 £000</b>
at beginning of year	5,312	5,249
interest	75	71
	<u>5,387</u>	<u>5,320</u>
contributions	134	134
cross investment	2,500	-
issued to members of incoming society	636	-
	<u>8,657</u>	<u>5,454</u>
withdrawals	(193)	(142)
cross investment offset	(2,500)	-
at end of year	<u>5,964</u>	<u>5,312</u>

(i) share capital comprises 5,964,000 shares (2012-13 - 5,312,000) of £1 attracting interest at 1.5%.

(ii) shares are withdrawable on periods of notice in accordance with the Society's Rules (Rule 13), however, the directors retain the right to refuse redemption.

(iii) each member is entitled to one vote, regardless of the number of shares held.

(iv) prior to the transfer of engagements on 12 October 2013, the Society accepted a £2,500,000 investment from Penrith Co-operative Society Limited. Concurrent with this investment, the Society made an investment in Penrith Co-operative Society Limited of £2,500,000. At the completion of the transfer of engagements, this cross investment was offset.

<b>16. movement on reserves</b>	<b>revenue reserve £000</b>	<b>revaluation reserve £000</b>	<b>total £000</b>
at 26 January 2013	63,083	25,549	88,632
loss for year	(3,394)	-	(3,394)
transfer of reserves from incoming society net of fair value adjustments	(1,158)	-	(1,158)
transfer of realised revaluation arising on disposal of properties	980	(980)	-
gain on revaluation of properties	-	152	152
actuarial gain relating to the pension fund (net of tax adjustments)	(10)	-	(10)
at 25 January 2014	<u>59,501</u>	<u>24,721</u>	<u>84,222</u>

<b>17. reconciliation of movements in shareholders' funds</b>	<b>2013-14 £000</b>	<b>2012-13 £000</b>
(loss)/surplus after taxation	(3,394)	330
other recognised gains/(losses) relating to year	152	(758)
transfer of reserves from incoming society net of fair value adjustments	(1,158)	-
contributions and interest less withdrawals of members' capital during year	16	63
transfer of members' capital from incoming society	636	-
actuarial gain relating to the pension fund (net of tax adjustments)	(10)	(1,935)
net movement in shareholders' funds	<u>(3,758)</u>	<u>(2,300)</u>
opening shareholders' funds	93,944	96,244
closing shareholders' funds	<u>90,186</u>	<u>93,944</u>

## Notes to the Group Accounts

### 18. transfer of engagements

On 12 October 2013, Penrith Co-operative Society Limited transferred its engagements to the Society under section 51 (1) of the Industrial and Provident Societies Act. The transfer of engagements incorporates the Penrith Society assets, liabilities and membership into the Society.

The transfer of engagements is accounted for using the adjusted acquisition method recommended by Co-operatives UK. A transfer of engagements does not involve the payment of a consideration to acquire the business, consequently goodwill is not recognised on the transaction. The transfer of engagements had the following effect on the Society's assets, liabilities and members' share capital on incorporation date:

	book value £000	fair value adjustment £000	note	fair value transferred £000
tangible fixed assets	3,903	(832)	(i)	3,071
investments	96	-		96
stock	664	-		664
debtors	431	-		431
deferred tax	-	392	(ii)	392
cash in hand	45	-		45
creditors	(1,858)	-		(1,858)
finance leases	(54)	-		(54)
bank overdraft	(881)	-		(881)
bank loan	(1,206)	-		(1,206)
pension deficit	(1,221)	-		(1,221)
net liabilities	(81)	(440)		(521)
members' share capital	636			636
retained reserves	(717)	(440)		(1,157)
	(81)	(440)		(521)

Following the transfer of engagements and prior to the year end, the bank loan and overdraft previously held by Penrith Co-operative Society Limited with the Co-operative Bank were repaid in full and the associated security released.

In advance of the transfer of engagements the Society made a £2,500,000 investment in Penrith Co-operative Society Limited. Concurrent with this investment, the Society accepted an investment from Penrith Co-operative Society Limited of £2,500,000. At the transfer of engagements, this cross investment was offset.

The book values disclosed above, before fair value adjustments, are extracted from the completion accounts of Penrith Co-operative Society Limited as at 12 October 2013 after adjusting for the corresponding cross investment held by Penrith Co-operative Society Limited.

(i) Tangible fixed assets were assessed to determine their appropriate fair value at incorporation into the Society.

(ii) Penrith Co-operative Society Limited had an unrecognised deferred tax asset. With the transfer of engagements the Society envisages utilising the underlying tax losses in a reasonable time frame and consequently have recognised the value of this asset.

**19. accounting for pension costs**

The Society contributed to a number of defined contribution pension schemes during the year. The assets of these schemes are held separately from those of the Society in independently administered funds. The costs relating to these schemes of £24,000 (2012-13 - £28,000) are included within note 2. Following a review of the Society's pension schemes the Society ceased to participate in all legacy defined contribution schemes and instead made the NEST scheme available.

The Society operates a defined benefit funded pension scheme, the Scottish Midland Co-operative Society Pension Plan (the Scotmid scheme). The scheme has three sections, the Scotmid Final Salary section, the Penrith Final Salary section and the Retiral Cash Balance section. The Penrith Final Salary section was created following the bulk transfer of all assets, liabilities and members from the Penrith Co-operative Society Limited Superannuation Fund (the Penrith scheme) on 31 December 2013. The Scotmid Final Salary section is closed to new entrants and ceased future accrual on 15 June 2013. The Penrith Final Salary section is closed to new entrants and remains active, however the Society has embarked on a process intended to cease future accrual in the Penrith Final Salary section. The Penrith Final Salary section is expected to cease future accrual during 2014-15. The Retiral Cash Balance section became available to new entrants, subject to membership criteria, from 1 March 2013.

The disclosures below are as at 25 January 2014 and for the year up to 25 January 2014. Relevant disclosures are included for the Penrith scheme from the transfer of engagements on 12 October 2013 and the subsequent bulk transfer from the Penrith scheme to the Scotmid scheme on 31 December 2013.

The most recent full actuarial valuation was carried out at 29 January 2011. The actuarial valuation method used was the projected unit method. The actuarial assumptions which had the most effect on the result of the valuation were those relating to the rate of return on investments and the rate of increases in salaries and pensions. It was assumed that the investment return would be 6.8% pre retirement and 4.9% post retirement per annum, that the rate of salary growth would be 4.35% per annum, and the rate of pension increase for service between 05/04/97 and 05/04/05 would be 3.35% per annum, and from 06/04/05 would be capped at 2.5% per annum. At the date of review, the market value of the funds' assets was £39,330,000 and the actuarial value of the assets represented 77.8% of the actuarial value of all benefits accrued to members at that date, after allowing for future wage increases.

Employer contributions recognised for the year of £1,889,000 (2012-13 - £1,687,000) include special contributions of £227,000 (2012-13 £Nil) and funding of £969,000 (2012-13 £969,000) from the Asset Backed Funding arrangement established during 2012-13. The £969,000 funding is the annual amount derived from an £11,223,000 contribution made during 2012-13 under the Asset Backed Funding arrangement. The employer contributions recognised during the year are in line with the agreed Scotmid scheme Schedule of Contributions from the 29 January 2011 valuation, the agreed Penrith scheme Schedule of Contributions and an additional special contribution agreed between the scheme and the Society during the year. Employer contributions and funding for 2014-15 are estimated to be £1,018,000 and £969,000 respectively.

This valuation has been updated by the actuary to 25 January 2014 in order to comply with FRS 17.

<b>the major assumptions used by the actuary were</b>		<b>at 25 Jan 2014</b>	<b>at 26 Jan 2013</b>	<b>at 28 Jan 2012</b>
rate of increases in salaries		3.95%	3.85%	4.40%
rate of increases in pensions accrued post 05/04/97	LPI 5% (RPI)	3.20%	3.10%	2.90%
	LPI 2.5% (RPI)	2.30%	2.30%	2.30%
rate of increase in deferred pensions	LPI 2.5% (CPI)	2.30%	2.40%	2.20%
discount rate		4.40%	4.50%	4.85%
inflation assumption		3.20%	3.10%	2.90%
expected return on the scheme assets		5.38%	5.46%	6.88%
life expectancy	male	85.5 years	85.4 years	85.4 years
	female	89.6 years	89.5 years	89.5 years

## Notes to the Group Accounts

### 19. accounting for pension costs - continued

The fair value of the assets in the scheme, the present value of liabilities in the scheme and the expected rates of return at each balance sheet date were

	2013-14		2012-13		2011-12	
	expected long term rate of return	fair value	expected long term rate of return	fair value	expected long term rate of return	fair value
	%	£000	%	£000	%	£000
equities	7.0%	27,798	6.6%	22,132	6.5%	18,922
bonds	4.3%	907	4.2%	-	4.7%	25,971
other	1.5%	1,691	1.5%	759	1.5%	(52)
asset backed funding arrangement contribution	1.5%	969	1.5%	969	-	-
buy-in	4.4%	22,132	4.5%	23,119	-	-
total market value of assets	5.61%	53,497	5.38%	46,979	5.50%	44,841
present value of scheme liabilities		(68,772)		(64,440)		(59,985)
deficit in scheme		(15,275)		(17,461)		(15,144)
related deferred tax asset		1,845		3,070		3,786
net pension liability		(13,430)		(14,391)		(11,358)

In setting the expected return on the assets as at 25 January 2014, we have taken into account the yields on government bonds and quality corporate bonds and the views of JLT's in-house investment consultancy practice.

The deferred tax asset is calculated on the deficit in the scheme recognised in the Society accounts and the element of Asset Backed Funding contribution not yet tax deductible. The deficit recognised by the Society of £4,688,000 (2012-13 - £6,547,000) is lower due to different accounting treatment of the Asset Backed Funding arrangement in the Society and these group accounts.

analysis of the movement in the scheme deficit in the year	2013-14 £000	2012-13 £000
opening deficit in the scheme	(17,461)	(15,144)
current service cost	(936)	(1,483)
contributions	1,889	1,687
net financing charge	(305)	(481)
actuarial gain/(loss)	494	(2,040)
gain on curtailment	2,570	-
transfer of incoming society gross pension deficit	(1,526)	-
closing deficit	(15,275)	(17,461)

### 19. accounting for pension costs - continued

	2013-14 £000	2012-13 £000
<b>amounts included within operating surplus</b>		
current service cost	936	1,483
amounts included in other finance costs	<b>£000</b>	<b>£000</b>
expected return on pension scheme assets	(2,568)	(2,408)
interest cost on pension scheme liabilities	2,873	2,889
net finance cost	305	481
<b>reconciliation of present value of scheme liabilities</b>	<b>£000</b>	<b>£000</b>
opening defined benefit obligation	64,440	59,985
service cost	936	1,483
interest cost	2,873	2,889
contributions by employees	439	472
actuarial losses	172	2,085
benefits paid	(2,474)	(2,474)
liabilities acquired from incoming Society	4,956	-
gain on curtailment	(2,570)	-
closing defined benefit obligation	68,772	64,440
<b>reconciliation of present value of scheme assets</b>	<b>£000</b>	<b>£000</b>
opening fair value of the scheme assets	46,979	44,841
expected return	2,568	2,408
actuarial gains	666	45
contributions by employer	1,889	1,687
contributions by employees	439	472
benefits paid	(2,474)	(2,474)
assets acquired from incoming Society	3,430	-
closing fair value of the scheme assets	53,497	46,979
actual return on scheme assets	3,234	2,453

## Notes to the Group Accounts

### 19. accounting for pension costs - continued

#### history of experience gains and losses

	2013-14		2012-13		2011-12		2010-11		2009-10	
	%	£000	%	£000	%	£000	%	£000	%	£000
defined benefit obligation		(68,772)		(64,440)		(59,985)		(53,064)		(51,083)
scheme assets		53,497		46,979		44,841		39,330		35,098
deficit		<u>(15,275)</u>		<u>(17,461)</u>		<u>(15,144)</u>		<u>(13,734)</u>		<u>(15,985)</u>
actual return less expected return on pension scheme assets	1.2%	666	0.1%	45	4.9%	2,190	3.5%	1,384	16.1%	5,655
experience gains and losses arising on the scheme liabilities	0.6%	406	0.0%	(18)	2.1%	1,270	(0.7%)	(348)	0.4%	202
changes in assumptions underlying the value of scheme liabilities	(0.8%)	(578)	(3.2%)	(2,067)	(10.1%)	(6,085)	0.0%	(8)	(23.1%)	(11,801)
actuarial gain/(loss) before tax	0.7%	<u>494</u>	(3.2%)	<u>(2,040)</u>	(4.4%)	<u>(2,625)</u>	1.9%	<u>1,028</u>	(11.6%)	<u>(5,944)</u>

#### amounts taken to the statement of total recognised gains and losses

	2013-14 £000	2012-13 £000
actual return less expected return on pension scheme assets	666	45
experience gains/(losses) arising on the scheme liabilities	406	(18)
changes in assumptions underlying the value of scheme liabilities	(578)	(2,067)
actuarial gain/(loss) before tax adjustments	<u>494</u>	<u>(2,040)</u>
net cumulative actuarial losses since 25 January 2003	<u>(15,989)</u>	<u>(16,483)</u>

### 20. cash flow statement : reconciliation of (loss)/surplus on ordinary activities to net cash inflow from operating activities

	2013-14 £000	2012-13 £000
operating (loss)/surplus	(1,119)	3,479
depreciation charges	9,241	9,280
impairment of fixed and other assets	4,279	547
amortisation of goodwill	1,879	1,862
decrease in stocks	2,619	969
increase in debtors	(742)	(1,477)
decrease in creditors	(3,046)	(1,011)
movement in pension liability	(953)	(204)
pension funding credit on curtailment	(2,570)	-
net cash inflow from operating activities	9,588	13,445

### 21. cash flow statement : reconciliation of net cash flow to movement in net debt

	£000	£000
(decrease)/increase in cash for year	(2,063)	1,419
cash (inflow)/outflow from increase in net debt and lease financing	(2,895)	1,973
change in net debt resulting from cash flows	(4,958)	3,392
new finance leases	(1,581)	(577)
transfer from incoming society	(54)	-
movement in net debt for the year	(6,593)	2,815
opening net debt	(32,498)	(35,313)
closing net debt	(39,091)	(32,498)

### 22. cash flow statement : analysis of net debt

	at 26 Jan 2013 £000	cash flow £000	other non cash changes £000	at 25 Jan 2014 £000
cash at bank and in hand	8,535	(2,063)	-	6,472
bank overdraft	-	-	-	-
cash at bank and in hand	8,535	(2,063)	-	6,472
debt due after 1 year	(36,875)	(43,000)	37,875	(42,000)
debt due within 1 year	(2,500)	39,375	(37,875)	(1,000)
finance leases	(1,658)	730	(1,635)	(2,563)
	(41,033)	(2,895)	(1,635)	(45,563)
total	(32,498)	(4,958)	(1,635)	(39,091)

## Notes to the Group Accounts

### 23. segmental reporting

	sales		operating (loss)/surplus		net assets	
	2013-14 £000	2012-13 £000	2013-14 £000	2012-13 £000	2013-14 £000	2012-13 £000
class of business						
retail / wholesale	376,189	373,212	(2,903)	1,785	24,911	31,940
property	4,926	4,679	1,784	1,694	65,275	62,004
continuing	<u>381,115</u>	<u>377,891</u>	<u>(1,119)</u>	<u>3,479</u>	<u>90,186</u>	<u>93,944</u>

### 24. operating lease commitments

At 25 January 2014 the commitment to make payments during the next year in respect of operating leases was as follows

	land & buildings	plant vehicles & fixtures	land & buildings	plant vehicles & fixtures
	2013-14 £000	2013-14 £000	2012-13 £000	2012-13 £000
leases which expire				
within one year	1,799	225	1,535	58
within two to five years	2,513	271	4,025	490
after five years	3,467	-	3,090	-
	<u>7,779</u>	<u>496</u>	<u>8,650</u>	<u>548</u>

## Notice of Meeting and Agenda of Business

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Notice is hereby given that the Annual General Meeting of the Society will be held on Monday, 28 April 2014 at The Hilton Edinburgh Grosvenor Hotel, Grosvenor Street, Edinburgh and South Lanarkshire Council Headquarters, Almada Street, Hamilton, ML3 0AA and on Tuesday 29 April 2014 at the Northern Hotel, 2 Clerk Street, Brechin, Angus, DD9 6AE.

### AGENDA OF BUSINESS

1. Synopsis of Minutes of Ordinary General Meeting held on 30 September and 1 October 2013.
2. Appointment of Tellers.
3. Elections for the Regional Committees:  
**East Regional Committee:** 4 Members to serve for 3 years;  
**North Regional Committee:** 3 Members to serve for 3 years;  
**West Regional Committee:** 4 Members to serve for 3 years and 1 Member to serve for 2 years.
4. Directors' Report/Annual Accounts.
5. Synopses of Minutes of Board Meetings
6. Consideration of remuneration of Office Bearers and Directors:  
Present remuneration (per annum):  
**Central Board:** President £10,870; Vice President £7,750; Directors £5,345  
**Regional Committees:** Chair £3,170; Vice Chair £2,620; Treasurer £2,460; Minute Secretary £2,295; Committee Member £2,185; Tellers £5
7. Consideration of scale of Directors' Delegation and Attendance payments:  
Present Scale Day Payment £105; Part Day Payment £65; Attendance Payment £35
8. Consideration of Rule changes following the introduction of Co-operatives UK new Governance Code to amend the method of Board and Committee refreshment and transitional arrangements for the transfer of West Lothian Members to East Region.
9. Membership and Community Development Report.
10. General business.

### ADMISSION TO GENERAL MEETING

If you have been a Scotmid Member for 6 months or more and would like to come along to the meeting, please complete the registration form on the Society's website or by telephone 0131 335 4433. The deadline for registration is Monday 21 April 2014 at 4.00pm.

Members will be admitted to the General Meeting by presenting their admission ticket and Share Book. Members can only vote in the Regional Committee elections in the region where their principle residential address is located unless approval is granted by the Secretary in advance of the meeting.

The meeting will start at 7.00pm and late entry is not permitted after the meeting has commenced.

The next General Meeting (Ordinary General Meeting) will be held on Monday 29 September 2014 at Edinburgh and Hamilton and on Tuesday 30 September 2014 in Brechin.

## Board Members

Board Directors	Board	General Purposes	Audit	Remuneration	Search
Mr H Smallman (P)*	6	1 (C)			2 (C)
Mr H Cairney (AP) (A 22/8/13)*	13	2		2 (C)	
Mr J Watson (AVP) (A 9/9/13)*	12	1	2 (C)		
Mr J Anderson	10	2	3		
Mr I Bailey	11		3		3
Mr P Devenney	13				3
Mr J Gilchrist	12			2	
Mr T McKnight	10	2	3		
Mr J Miller	13			2	
Mr D Paterson	12				3
Mrs G Smallman	11				3
Miss A Williamson	11	2		2	
Total meetings held	13	2	3	2	3

### KEY

P = President AP = Acting President VP= Vice President AVP = Acting Vice President C= Committee Chair

### DIRECTORS

\*On Friday 28 February 2014, Hollis Smallman, President of the Society and East Regional Committee Member passed away following a short illness. Mr Cairney was appointed as Acting President and Mr Watson was appointed Acting Vice President.

At the OGM held on 30 September 2013 and 1 October 2013, Mr Cairney, Mr Anderson, Mr Gilchrist and Mr Bailey were re-elected to serve as Directors for a further 3 year term of office.

A Governance and Strategy Review Committee was formed in February 2013. The Committee has met twice since its formation and consists of: Mr Smallman, Mr Cairney, Mr Anderson, Mr McKnight, Miss Williamson and Mr Watson.

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

Mr Brodie, Chief Executive Officer is a Director of the Co-operative Group.

## Committee Members

East Regional Committee		West Regional Committee		North Regional Committee	
Miss A Williamson (C) Δ	8	Mr T McKnight (C)	9	Mr J Anderson (C)	7
Mr H Cairney (VC ) Δ	7	Mr J Watson (VC)	9	Dr R McCready (VC) A 16/5/13 Δ	8
Mr D Paterson (MS)	9	Mr J Gilchrist (T) Δ	9	Mrs M Smith (MS)	6
Mr D Jamieson	9	Mr M Ross (MS)	8	Mrs A Anderson	7
Mr K Kelly Δ	8	Mr I Bailey Δ	6	Mr A Cullen	7
Mr J Mackenzie	7	Mr P Devenney Δ	8	Mrs S Downie	7
Mr J Miller	7	Mr I Gilchrist	9	Mr A Maclean Δ	6
Mr D Reid	9	Mrs M Kane Δ	8	Mr A Stokes	7
Mrs J Reid Δ	8	Mr R Kelt	9		
Mrs G Smallman	8	Mr D Muirhead	8		
Mr H Smallman	5	Mr G Randell	8		
Mr E Thorn	8	Mr A Simm	8		
Total meetings held	9	Total meetings held	9	Total meetings held	8

### KEY

C= Committee Chair, VC = Vice Committee Chair, MS = Minute Secretary, T = Treasurer. A= Appointed

Δ Regional Committee Members due to retire by rotation in April 2014 and were nominated for re-election at OGM 2013

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