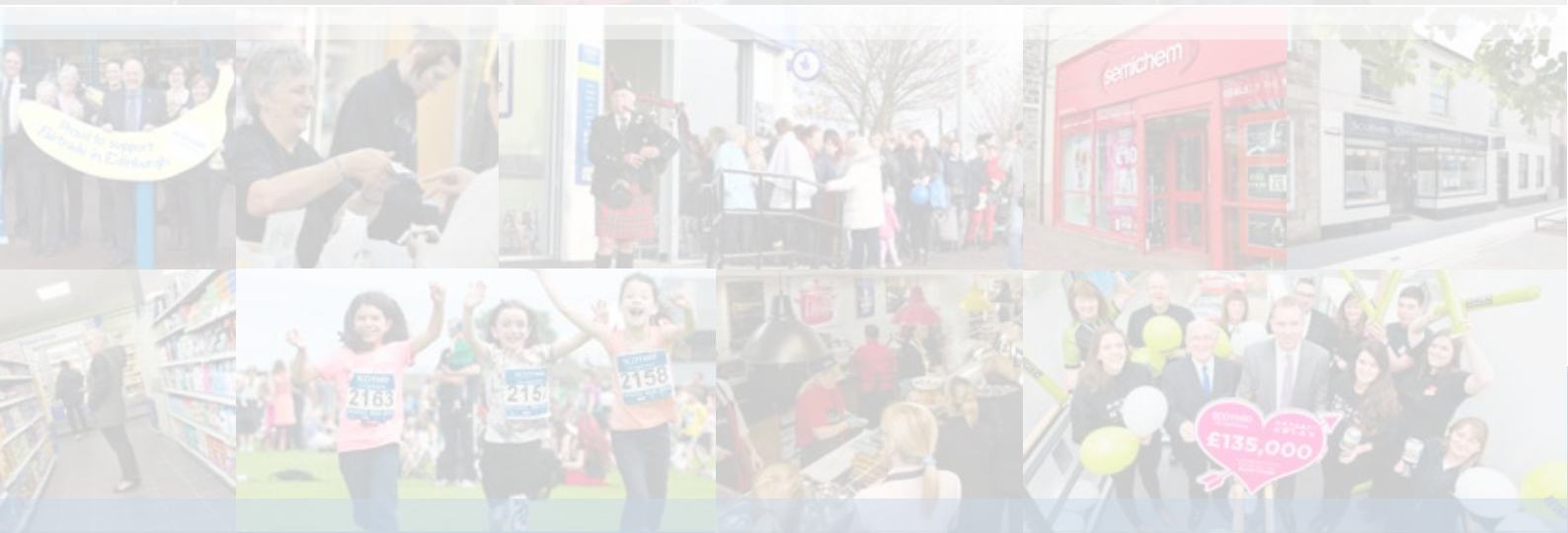


# Annual Report & Financial Accounts

For Year Ended 31 January 2015





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## BOARD



Harry Cairney  
**President**



Jim Watson  
**Vice President**



John Anderson



Jim Gilchrist



John Miller



David Paterson



Tom McKnight



Michael Ross



Andy Simm



Grace Smallman



Eddie Thorn



Sandra Williamson

## MANAGEMENT EXECUTIVE



John Brodie  
**Chief Executive Officer**



Malcolm Brown  
**Head of Corporate Communications**



John Dalley  
**Chief Financial Officer & Secretary**



Stewart Dobbie  
**Head of Innovation & Change**



Adrian Lorimer  
**Head of Property & Development Services**



Steve McDonald  
**Head of People & Performance**



Colin McLean  
**Chief Operating Officer**

## ADVISORS AND REGISTERED OFFICE

**Independent Auditor**

Deloitte LLP

**Bankers**

The Royal Bank of Scotland plc

**Solicitors**

Anderson Strathern WS

**Registered Office**

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

# Overview



**Above:** The opening of the new food store in the Boghall area of Bathgate.

The Directors are pleased to present their report for the 53 weeks ended 31 January 2015. During the year the Society made solid progress in the context of a challenging retail market in Scotland but remains cautious about growth prospects in the medium term. Total sales increased by £5m to £386m and operating surplus before exceptionals rose by £1m to £5.5m. The Scottish Retail Consortium reported average like-for-like sales down 2.6% in the year, a clear illustration of the challenges and the on-going lack of consumer confidence still evident in the post-recession period. Scotmid has responded to this challenge and managed to out-perform the market through a series of initiatives, though underlying consumer sentiment remains fragile. The Society continues to benefit from a robust balance sheet with net assets over £86m even after absorbing an increase in our pension deficit.

The Society's on-going commitment to continuous improvement delivered further significant benefit during the year. Work to support the "Food Vision" continued with our in-store bakery counters, partnering with local bakers - the concept is now in 180 stores. The development of other local suppliers continued and initial pilot and research work was completed on the food-to-go concept. The food convenience business was impacted by a further reduction in the Co-operative Group dividend but consistently performed ahead of the market and benefited from the successful integration of the Lakes & Dales stores. The retail landscape continues to change rapidly as highlighted by announcements from the major

multiples revising their strategy on matters such as pricing, store closures and future direction.

The actions taken to re-balance support services and the warehouse cost base, together with the closure of loss-making Semichem and Fragrance House stores, have been important factors necessary to deliver a positive Society result. Semichem made progress despite the Scottish non-food market declining by 2% in the year and will benefit going forward from a new strategy that draws on the experience and support from our suppliers.

Investment in both commercial and residential property helped Scotmid's Property business deliver another good year. Scotmid Funerals had a solid business performance recovering from a difficult first half of the year.

Development of the Society's membership and democratic structures during the year was largely focussed on implementation of Co-op UK's updated code of Corporate Governance and members approved a new "balanced" approach to the composition of the Board and the Regional Committees. A plan to evolve and modernise the Society's membership offer is currently in progress and a longer term review of Membership Strategy has also commenced.

Although this is a positive set of results we still remain very cautious about the prospects for consumer spending growth in the year ahead. It will continue to be a challenging marketplace requiring tough decisions and a focus on on-going improvement initiatives.

# Food Retail



The grocery retail market was heavily impacted by continuing difficult economic conditions which saw the major multiples react to their decline in market share whilst, at the same time, discount retailers reported significant growth. Scotmid convenience stores were not immune to these pressures but a programme of differentiation delivered a sales performance ahead of the market.

The Scottish Retail Consortium (SRC) reported a decline in like-for-like food sales of 3.5% for the 12 month period with deflation in the latter part of the year influencing the overall market performance. During the year food market retail sales fell every month with some of the worst numbers since the inception of the SRC report in 1999. While headline economic indicators are positive, this has not materialised in retail sales with Scottish consumer confidence remaining low and household disposable income reported to be at a 10 year low.

The Society continued to progress the "Food Vision" for the Scotmid convenience business to differentiate us from the competition. The focus in the year was on the rollout of bakery counters and the development of local ranges. These ranges include local products such as fresh vegetables and milk from a local Scottish dairy at a price point that competes with both the major multiples and discounters. In-store bakery was rolled out to a further 78 stores from Raigmore in Inverness to Shap on the edge of the Lake District. The popular

## the year in summary



Society staff, committee members and Directors helped out at the Edinburgh Fairtrade Brunch to celebrate Fairtrade Fortnight.



Penrith Mountain Rescue received two life saving defibrillators from Lakes & Dales Co-operative.



Semichem introduced extended baby and toddler ranges into store.

Breadwinner artisan bakery was introduced to 12 of our stores. Development work on a new food-to-go concept was also progressed during the year. 'The Kitchen' food-to-go trial was launched in our Ratho Station store in the final quarter and has now been rolled out to a further two stores, offering our customers a wide variety of quality hot food.

Customer focus is an essential part of our strategy and a new customer on-line feedback system was rolled out to our convenience store estate, resulting in a substantial amount of positive feedback from our customers. Customer communication and marketing was enhanced by the installation of Scotmid Radio in over 100 stores and through the support of a number of Scottish events in 2014. These included sponsorship of The School Run as part of the build-up to the Commonwealth Games in Glasgow and, in conjunction with Young Farmers, Scotmid supported their Royal Highland Show marquee, giving us a high profile at this prestigious and popular event.

During the year the Society carefully managed pricing and gross margin to accommodate the loss of corporate dividend from The Co-operative Group. We benefited from the formalisation of our co-operative buying group arrangements and, in a retail market heavily influenced by the discount grocers, key lines were used to drive a value message, including £0.75 bread; 2 for £1.50 milk; £1 butter and eggs.



**Above:** 'The Kitchen' food-to-go trial store in Ratho.

**Below:** Energy saving fridge doors were one of the features installed at Moredun store.



## February-March 2014



New Dundas Fyfe Funeral Home opened in Hamilton.



Team Muirhead, who were sponsored by the Society, returning from the Winter Olympics with their medals.



Scotmid food celebrated the opening of the 100th in-store bakery.

# Food Retail



Above: The new look Lakes & Dales store at Stanhope.

In a period of retail deflation, cost control continues to be a key focus area to maintain profitability with new investment in technology such as self-scan tills and energy saving initiatives helping tight cost control.

Our store at Moredun in Edinburgh was refitted, including new energy saving features which were supported by a grant from Zero Waste Scotland's Resource Efficient initiative. It was the first store in the UK to have an energy saving retro-fit and it has resulted in a 50% saving in store energy consumption. This success has been acknowledged externally with the project receiving two industry awards including the Energy Efficient Store of the Year at the UK Convenience Retail Awards. The lessons and benefits from this project have been incorporated into a rollout programme to other stores.

Other development work in the year included the opening of one new Scotmid convenience store at Elizabeth Drive in Bathgate. The former Penrith Co-operative area has been rebranded as Lakes & Dales as we carried out a programme of refits on the stores. The Post Office network transformation programme resulted in a number of stores having layout changes completed, including Post Office services being introduced to the main check out area. The potential closure of two of the smaller stores at Westgate and Hallbankgate was announced, however if possible, they will be sold as a going concern with a preference for purchase by a local community co-operative.

## the year in summary



Scotmid sponsored the first Fairtrade Fiesta in Princes Street Gardens, Edinburgh.



Scotmid Funerals held their annual conference at Hillwood House with all funeral staff attending presentations, team building workshops and training sessions.



# Semichem

The tough decisions taken in 2013 helped Semichem produce a more robust and improved performance, in what still remains a very competitive discount sector with the Scottish non-food market declining by 2% in the 12 month period and every month bar April (Easter) in decline. The overall improvement in Semichem's result was also supported by a stabilisation of performance in Northern Ireland.

In general the discount sector continues to expand, and with it, competition has also continued to grow both from other discounters and supermarkets. The peak trading Christmas period was very competitive with a change in the way people shopped and a move away from celebrity to classic fragrances. While fragrance performed well, customers were generally more bargain conscious over the festive period, as highlighted by the success of Black Friday. Control of costs, vigorously negotiated property lease renewals and a review of business strategy were among the actions taken by the Society to put Semichem on a solid platform going forward. The strategy review has resulted in the introduction of new seasonally tailored ranges and a trial of 'category lite' ranging with a leading supplier in the Health and Beauty market. Cigarettes were rolled out to the remaining stores in the estate, while all stores had their gantries covered as part of Scottish Government legislation.

The on-going review of loss-making stores regrettably saw a number of stores being closed. This review will continue as property leases come up for renewal.



**Above:** The trial of everyday low price health, beauty & household products in conjunction with a leading supplier.



As with Food, Semichem launched an online customer research programme during the year, providing immediate feedback from customers on their shopping experience. Wide ranging marketing initiatives were utilised to drive home the Semichem message, including radio, press advertising and tactical voucher activity.

## April - May 2014



Members attended and voted at the Annual General Meeting.



Scotmid food stores celebrated winning "Best top-up retailer" at the CTP awards.



Lesmahagow Highland Games benefited from a Society Community Grant.

# Funeral



**Above & below:** The new Dundas Fyfe funeral home in Hamilton.



Scotmid Funeral performed well in the year with market share holding steady in most of the areas in which we are based. After a difficult first half that may have been influenced by wider reputational issues in the Co-operative movement, the business performed strongly in the second half. Death rates have now started to level off after a number of years of decline and, according to Government predictions, they will remain constant for the next five years.

Scotmid Funeral's core strategy continues to be the delivery of high quality service by providing the best care and attention for our clients at their time of need. This focus on high quality service is backed up with investment in infrastructure and vehicles. The business continues to look for opportunities to expand and the ongoing renewal of our vehicle fleet in the year included investment in a new private ambulance and a Mercedes saloon. We continue to work closely with local communities and are active within the wider funeral industry, helping to promote best practice and share experience through representation on industry groups.

## the year in summary



Scotmid food stand at the Royal Highland show to promote the Society's use of local suppliers.



Scotmid Food sponsored the Great School Run - part of the celebrations leading up to the start of the Commonwealth Games.



Scotmid sponsored Piping Hot Forres – the European Pipe Band Championships.

# Property

Active management of the portfolio, 'quiet confidence' in both commercial and residential markets and the benefit of the extra 53rd week helped the Scotmid Property business deliver another good year with both residential and commercial income ahead of last year. There was some uncertainty in the market in the run up to the Scottish Independence referendum, but the macro economic outlook for property is generally positive including the benefit of historically low interest rates.

Commercial property income performed well despite the disposal of three income-producing retail assets and no new material income from acquisitions during the year. Overall investor confidence in commercial property improved in the year leading to an improvement in capital values for the Society's commercial portfolio.

Residential property income had a very strong year thanks to a number of factors including the benefit from a full year's income from the Blair Street, Edinburgh flats acquired in 2013. Tenant demand for quality one and two bedroomed flats continued to be robust despite a recovering owner occupier market.



**Above :** The acquisition of property in Bathgate was one of a number of investments made during the year.

Towards the end of the financial year the Society made further property investments with the acquisition of a high yielding leisure investment in Bathgate and a former public house in Kirkliston which will be leased as a children's nursery. Preliminary works are also underway on a sub-division and external refurbishment of the former Semichem warehouse in Newbridge. This project is designed to breathe new life into the building and create up to four self-contained bays for letting.

## June-July 2014



Society staff took part in the Edinburgh Night Ride to raise money for charity.



The Society donated Fairtrade fruit and healthy snacks to children attending Edinburgh Zoo Summer School.



Funeral Division held memorial services in both Edinburgh and Motherwell.

# Corporate Matters & Central Services



**Above:** During the year the Society won a prestigious ROSPA award for excellence in Health & Safety.

**Below:** Post Office layout changes as part of the Post Office transformation programme.



During the year Scotmid completed the integration of the former Penrith pension scheme, offering members the opportunity to transfer to the Society's retail cash balance scheme and closing the Penrith final salary section of our scheme to future accrual. The last few months of our financial year saw a substantial downward movement in long-term interest rates. For legacy defined benefit pensions schemes generally, this will have a major impact on the estimated current value of pensions and result in substantial increases in reported pension deficits. Scotmid's pension scheme was not immune from this market movement but the impact was mitigated by the Society's previous de-risking measures such as the "buy in" of pensioner liabilities. The resulting net increase in the Society's pension deficit in the year was £4.9m.

Further progress was made on working capital management, including a stock reduction in Semichem. However our cash position at the year-end was significantly impacted by a timing difference relating to the four weekly salary payment date falling in the extra week 53, which will reverse next year. Scotmid continued to invest for the long-term benefit of the Society, including further incremental capital investments (Bathgate and Kirkliston) and the cash costs of last year's rebasing actions. These investments and timing differences together with a further £2.7m payment of deferred consideration for the Botterills acquisition accounted for a £4.5m increase in net debt.

During the year agreement was reached with Conviviality Retail Plc for Scotmid to trial a small number of franchise stores using

## the year in summary



Scotmid food launched artisan bread into selected stores in partnership with the award winning Breadwinner Bakery



Scotmid installed in-store magnifiers to help shoppers read product labels.



Reality TV star Joey Essex made a surprise appearance at the Semichem Conference.

Conviviality brands. If the trial is successful this could lead to Scotmid being the master franchisee for Scotland.

The Central Service teams' priority in the year was the support of initiatives and improvements for our trading businesses. Cross-functional teams supported retail projects such as the rollout of in-store bakery counters, real-time gap reporting and price changes, self-checkout installations and research and development work on the food-to-go concept. During the year our induction process was streamlined, the careers section of the corporate website updated and the Society took part in "Feeding Britain's Future 2014". This initiative provides a unique opportunity for young unemployed people to get help directly from employers to improve their CVs and develop the skills they need to get back into work. The Society was one of a number of food and grocery companies that took part and 85% of candidates attending a Scotmid workshop were offered roles either with us, other retailers or further education.

Technology work included the renewal of technical platforms with all of the Society's IT systems migrated on to new infrastructure - bringing greater flexibility, computing power and capacity whilst improving our disaster recovery capability. Profit protection and security enhancement measures implemented include a trial of intelligent security tagging equipment, a new security support hub (co-ordinating a targeted response to crime, violence and stock loss) and staff safety measures to support the Post Office transformation programme.



**Above:** People & Performance colleagues helped with the "Feeding Britain's Future 2014" campaign to deliver skills to unemployed people.

**Below:** Profit Protection awareness material targeting stock loss and robbery prevention.



## August - September 2014



The end of our partnership with Prostate Cancer UK was celebrated with the announcement that £280,000 had been raised.



Anthony Nolan was announced as our new charity partner.

# Membership Development, Community & Charity Activity



**Above:** Hardeep Singh Kohli helped launch the Anthony Nolan Charity of the Year partnership.

**Below:** Two 'Jigsaw' members' magazines were published during the year.



The Society is currently implementing a plan to modernise our membership offer and a longer term review of Membership Strategy is underway. To help this, Scotmid is undertaking exploratory market research amongst our membership through a series of surveys.

At our Ordinary General Meeting in October 2014, the membership voted to bring Penrith Co-operative membership offer in line with that of Scotmid resulting in the end of the Penrith member loyalty card scheme. This will be replaced by a new community scheme for card holders in the Lakes & Dales area that will encourage members to use their card every time they shop to raise funds for local good causes.

Two issues of the membership magazine Jigsaw were distributed to our membership and included features on our new President Harry Cairney and David Grevenberg, CEO of the Commonwealth Games held in Glasgow. Our members-only money-off vouchers were also very popular.

The Society website has grown in popularity over the last 12 months with over 10% more unique visits by members to the membership hub page. The Society also continues to explore new digital opportunities and is currently developing a membership app for iOS, android and Windows phone users. The app will be launched by this summer.

## COMMUNITY AND CHARITY ACTIVITIES.

The Society's Community Grant Scheme, which benefits groups, charities and community projects across our trading areas, continues to grow in popularity. If you attend our AGM there will be a film highlighting the positive impact of our scheme. The breadth and scale of groups supported is illustrated on pages 14 & 15, which lists organisations that have benefited.

Scotmid has also been involved in a number of campaigns and initiatives to improve the health and wellbeing of communities, such as the West Lothian Larder Cook School which provides employability programmes to young people, equipping them with basic skills to help in everyday life and employment. The Society also promoted the Scottish Government's 'Eat Better Feel Better' campaign, designed to encourage families in Scotland to live a healthier lifestyle.

## the year in summary



The latest Society community film was published on our YouTube channel.



Scotmid announced a new partnership with Graham's family dairy to supply all stores.



Moredun Food Store launched energy saving initiatives.

The Society has now installed defibrillators in over 40 locations across Scotland and the North of England and invested in a comprehensive training programme for over 250 staff. In October last year the Society's defibrillator campaign was recognised when the Society won the Retail Business of the Year category at the UK Heart Safe Awards.

The Society continues its support for Fairtrade by providing guidance and assistance to fair trade groups, towns, cities and schools in our trading areas. Scotmid marked Scotland's Fairtrade Nation status and World Fairtrade Day by sponsoring the first ever Fairtrade Fiesta, held in Edinburgh last year.

At the end of August, Scotmid announced that, through the efforts of our members, customers and staff, we had raised £280,000 for Prostate Cancer UK – our Charity of the Year – a record total. Our new Charity of the Year is Anthony Nolan which aims to save the lives of people with blood cancer and blood disorders through research and the recruitment of donors willing to donate their blood stem cells or bone marrow to people who desperately need lifesaving transplants.

### POLITICAL DONATIONS

Donations to the national Co-operative Party amounted to £15,000 and the Scottish Co-operative Party of £10,000.

### 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, **President**

Jim Watson, **Vice President**

27 March 2015



**Above:** Membership Development Manager, Patricia Edington, shows local schoolchildren some of Moredun's energy saving features.

**Below:** Scotmid's project to install defibrillators in many of its stores won the national 'Heart Safe Award'.



## October - November 2014



Lazonby Lakes & Dales store unveiled a new external cabinet for the community public access defibrillator (CPAD).



Aberdeenshire Royal Northern Countryside Initiative (RNCI) benefited from a Society Community Grant.



Scotmid opened a new food store in the Boghall area of Bathgate.

# Directors' Report

1st Craigmaldon Kirkliston Scouts • 1st Blackwood Scout Troop • 1st Duntocher Girls Brigade • 1st Glen Urquhart Brownies • 1st Lesmahagow Brownie Guide Unit • 2466 Loanhead Air Training Corps • 2nd Arbroath Scouts • 3rd Prestonpans Brownies • 4Louis • 66th Aberdeen Scout Group • 6th Prestonpans Brownies • 6th/8th Dundee Boys Brigade • A & M Training • Abbeyhill Primary School • Abercromby Primary School • Aberdeen Action on Disability • Aberdeenshire RFC • Aberlour Childcare Trust • Abertay Students Association • Arbutnott Bervie & Kinneff Holiday Club • AC Oxcgangs YFC • ACT Aberdeen • Action Duchenne • Action for Children • Action Lone Parents • Action on Depression • Action on Hearing Loss Scotland • Addiewell Primary School • Age Concern • Air Ambulance Service • Airdrie United Boys Club '99s • Alnwickhill FC • Alyth Gala Day • Alzheimer's Society UK • Alzheimer Scotland • Angus Fairtrade • Angus Special Play Scheme

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

• Anthony Nolan • Ardgowan Primary School • Armadale Academy • Armadale Barracudas • Armadale Children's Gala Day • Armadale Sports Week • Arniston Rangers YFC 2003 • Arthritis Care Scotland • Association of Clifftown & Hayshead Residents • Astell Foundation • Aston Villa Boys Club, Uddingston • Auchenback Active • Auchenback Resource Centre • Auchenblae Bumps, Babies and Toddlers • Auchenblae Preschool Group • Auchenlodment Primary • Auchinairn Community • Auldearn Primary Nursery Class • Avoch & Killen Community Council • Avoch Friendship Club • Ayrshire Hospice • Baird Memorial Primary School • Balerno Children's Gala Association • Ballantrae Bowling Club • Ballantrae Development Group • Ballantrae Gala • Balloch Community Association • Balloch Fundraising Group • Balornock East Residents Association • Banchory Fair Trade Steering Group • Bank Auld Pit Reunion • Bankier Primary School • Barlanark Family Centre • Barlanark Pensioners • Barony Housing • Barrhead Bowling Club • Barrington Bites Luncheon Club • Barrington Hall Trustees • Bathgate Music Festival • BE United • Beacon Buggy Walk • Beaconsider Primary School • Beamish Community Football • Beaton • Beaully Bowling Club • Beaully Primary School • Beavers Dunoon • Bellfield Youth FC • Bent Primary School • Bervie Caley Soccer Sevens • Bervie Skate Park • Bethany Christian Trust • Blackburn Children's Gala Day • Blackburn Family Centre • Blackburn United FC • Blackhall Athletic FC • Blackwood Parent and Toddler • Blackwood Primary School, Kirkmuirhill • Blairgowrie & Alyth Stroke Club • Blairgowrie & Rattray Highland Games • Blantyre Community Committee • Blantyre Christmas • Blantyre Volunteers Limited • Blood Bikes Cumbria • Blood Bikes Scotland • Boatie Blest • Bobby Robson Charity Walk • Boghall Primary School • Bolton Mill Duck Derby • Bonaly Primary School • Bone Cancer Research Trust • Bo'ness United • Bonnybridge Community Carpet Bowlers • Bonnybridge Primary School • Bonnybridge Thursday Club • Bonnybridge Youth FC • Borrowfield Academy • Borrowfield Primary School • Braidwood Playgroup • Brain Injury Association • Breast Cancer Care • Brechin Big Lunch • Brechin Music Festival • Brighton & Rosefield Residents Association • British Heart Foundation • British Horse Society • British Kidney Patient Association • Broxburn Gala Day • Broxburn Pre-school Playgroup • Broxburn Swimming Club • Brunsfield Primary School • Brunsburn Netball Club • Burghead in Bloom • Burghead Rowing Club • Burghead Thistle • Burrelton Tennis & Bowling Club • Bute House Care Home • Butterfly Trust • Cahonas Scotland • Cairneyhill Children's Gala • Cairneyhill Youth Club • Calman Trust • Calton Athletic Recovery Group • Calton Parent Support Group • Calton Support Group • Cambusnethan Primary School • Cancer Research UK • Capability Scotland • Cardiology Unit, Royal Infirmary of Edinburgh • Cardinal Newman High School, Bellshill • Care UK • Carluke Gala • Carluke Highlanders • Carnock & Gowkhill Gala Committee • Carron Court Tenants Group • Cash 4 Kids • Castlehill Bowling Club • Cavalry Park SC • CCLASP • Chapelton Bowling Club • Charleston Academy • CHAS • Children in Need • Children 1st • Chirnside Primary, Glasgow • Christ the King Primary School • Christian Aid • Christmas in Queensferry • Chryston & District Horticultural Society • Chryston Cougars Basketball Club • CHUF • City of Edinburgh Lions • City of Edinburgh Pipe Band • City of Edinburgh Running Festival • CLAN Cancer Support • Claremont Colts • Clarkston Primary School, Airdrie • Cleland Christmas • Cleland Primary School • Clermiston Primary School • CLIC Sargent • Clifton Primary School • Clovenstone Primary • Clutha Benefit Festival • Clydebank High School • Clydesdale Food Bank • Clydeside Hockey Club • Coalburn Bowling Club • Coaltown of Balgonie Children's Gala • Colmonell Fun Run • Colmonell Primary • Coltness Memorial Church Development Fund • Community Football Greenock • Cooking Together • CoppaFeel • Cornhill Primary School • Corso Street Sheltered Housing • Corstorphine Youth & Community Centre • Cosmic Flame All Stars • Coupair Angus Primary School • Coupair Angus Youth Activities Group • Craigs Community Sports Centre • Craig Maclean Leisure Centre • Craigintinny Social Centre • Craigmillar Litteracy Trust • Craigroyston YFC • Cramond Girl Guiding • Cramond Primary School • Crazy Kids • Croftfoot Primary School • Crombie Play Park Support Group • Crystal FM Community Radio • Culloden Academy • Culloden Pre-school Centre • Cumbernauld Children's Gala Day • Cumbernauld Learning Disability Centre • Cumbrae Burns Club • Cumbria County Council • Cumnock Round Table • Cupar Round Table • Currie Community Council • Currie High School • Currie Parish Horticultural & Industrial Society • Currie Primary School • Currie Riding of the Marches • Currie Rugby Football Club • DadsWork • Dalgety Bay Playgroup • Dalmeny Primary School • Dalneigh Primary School • Darnley Court Care Home • David Livingstone Memorial Primary School • Dean Park Primary School • Deansburn Primary School, Bo'ness • Deans Gala Day • Deans Primary School • Dementia Friendly Portobello • Dementia Scotland • Dennyloanhead Girl Guides • Deveron Care Concern • Diabetes UK • Doodlebugs MacDuff • Douglas Academy School Fund • Douglas Dance Academy • Downs Syndrome Scotland • Dr Bell's Family Centre • Drama in the Dale • DramaTique • Drumadrochit Pipe Band • Drumbrae Care Home • Drummond High School • Dumbarton United AFC 2001s • Dundee Hurricanes Senior American Football Team • Dundee Relay for Life • Dundee Russian School • Dundee Wanderers Hockey Club • Dundee West Table Tennis Club • Dundee Women's Aid • Dunfermline Round Table • Dunedin Harbour Housing • Dunedin Netball Club • Dunoon Grammar School • Eglesham Fun Day • Earthtime CIC • East Calder Children's Gala • East Calder Colts FC • East Calder Primary School • East Craigs Primary School • East End Kids and Co • East Kilbride Scouts • Easthouses Kids School • Eddleston Out of School Club • Eddlewood Bowl Club, Hamilton • Eden Valley Camera Club • Eden Valley Football Tournament • Eden Valley Hospice Fundraisers • Edinburgh Brass Band • Edinburgh Choreographic Project • Edinburgh College • Edinburgh College of Art • Edinburgh Dog & Cat Home • Edinburgh Fairtrade City Group • Edinburgh Rape & Sexual Abuse Centre • Edinburgh South FC • Edinburgh Student Housing Co-operative • edmesh • Elgin Fairtrade Group • Elgin Museum • Elgin Youth Development Group • Elizabeth Maginnis Residents Group • Elmvale Primary School • Elphinstone Primary School • Emily Sheltered Housing, Gorebridge • Enable • Enable Scotland • Epilepsy Scotland • Eric Liddell Centre • Erskine • FACT • Fairtrade Midlothian • Falkirk & District Association for Mental Health • Falkirk Care Leavers • Falkirk Food Bank • Falla Hill Primary School, Fauldhouse • Families of Auchinairn Coming Together • Fastworks Bonhill • Fauldhouse Women's Rural • Feis Dhun Eideann • Ferry Fair Festival • Ferryden Playgroup • Fettercairn Lunch Club • Fife Action on Autism • Fife Dog & Rescue • Find Allan Bryant • Finding your Feet • Fintry Scout Group • Firrhill Centre • Firrhill High School • First Step Community Project • Flavour Finders • Flora Stevenson Primary School • Fochabers Village Association • Fordbank Primary • Forever Angels • Forrester High School • Fort Youth & Community Association • Forth Royal British Legion • Forth Valley College • Forward Coupair Angus • Fowlis Village Hall • Fox Covert RC Primary • Fragile X Society • Fred Edwards Trust • Free Freya • Friends of Autism • Friends of Carlingwark House • Friends of Langwathby School • Friends of Newton Park • Friends of OAPs, Auchenblae • Friends of Oban Community Play Park • Friends of QEGs • Friends of St Johns Primary School • Friends of the Pentlands • Friends of Victoria Park • Frosterley Christmas Market • Fun First • Fun With Food • Futbol Tiqui-Taca • Garlieston Community Association • Garmouth & Kingstoun Bowling Club • Garmouth Hall Committee • Gingerbread Edinburgh & Lothian Projects Ltd • Girvan Youth • Glasgow Council on Alcohol • Glashieburn Primary School • Glen Art • Glen Urquhart Child Care • Glen Urquhart Greenspace Community Company • Glen Urquhart Highland Games • Glen Urquhart Nursery • Glencairn Primary • Glencourse Association • Glencryan School • Glenmanor Primary School • Glentroof Fair • Gorebridge Gala Day • Gorgie Dalry Children's Gala • Gourdon Primary School • Gowkthrappe Peoples Committee • Gracemount Primary School • Grantown on Spey Figgat Fair • Grantown on Spey Outdoor Bowling Club • GRC Triathlon • Great North Air Ambulance • Greenhead Moss Community Group • Greenhill Historical Society • Greta Macmillan • Greystoke Playgroup • Greystoke Sports Association • Guide Dogs for the Blind • Haddington East Lothian Pacemakers (HELP) • Hallbankgate Christmas Craft Fair • Hallbankgate Flower Show • Hamilton Caledonian Boys Club • Hanover Court Sheltered Housing, Castle Douglas • Harehope Quarry Project Ltd • Harmer AC Pentland Runners • Head of Muir Primary School, Denny • Heatherfield Nursing Home, Armadale • Help for Heroes • Hermitage Park Primary School • High Blantyre Autistic Base • High Blantyre Primary School • Highland Hospice Golf Day • Highlife Highland/Fortrose Fusion • HIV Scotland • Holyrood High School • Home Comforts North Lanarkshire • Hope to Oban • Hopscotch • Hypercyber Youth Project • Inch Community Centre • International Voluntary Service • International Women's Day • Inverberie Gala Day • Inveralmond C.H.S Youth Club • Invergowrie Primary School • Invergowrie Sheltered Housing • Inverkeithing Primary School • Inverness Presbytery • Inverness Royal Academy DoE • Iris Cancer Partnership • Irvine Indoor Bowling Club • Jack & Jill Support Group • James Gillespies Primary School • James Henderson Fundraising Appeal • Jeely Piece Club, Castlemilk • Jesmond Care Home • Johnshaven Community Garden • Johnshaven Primary School • Johnstone Castle Learning Centre • Kanzen Karate • Keep it Under Your Hat • Kelso Laddies Association • Keswick Beer Festival • Keswick Brownie Unit • Keswick Victorian Fayre • Kick Bop One Drop Shop • Kidney Research • Kids Love Clothes • Kilbride Hospice • Kildrum Family Centre • Kiltwalk • Kilwinning Community Events • Kinellar Stars • Kingswood Bowling Club • Kinnaird Primary School • Kinneil Primary School, Bo'ness • Kirkby Thore Big Sleep Out • Kirkcaldy Old Kirk Trust • Kirkhill Primary School • Kirkliston Children's Gala • Kirkliston Community Council • Kirkmuirhill Gala •

## the year in summary



Blantyre Volunteer Ltd benefited from a Society Community Grant.



Stanhope Lakes & Dales relaunched.



Sarah Hayton, sales assistant at Lakes & Dales Keswick, won 2014 Sales Assistant of the Year Award from Convenience Store magazine.



Kirknewton Children's Gala • Kirknewton Playgroup • Kirkton Primary School • Knightsridge Primary School Nurture Group • Lacy Thompson Memorial Hall • Lanarkshire MS Branch • Langwathby May Day • Larkhall United • Lasswade Rugby Club Mini Section • Laurencekirk Bowling Club • Laurencekirk Business Club • Laurencekirk Gala • Lauriston Thistle YFC • Law Community Trust • Law Parish Church FC • Leith Athletic 2005 • Leith Festival Gala Day • Leith Walk Primary School • Leng Resource Centre • Lenzie Golf Club • Lesmahagow High School • Lesmahagow Highland Games • Leukaemia & Lymphoma Research • Levenvale Primary • LGBT Health & Wellbeing • Liberton United FC • Linlithgow Rose FC • Livingston Community FC 2000s • Livingston FC 2002 • Livingston Station Playgroup • Loanhead After School Club • Loanhead Children's Gala Day • Loanhead Primary School • Lake District National Park • Loch Ness Film Festival • Lochardil Primary School • Longhugh Primary Breakfast Club • Long Calderwood Primary • Long Marton Village Institute • Longstone Primary School • Loony Dook, South Queensferry • Lothian Autistic Society • Lothian Laryngectomy Group • Lothian Running Club • Lyvennet Community Pub Ltd • Macduff Primary School • Macmerry & District Children's Gala Committee • Macmillan Cancer Support • Maggie's Centres • Marchmont & Sciennes Community Council • Marchmont House • Marchmont Playgroup • Marfan Trust • Marie Curie Cancer Care • Mastocytosis Fundraiser • Maxwelltown High School • Mayfield & Easthouses Community Association • Mayfield & Easthouses Development Trust • Mayfield & Easthouses Youth 2000 Project • Mearns & Coastal Healthy Living Project • Meningitis Foundation • Menzieshill Community Centre • Merkinch Community Centre • Midlothian District Scouts Network • Midlothian Special Needs Youth Club • Midmar Under Fives • Milltimber Playgroup • Milnes Primary School • Milton of Campsie Bowling Club • Milton of Campsie Just & Peace Group • Mind Eden • MND Scotland • Montrose Fairtrade Forum • Montrose RNL • Montrose Town Hall Bowling Club • Moodiesburn Community Development Trust • Moodiesburn Gala • Moredun Library • Morrison Duncan Hall Management Committee • Morningside Primary • Mossend Primary School • MS Society • Muiredge Primary School • Munloch Christmas Lights • Munloch Hall Management Committee • Munloch Pre-school • Murrayburn Primary School • Myeloma UK • Nairn Academy • Nairn Community & Arts Centre • Nairn Drama • Nairn Highland Games • National Autistic Society • NCR AFC • Neighbourhood Networks • Nether Currie Primary School • Netherthird Early Childhood Centre • Netherthird Primary • Nethererton Mother & Toddler • New Cumnock 46th Ayrshire Scouts • New Cumnock Bowling Club • New Cumnock Cycle Run • New Cumnock Early Childhood Centre • New Cumnock Fun Day • New Cumnock Primary • New Elgin Primary School • New Stevenson Nursery • Newarthill Primary School • Newcraighall Leith Victoria FC • Newmains Bowling Club • Newmains Community Trust • Newmains District Gala Day • Newport in Bloom • Newtown Park Association • North Berwick Community Council • North Berwick First Responders • North Berwick Lifeboat Station • North East Sensory Services • North Edinburgh Arts Ltd • North Lanarkshire Youth Housing Support Service • NSPCC • One World Shop • Our Lady of Lourdes Primary School, Blackburn • Paisley Saints Ladies FC • Play as One Scotland • PAPYRUS • Parkhead Children's Gala • Parkhead Primary School • PASDA • Patchwork EH32 • Pedal for Scotland • Peebles Astronomy Group • Peebles Burgh Silver Band • Peebles Community First Responders • Peebles Scout Group • PEEK (Possibilities for Each & Every Kid) • Penrith & District Gardeners Association • Penrith AFC • Penrith Agricultural Society • Penrith Beekeepers Association • Penrith Lions Club • Penrith Preschool & Toddler Group • Penrith Preschool Nursery • Penrith Remembers • Penrith Town Band • Penruddock & Greystoke Preschool • Pentland Triathletes • Phoenix Badminton Club • Pigbarians Rugby • Pilmeny Youth Centre • Pilton Equalities Project • Pinewood School, Blackburn • Piping Hot Forres • Pitcorrhie Playgroup • Pitteuchar East Primary School • Place+Platform • Polbeth Children's Gala Day • Polbeth Summer Club • Poppy Scotland • Port Glasgow Unity Club • Port of Leith Housing Association • Portobello Fairtrade Group • Portobello Sailing & Kayaking Club • Portobello Timebank • Pregnancy & Parent Centre • Prestonpans Children's Gala • Prestonpans Infant School • Prestwick Rotary • Prince's Trust • Priorsford Primary School • Project Trust • Puffin Playgroup • Pumpherston & Uphall Station Primary School • Pumpherston Community Council • Quarriers • Queensferry Lifeboat Station • Queensferry Rugby Club • Rachel House Hospice • Radio Law • Raigmore Primary Nurture Group • Rape Counselling & Resource Centre • Ratho Children's Gala • Ratho Primary School • Ratho Station Resident's Association • Ravelrig Riding for the Disabled • RDA Glasgow Group • RDM Autism Base • Redhall School • Redhall Star YFC 2000 • RedR • Regent Community Bowling Club • Renfrew Victoria YFC • Revive MS Support • Richmond's Hope • Riding of the Marches • Ronald McDonald House • Rosebery Playgroup • Roslin First Responders • Roslin Primary School • Rosshall Academy • Royal Blind • Royal British Legion Roslin Branch • Royal Edinburgh Hospital • Royal Hospital for Sick Children • Royal Montrose Community Council • Royal Northern Countryside Initiative • Royal Tarlair Golf Club • SACRO Moray • Safe, Strong & Free • Sailor's Society • Salsa4Water • Saltersgate Primary School • Salvation Army • Salvesan Boys Club • SAMH • SANDS • Saughtonhall Community Association • Sciences Primary School • Scottish Autism • Scottish Cot Death • Scottish Fair Trade Forum • Scottish Huntingdon's Association • Scottish Official Highland Dancing Association • Scottish Rottweiler Club • Scottish SPCA • Scottish Spina Bifida Association • Scottish Woman's Rural Institute • SFRS • Shap Community Development Centre • Shap Swimming Pool • Sharon Crookshank School of Dance • Shettleston Juniors • Shopmobility Aberdeen • Shotts & Harthill Disabled Club • Sick Kids Friends Foundation • Sighthill Young Mum's Group • Silverwood Primary School • SiMBA • Simeon Care for the Elderly • Skateraw Fair • Skelton School • Skelton Show • Slinging Around • Sound Advice Cumbria • South Queensferry Church Toddler Group • South Queensferry Litter Pick • Space Club • Special Baby Care Unit, Royal Alexandra Hospital • Special Olympics Scotland West • Spring Bling Ball • Squids After School Club • St Andrews Episcopal Church Children/Youth Club • St Andrew's Hospice • St Andrew's RC Primary School • St Athanasius PTA • St Bartholomew's Primary • St Blanes Primary • St Catherine's Primary School • St Columba's Hospice • St Columba's Primary School, Boghall • St Flannan's Primary School, Kirkintilloch • St Francis Nursery Glasgow • St Gabriel's RC Primary School • St Johns Liver Transplant Unit • St John's Primary School • St Joseph's House • St Joseph's Primary School, Bonnybridge • St Joseph's Primary School, Saughton • St Kessog's Primary • St Margaret's Hospice • St Margaret's RC Primary School • St Mark's Primary School • St Mary's Primary School, Coatbridge • St Mary's Primary School, Polbeth • St Mary's RC Primary School • St Ninian's Primary School • St Patrick's Primary School • Stage Star Theatre Art • Stanhope Barrington Primary School • Stars in the Sky • Starter Packs Dundee • Stay Safe Highland • Staying Alive Summertime Ball • Stepping Stones • Stevenson Adventures SCIO • Stewart Court Tenants Registered Social Committee • Stirling Family Support Service • Stockbridge After School Club • Stoneyhill Playgroup • Strathaven After School Club • Strathaven Agricultural Expo • Strathaven Balloon Festival • Strathaven Football Festival • Strathaven Golf Club Senior Open • Strathaven John Hastie Museum Trust Ltd • Strathcarron Hospice • Strathclyde Park Rowing Club • Strathkelvin Talking Newspaper • StreetWork UK • Struan Lodge Nursing Home • SWRI "Balerno Village Book Group" • Tabitha's Toys • TAG • Tannochs Primary School • Teenage Cancer Trust • The Arthritis Club • The Association of People with Disability • The Bathgate Band • The Breast Cancer Institute • The Falcon Club • The Fell Pony Society • The Forge • The Friends of Carlingwark House • The Great North Air Ambulance • The Green Team • The Haven • The Kabin, Loanhead • The Kiltwalk • The Leprosy Mission • The Libertie Project • The Maggie Fair • The National Autistic Society • The Nature Nurture Project • The Prince & Princess of Wales Hospice • The Royal British Legion • The Royal Zoological Society of Scotland • The Rotary Club of Keswick • The Teapot Trust • The Tree Club • The Yard • The Yellow Teapot Club • Thornton Road Community Association • Timebank Dundee • Together for Health • Tollcross Community Council • Tollcross Primary School • Tommy Burns Skin Cancer Trust • Torphins Golf Club • Torphins Primary School • Torphins Tennis Club • Towards Transition Stirling • Towerbank Primary School • Tribe Party • Trinity Primary Charitable Trust • Tynecastle High School • Uddingston Bowling & Tennis Club • Uddingston Brownies • Uddingston Parish Christmas Fair • Ullswater Community College • Uphall Children's Gala Day • Uphall Playgroup • Uphall Primary School • Uphall Station Bowling Club • Uphall Station Institute Hall • Uphall Station Pensioners Association • Uplawmoor Primary • Upward Mobility Ltd • Usher Social Committee • Victim Support West Lothian • Victoria Bowl Club, Torrance • Viewpark Children's Gala • Voluntary Sector Gateway West Lothian • Wardie Climate Champions • Warm Hearts Quilting Group • Watch Us Grow • Wear It Pink • Weardale Agricultural Society • Weardale Community Partnership • Weardale Farm Watch • Weardale Tappers • Wearhead War Memorial Fund • West Bridgend Sheltered Housing • West End Christmas Lights Committee, Dundee • West Lothian Bowling Association • West Lothian Cats Protection • West of Scotland Housing • Westfield Primary • Wharton Square Residents Group • Whitburn Academy • Whiteless Primary • Whithorn Primary • Wigtown Primary School • Wigtown Show Poultry Committee • Winchburgh & District Children's Gala Day Committee • Windmill Playgroup • Wing Tsun Scotland, Munloch • Womankind • Women's Centre for Information & Support • World Cancer Research Fund UK • Wormit & Newport Tennis Club • Wormit Playgroup • Yorkhill Children's Hospital • Young at Heart, Blackburn • Young Farmers Association • Youth Alive, Dumfries • Yz Choices

## December 2014 - January 2015



Scotmid sponsored the Edinburgh "Santa Run".



The half-way stage of our Charity Partnership with Anthony Nolan.

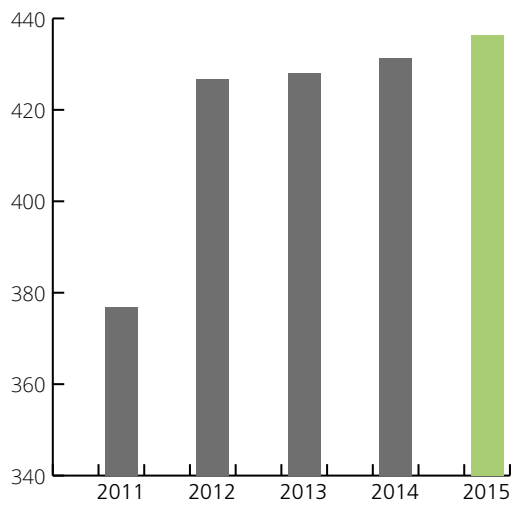


Scotmid launched the first 'Kitchen' food-to-go trial format store in Ratho.

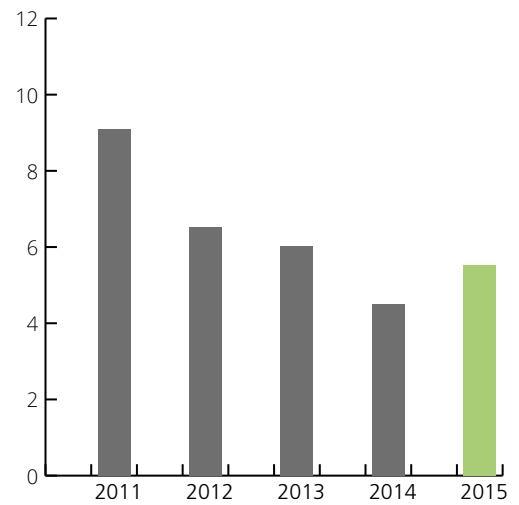
## Group Five Year Summary

	2014-15 53 weeks	2013-14 52 weeks	2012-13 52 weeks	2011-12 52 weeks	2010-11 52 weeks
number of members	260,977	259,562	246,687	244,481	241,818
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
turnover	436,442	431,414	428,091	426,733	376,891
operating surplus before exceptionals	5,528	4,518	6,029	6,529	9,093
operating result after exceptionals	4,014	(1,020)	3,650	4,338	13,346
result before tax	2,210	(3,041)	1,201	2,030	11,166
retained surplus/(loss)	1,316	(3,394)	330	1,308	9,582
depreciation	8,401	9,241	9,280	9,282	8,713
net finance costs	1,184	1,401	1,736	1,610	1,516
purchase of fixed assets	7,999	10,493	7,822	7,861	14,034
fixed assets	146,163	147,439	150,057	154,989	163,252
net current assets/(liabilities)	3,066	3,421	2,635	1,464	(2,321)
total assets less current liabilities	149,229	150,860	152,692	156,453	160,931
less long term liabilities	44,153	47,244	44,357	48,851	50,121
less provision for liabilities and charges	-	-	-	-	378
less pension liability	18,287	13,430	14,391	11,358	10,026
net assets	86,789	90,186	93,944	96,244	100,406
share capital	5,874	5,964	5,312	5,249	5,162
revenue reserves	54,761	59,501	63,083	64,375	64,865
revaluation reserve	26,154	24,721	25,549	26,620	30,379
net assets	86,789	90,186	93,944	96,244	100,406

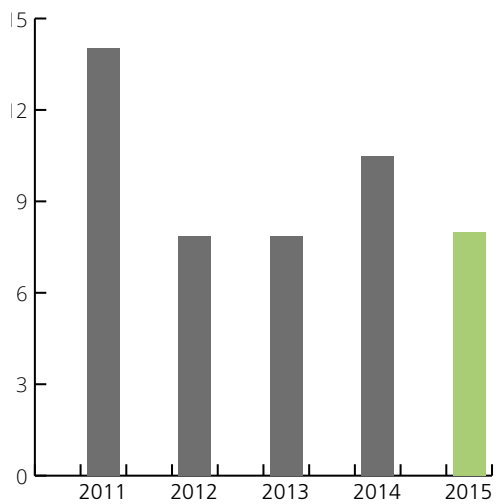
## TURNOVER (£ MILLIONS)



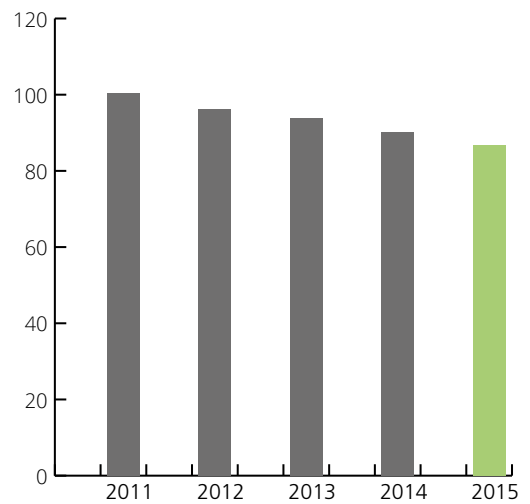
## OPERATING SURPLUS BEFORE EXCEPTIONALS (£ MILLIONS)



## 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. Co-operative and Community Benefit Societies law (replacing the 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 Co-operative and Community Benefit Societies Act 2014 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 not 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 Co-operative and Community Benefit Societies Act 2014. 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 a reasonable 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 based on the principles contained in the UK Corporate Governance Code. The Board has reviewed the implications and changes to the Code and has concluded that the Society substantially complies with the provisions in the 2013 Code. To arrive at this conclusion the Board undertook a review of its working practices, implemented a small number of changes and updated policies. The main change was the adoption of a 'balanced board' best practice approach to replace the Age rule as the method used to refresh the Board. Under the new approach, the average length of service on the Board should not exceed 9 years. It is currently 8 years.

Co-operatives UK recognise that as co-operative societies differ in scale, size and resources, compliance may vary for acceptable reasons. 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. 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) Audit Committee financial experience: One member of the Audit Committee is a Fellow of The Chartered Institute of Bankers in Scotland which the Board considers to be an

appropriate financial, although not specifically accountancy, professional qualification.

- 5) Member training: A comprehensive training programme is offered to all Board and Regional Committee members each year covering a variety of topics which includes training specifically for elected members preparing to join the Board. Although the Society does not provide a programme of preparatory training for members wishing to join the Regional Committees, the Society does provide ad hoc training/information events to which members are invited.
- 6) Voting opportunities at AGM: Members are invited to attend and participate at General Meetings and to exercise their vote on an informed basis, rather than by voting electronically, having received the benefit of an explanation of any matter to be voted upon. Meetings are held in three venues within each of the Society's regions to encourage attendance and make meetings more accessible for Members.
- 7) Timing of Board paper distribution: The Board regularly reviews its working practices and is satisfied the timing of Board paper distribution is appropriate to the nature of documents to be considered. A trial of electronic Board papers is underway which may enhance this process further.

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.

## 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 and 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.

Membership of the North Regional Committee has progressed steadily since the Committee became fully established in 2013. Nine members now serve on the North Regional Committee and the Board aim to increase the Committee size to 12 by 2017. Members from the former Penrith Society area are now part of the West Region and are 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 a number of mainly administrative rule changes to reflect the enactment of the Co-operative and Community Benefit Societies Act 2014 which replaced the Industrial and Provident Societies Act 1965.

Each Regional Committee conducted a planning and evaluation session to review its own working practices during the year and feedback was discussed by the Search Committee and a number of recommendations to working practices are to be introduced.

## 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. One retired employee is a Board member, 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 & principles set out by the International Co-operative Alliance.

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 and updated its Code of Conduct based on the model Code issued by Co-operatives UK. 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

# Governance Report

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. The key elements in Scotmid's adopted internal control framework which are considered to be appropriate to the current size and complexity of the Society are as follows:

## 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. A review of the composition of the Board Committees was undertaken during the year with new Chairpersons appointed to each Committee, and a number of Directors rotating Committee membership while an appropriate level of experience on each Committee was retained.

## AUDIT

The Audit Committee is responsible for the oversight of internal and external audit and monitoring the integrity of financial reporting, internal controls and risk management. Following completion of his term of office as Chairman of the Audit Committee, the Board thanked Jim Watson for his service to the Committee and were pleased to appoint John Anderson as its new Chairman. As a result of the changes to the Board, the composition of the Board Committees was reviewed and Jim

Gilchrist and Eddie Thorn were appointed to the Committee. The Audit Committee consists of 4 Directors and it met 3 times in 2014/15. The President is not a member of the Audit Committee.

The Society has an Internal Audit Department reporting directly to the Chief Executive. An annual report for 2014/15 has been produced and an audit plan for 2015/16 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 and approval of the external auditor's annual plan;
- Review of the financial statements and auditor's management letter;
- Review of the internal audit programme and internal audit reports;
- Review the effectiveness of the Society's internal controls and risk management systems; and
- Review of the arrangements and procedures for whistleblowing.

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 will next be put out to tender in 2016.

## REMUNERATION

The Remuneration Committee consists of four Directors, none of whom were employees, recently retired employees or the President of the Society. Following his election as Society President, Harry Cairney stood down as Chairman of the

Remuneration Committee and was succeeded by Jim Watson. In addition, Jim Gilchrist left the Committee having completed his maximum term of office and Andy Simm joined the Committee following his appointment to the Board.

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 the Society although not in the format recommended in Co-operatives UK's Governance Code.

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 2014/15 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 targets for the latest three year scheme maturing and set 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. As part of the review of the composition of the Board Committees conducted during the year Harry Cairney was appointed as Chairman of the Search Committee and Michael Ross joined the Committee following his election to the Board.

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

The Search Committee considered three of the new Code provisions relating to Membership matters where non-compliance was reported in 2013 with action taken to ensure compliance with two of those provisions while work continues in addressing membership training. The training programme for elected members was improved during the year with the introduction of business briefing training sessions and the development and delivery of two additional training sessions to provide an enhanced understanding of finance and remuneration management. The new business briefing training sessions are provided at Regional Committee Meetings and cover a range of topics aimed at developing and enhancing elected members' understanding of the Society's businesses and support services.

The Board evaluated its own performance during the year and concluded that it had met its responsibilities. Glasgow Caledonian University undertook an assessment of Board skills, including an evaluation of individual Director's skills, the skills of the Board as a whole and the skills of the General Purposes Committee. The results of the evaluation have been discussed by the Search Committee with recommendations considered and implemented by the Board in due course. The Search Committee also reviewed the results of the Regional Committees' planning and evaluation session and recommended a number of changes to working practices to be implemented on a phased basis during 2015.

The Committee recommended and the board approved a plan to evolve and modernise the Society's membership offer which is currently in progress. The Committee has also instigated a longer term review of Membership Strategy.

For and on behalf of the Board

Harry Cairney – **President**

John Brodie – **Chief Executive Officer**

John Dalley – **Secretary**

Co-operatives UK outline a set of Corporate Social Responsibility Indicators which we use to measure performance. 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. The current year's indicators reflect the 53 week trading period compared to the 52 week prior year.

## MEMBER ECONOMIC INVOLVEMENT

Member economic involvement has risen this year to 14% for the sample carried out, compared to 12% in 2013/2014. This result is based on an independent exit survey conducted by Why Research at a sample of our stores.

## MEMBER DEMOCRATIC PARTICIPATION

181 (2013/14 - 220) members attended the Annual General Meetings on 28 and 29 April 2014 and 154 (2013/14 - 158) members attended the Ordinary General Meetings on 29 and 30 September 2014. With the aim of making our democracy more accessible to more of our members in the North, the next North Members' Meeting (AGM April 2015) will be held in Aberdeen.

## STAFF AND MEMBER TRAINING

This year 23,000 hours (2013/2014 - 26,000) of formal staff training took place, averaging 4.9 hours per employee (2013/2014 - 5.4). These hours included 6,800 of e-learning activity (2013/2014 - 6,373). In 2013/14 our total training hours included additional activity relating to Personal Licence Holder refresher training. A three year training plan is now in place for the stores.

Members actively participated in a total of 361 hours of training compared with last year's total of 316. 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 2.01 hours (2013/14 - 1.44 hours). Our programme has been enhanced through the incorporation of training sessions into our Regional Committee meeting structure.

## STAFF INJURY AND ABSENTEE RATES

This year we had 14 (2013/2014 - 21) reportable accidents equating to 0.3% (2013/2014 - 0.4%) of the average total workforce. There were also 177 minor injuries (2013/2014 - 149), which equates to 3.8% of the average total workforce. This gives a combined total of 4.1% (2013/2014 - 3.5%). Staff

are encouraged to report all accidents. During the year an electronic accident reporting form was introduced which makes it simpler to log accidents. Accident statistics are monitored by management and regular Health and Safety reminders are issued to aid accident prevention.

The total of 33,908 (2013/2014 - 30,853) days lost due to absence equates to an average of 7.4 days per employee (2013/2014 - 6.4). Although this is showing an increase it is still running below the national trend for retail/wholesale at 7.7 days.

## STAFF PROFILE

Scotmid had an average of 4,660 employees in 2014/15 (2013/2014 - 4,811). The staff profile by gender at the year-end was 74% female and 26% male which has shifted by 1% more males than last year. Our staff profile by ethnicity is based on a sample of the workforce that responded to a 2006 survey, updated on an on-going basis 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 plans are in place for an update survey in 2015.

## CUSTOMER SATISFACTION

Harris International Marketing conduct a convenience store survey annually. The 2014 Convenience Tracking Programme shows 69% of Scotmid's customers as being very satisfied (2013/2014 - 63%) compared to an industry figure of 62%, and 79% (2013/2014 - 83%) of customers would be classified as satisfied which although showing a slight decline on last year, is 10% ahead of the industry wide result.



### ETHICAL PROCUREMENT

The majority of the Society's purchases are through the Co-operative Retail Trading Group (CRTG) now reformed as the Federal Retail Trading Services (FRTS). The group remain 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 (2013/2014 - £260,000) was spent on investment in both community and co-operative initiatives, amounting to 5.0% of our operating surplus before exceptional items (2013/2014 - 5.7%). An indication of the breadth of community initiatives supported is provided in the Directors' Report on pages 14-15. This year £12,000 (2013/2014 - £29,000) was invested in co-operative initiatives. Following a shift to project based funding for our main beneficiary, new ways to expand our involvement with other co-operatives across a wider spectrum are currently being explored.

The successful partnership with Prostate Cancer UK concluded in August 2014 with a total of £280,000 raised (£130,000 within this financial year). A further £135,000 has been raised to date for the new charity partner, Anthony Nolan, following the launch in September 2014. This charity works to find suitable bone marrow donors to help treatment for leukaemia. The focus is not just on raising money but on encouraging donors in order to increase the database of potential matches for blood cancer treatment.

### THE ENVIRONMENT

Scotmid aims to reduce net greenhouse gas emissions by 20% by 2020 (using 2008 levels as a base). The Society is continuing to invest in energy saving initiatives. An award winning energy test store was developed at Moredun in Edinburgh to look at new energy saving technologies. Based on the success of this test, a rollout programme to higher energy usage stores has commenced. The programme includes the installation of LED lighting, energy management systems and additional systems integration software which brings heating and air-conditioning into one system so they work together efficiently.

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 2,186 tonnes of GHG (net) from on-site operations compared to 2,505 last year. This equates to 0.47 tonnes of GHG per employee (2013/2014 - 0.52 tonnes of GHG).

The gross emissions, which include electricity from renewable sources, are 26,014 tonnes of GHG (2013/2014 - 23,676 tonnes). The current year figure is impacted by an 11% rise in the Government issued conversion factor compared to a very low published factor for 2013. A full year of the Penrith Society is also now included in the figures. All our electricity is purchased from renewable sources.

### PROPORTION OF WASTE RECYCLED/REUSED

Our waste procedures significantly changed this year with the introduction of backhauling of waste from food stores by CRTG vehicles. The waste is then processed for enhanced recycling. The year end estimated figure for waste to landfill is around 700 tonnes compared to 1,000 tonnes last year.

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 3,700 tonnes of waste. The proportion of waste recycled has increased to 84% from 77% last year following the completion of the Food store backhauling programme.

We have audited the financial statements of Scottish Midland Co-operative Society Limited for the year ended 31 January 2015 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 23. 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 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

## RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND AUDITOR

As explained more fully in the 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 January 2015 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 Co-operative and Community Benefit Societies Act 2014.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 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 Auditor  
Glasgow, United Kingdom

31 March 2015

### **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 53 weeks to 31 January 2015 (2014 - 52 weeks to 25 January 2014).

### **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**

Tangible fixed assets (excluding investment properties) are held at cost less depreciation and any provision for impairment. 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.

### **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 31 January 2015*

		2014-15 (53 weeks)	2013-14 (52 weeks)
	notes	£000	£000
<b>turnover</b>		436,442	431,414
value added tax		<u>(50,041)</u>	<u>(50,299)</u>
<b>sales</b>	22	386,401	381,115
cost of sales		<u>(283,981)</u>	<u>(278,153)</u>
<b>gross profit</b>		102,420	102,962
other income		6,046	5,348
net expenses	1	<u>(104,234)</u>	<u>(109,429)</u>
<b>operating surplus/(loss)</b>	22	4,232	(1,119)
operating surplus excluding exceptional expenses		5,528	4,518
exceptional operating expenses	3	<u>(1,296)</u>	<u>(5,637)</u>
operating surplus/(loss)		4,232	(1,119)
share of joint venture operating loss		(7)	-
(loss)/surplus on disposal of fixed assets		<u>(211)</u>	<u>99</u>
<b>surplus/(loss) before finance charges</b>		4,014	(1,020)
net finance charges	4	<u>(1,184)</u>	<u>(1,401)</u>
<b>surplus/(loss) for year before distributions</b>		2,830	(2,421)
distributions			
share interest		(79)	(75)
grants and donations	5	<u>(541)</u>	<u>(545)</u>
<b>surplus/(loss) for the year before taxation</b>		2,210	(3,041)
taxation	6	<u>(894)</u>	<u>(353)</u>
<b>surplus/(loss) for the year</b>	16	<u>1,316</u>	<u>(3,394)</u>

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 31 January 2015*

	<b>2014-15 (53 weeks)</b>	<b>2013-14 (52 weeks)</b>
	<b>£000</b>	<b>£000</b>
<b>group statement of total recognised gains and losses</b>		
surplus/(loss) for year	1,316	(3,394)
actuarial loss relating to the pension scheme (net of tax adjustments) (note 18)	(6,225)	(10)
unrealised gain on investment properties revaluation	1,602	152
total recognised gains and losses relating to the year	<u>(3,307)</u>	<u>(3,252)</u>
<b>group note of historical cost profits and losses</b>		
surplus/(loss) for year before taxation	2,210	(3,041)
realisation of property revaluation gains of earlier years	169	980
historical cost surplus/(loss) for year before taxation	<u>2,379</u>	<u>(2,061)</u>
historical cost surplus/(loss) for year after taxation	<u>1,485</u>	<u>(2,414)</u>

## Group Balance Sheet as at 31 January 2015

	notes	£000	2014-15 £000	£000	2013-14 £000
<b>fixed assets</b>					
intangible assets	7		26,131		28,080
tangible assets	8		118,676		117,972
investments	9		1,356		1,387
			<u>146,163</u>		<u>147,439</u>
<b>current assets</b>					
stocks - goods for resale		24,869		26,853	
debtors and prepayments	10	16,814		13,614	
cash at bank and in hand		3,750		6,472	
		<u>45,433</u>		<u>46,939</u>	
<b>current liabilities</b>					
amounts falling due within one year					
bank overdraft (secured)		(1,838)		-	
creditors	11	(40,529)		(43,518)	
		<u>(42,367)</u>		<u>(43,518)</u>	
<b>net current assets</b>					
			<u>3,066</u>		<u>3,421</u>
<b>total assets less current liabilities</b>					
			149,229		150,860
long term liabilities					
amounts falling due after more than one year					
creditors	12		(44,153)		(47,244)
<b>net assets excluding pension liability</b>					
			105,076		103,616
<b>pension liability</b>					
	18		(18,287)		(13,430)
<b>net assets</b>					
	22		<u>86,789</u>		<u>90,186</u>
<b>financed by</b>					
share capital	15		5,874		5,964
reserves	16		80,915		84,222
<b>shareholders' funds</b>					
	17		<u>86,789</u>		<u>90,186</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 2015. They were signed on its behalf by:

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

## Group Cash Flow Statement for the year ended 31 January 2015

	notes	2014-15 (53 weeks)		2013-14 (52 weeks)	
		£000	£000	£000	£000
<b>net cash inflow from operating activities</b>	19		8,349		9,588
<b>returns on investment and servicing of finance</b>					
interest received		55		119	
interest paid		(1,238)		(1,215)	
share interest, grants and donations		(620)		(620)	
<b>net cash outflow from returns on investment and servicing of finance</b>			(1,803)		(1,716)
<b>taxation</b>					
corporation tax paid			(632)		(1,072)
<b>capital expenditure and financial investment</b>					
sale of fixed asset investments		58		-	
receipts from sales of tangible fixed assets		285		1,129	
payments to acquire tangible fixed assets		(5,806)		(8,911)	
<b>net cash outflow from capital expenditure and financial investment</b>			(5,463)		(7,782)
<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		(2,700)		(1,950)	
<b>cash outflow from acquisitions and disposals</b>			(2,700)		(2,786)
<b>net cash outflow before financing</b>			(2,249)		(3,768)
<b>financing</b>					
bank loans advanced		-		43,000	
repayment of bank loans		(1,000)		(39,375)	
repayment of Penrith bank loans		-		(1,206)	
members share capital issued and interest net of withdrawals		(90)		16	
repayment of finance leases		(1,221)		(730)	
<b>net cash (outflow)/inflow from financing</b>			(2,311)		1,705
<b>decrease in cash</b>	20		(4,560)		(2,063)



<b>1. net expenses</b>	<b>2014-15 £000</b>	<b>2013-14 £000</b>
personnel costs	54,277	53,887
occupancy costs (excluding depreciation)	19,479	20,435
depreciation of owned assets	7,914	8,792
depreciation of assets held under finance leases	487	449
amortisation of goodwill	1,915	1,879
operating lease rentals - equipment and vehicles	510	498
fees - directors and committee members	219	151
expenses and delegations - directors and committee members	43	47
auditor's remuneration	85	85
other expenses	18,009	17,569
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
	102,938	103,792
exceptional items - other costs      note 3	1,296	5,637
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
	104,234	109,429

Included within expenses is £6,496,000 relating to operating lease rentals for land and buildings (2013-14 - £7,734,000).

<b>auditor's remuneration - other services</b>	<b>2014-15 £000</b>	<b>2013-14 £000</b>
tax services	133	47
pension scheme audit	4	4
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
	137	51

<b>2. employees</b>	<b>2014-15 number</b>	<b>2013-14 number</b>
the average number employed was:		
full time	1,354	1,416
part time	3,306	3,395
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
	4,660	4,811

the costs incurred in respect of these employees were

	<b>£000</b>	<b>£000</b>
wages and salaries	50,554	50,085
social security costs	2,902	2,844
other pension costs	821	958
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
	54,277	53,887

## Notes to the Group Accounts

### 2. employees - continued

2014-15  
£000

2013-14  
£000

#### directors' emoluments

The total remuneration of the directors for their board duties was

fees, bonuses and delegations	131	119
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In addition, three directors received loyalty bonuses totalling £53,000 on leaving the Society's service.

The number of directors whose emoluments fell into each £2,500 bracket was

	number	number
£1 - £2,500	1	-
£2,501 - £5,000	3	-
£5,001 - £7,500	1	-
£7,501 - £10,000	7	9
£10,001 - £12,500	-	1
£12,501 - £15,000	1	-
£15,001 - £17,500	-	2
£17,501 - £20,000	2	-
	15	12

#### management executive emoluments

£000

£000

The total remuneration of the management executive was

wages & salaries	1,248	1,124
taxable benefits	89	78
pension and pension allowance costs	194	191
profit-related pay and long-term incentive scheme	8	9
	1,539	1,402

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
£90,001 - £100,000	1	-
£100,001 - £110,000	2	1
£110,001 - £120,000	-	1
£120,001 - £130,000	1	-
£170,001 - £180,000	-	1
£180,001 - £190,000	1	-
£220,001 - £230,000	-	1
£230,001 - £240,000	1	-
£380,001 - £390,000	-	1
£400,001 - £410,000	1	-
	7	7

<b>3. exceptional items</b>	<b>2014-15 £000</b>	<b>2013-14 £000</b>
fixtures & fittings impairment	-	(4,279)
business integration, disruption and rationalisation costs	(1,430)	(3,348)
net pension restructuring	134	1,990
	(1,296)	(5,637)

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.

Following the decision to end The Fragrance House trial and a review of the Semichem business trading in 2013-14 the Society recognised an impairment charge of the book value of the impacted stores' fixed assets.

The closure to future accrual of the Society's final salary pension scheme during 2013-14 gave 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, was recognised as an exceptional credit. The £134,000 credit this year was a funding credit from the Penrith element of the scheme.

Exceptional items are included in net expenses in the Group Revenue Account.

<b>4. net finance charges</b>	<b>£000</b>	<b>2014-15 £000</b>	<b>£000</b>	<b>2013-14 £000</b>
interest payable				
bank overdraft and loan	986		1,036	
finance leases	118		90	
other interest	134		89	
interest cost on pension scheme liabilities	2,989		2,873	
		4,227		4,088
less - interest receivable and investment income				
expected return on pension scheme assets	2,988		2,568	
unlisted investments	53		118	
other interest	2		1	
		3,043		2,687
		1,184		1,401

<b>5. grants and donations</b>	<b>2014-15 £000</b>	<b>2013-14 £000</b>
member relation activities & grants	499	501
donations	42	44
	541	545

## Notes to the Group Accounts

6. taxation	2014-15 £000	2013-14 £000
<b>current taxation</b>		
UK corporation tax charge for the year	400	341
adjustment in respect of prior years	(498)	6
<b>total current taxation</b>	(98)	347
<b>deferred taxation</b>		
origination and reversal of timing differences	76	(120)
adjustment in respect of prior years	881	21
adjustment due to change of tax rate	35	105
<b>total deferred taxation</b>	992	6
<b>total taxation charge</b>	894	353
<b>factors affecting tax charge for the year</b>		
surplus/(loss) before tax	2,210	(3,041)
tax on surplus/(loss) at standard rate of corporation tax in the UK of 21.32% (2013-14: 23.16%)	471	(704)
factors affecting charge for the year		
expenses not deductible for tax	566	1,618
depreciation in excess of capital allowances	(116)	378
movement in short term timing differences	(735)	(1,027)
expenses and income upon consolidation not taxable	151	160
chargeable gains	63	71
adjustments to tax in respect of prior years	(498)	6
effects of other tax rates	-	(155)
<b>current tax (credit)/charge for the year</b>	(98)	347

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.

<b>7. intangible assets</b>	<b>£000</b>
<b>goodwill</b>	
<b>cost</b>	
25 January 2014	52,401
disposals	(38)
31 January 2015	<u>52,363</u>
<b>amortisation</b>	
25 January 2014	24,321
provided for the year	1,915
disposals	(4)
31 January 2015	<u>26,232</u>
balance at 31 January 2015	<u>26,131</u>
balance at 25 January 2014	<u>28,080</u>

<b>8. tangible fixed assets</b>	<b>land &amp; buildings</b>	<b>investment properties</b>	<b>plant vehicles &amp; fixtures</b>	<b>total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>cost or valuation</b>				
25 January 2014	32,610	65,275	111,507	209,392
additions	-	1,705	6,294	7,999
disposals	(31)	(210)	(8,244)	(8,485)
reclassification	(776)	230	19	(527)
revaluation	-	1,602	-	1,602
31 January 2015	<u>31,803</u>	<u>68,602</u>	<u>109,576</u>	<u>209,981</u>
<b>depreciation</b>				
25 January 2014	12,659	-	78,761	91,420
provided for the year	766	-	7,635	8,401
disposals	-	-	(7,989)	(7,989)
reclassification	(543)	-	16	(527)
31 January 2015	<u>12,882</u>	<u>-</u>	<u>78,423</u>	<u>91,305</u>
balance sheet value at 31 January 2015	<u>18,921</u>	<u>68,602</u>	<u>31,153</u>	<u>118,676</u>
balance sheet value at 25 January 2014	<u>19,951</u>	<u>65,275</u>	<u>32,746</u>	<u>117,972</u>

The net book value of the group's fixed assets includes £3,132,000 (2013-14 - £2,212,000) 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.

Investment properties were independently valued by Chartered Surveyors D M Hall LLP and Sanderson Weatherall LLP as at 31 January 2015 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 £13,471,000 (2013-14 - £13,654,000) of properties held by Scotmid Pension Limited Partnership. These properties provide security for the Asset Backed Funding arrangement put in place during 2012-13.

## Notes to the Group Accounts

<b>9. fixed asset - investments</b>	<b>2014-15</b>	<b>2013-14</b>
	<b>£000</b>	<b>£000</b>
<b>unlisted shares</b>		
Co-operative Group shares	1,324	1,324
other C & CB Societies	2	2
others	28	47
joint ventures	(4)	3
	<hr/>	<hr/>
	1,350	1,376
<b>listed shares</b>		
others	6	11
	<hr/>	<hr/>
	1,356	1,387

The market value of the listed investments at 31 January 2015 was £33,000 (2013-14 - £30,000).

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 2013-2014 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>2014-15</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2013-14</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
gross assets	6	6	12	12
gross liabilities	(22)	(15)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
net (liabilities)/assets	(16)	(9)	12	12
	<hr/>	<hr/>	<hr/>	<hr/>
net investment	(16)	(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>2014-15</b>	<b>2013-14</b>
	<b>£000</b>	<b>£000</b>
trade debtors	348	393
prepayments and other debtors	14,444	10,836
deferred tax (see note 14)	1,130	2,223
corporation tax recoverable	892	162
	<hr/>	<hr/>
	16,814	13,614

<b>11. creditors falling due within one year</b>	<b>2014-15 £000</b>	<b>2013-14 £000</b>
trade creditors	18,931	17,871
holiday pay	500	611
VAT	1,374	1,745
other sundry creditors	2,337	4,608
accrued charges	11,627	13,330
PAYE and social security	759	714
bank loan (see note 12)	1,000	1,000
deferred consideration	2,700	2,700
obligations under finance leases (see note 12)	1,301	939
	<u>40,529</u>	<u>43,518</u>
 <b>12. creditors falling due after more than one year</b>	 <b>£000</b>	 <b>£000</b>
bank loans	41,000	42,000
deferred consideration	-	2,700
obligations under finance leases	2,234	1,624
other creditors	919	920
	<u>44,153</u>	<u>47,244</u>
borrowings are repayable as follows:		
<b>bank loans</b>		
between one and two years	1,000	1,000
between two and five years	40,000	13,000
after five years	-	28,000
	<u>41,000</u>	<u>42,000</u>
on demand or within one year	1,000	1,000
	<u>42,000</u>	<u>43,000</u>
<b>finance leases</b>		
between one and two years	1,109	833
between two and five years	1,125	791
	<u>2,234</u>	<u>1,624</u>
on demand or within one year	1,301	939
	<u>3,535</u>	<u>2,563</u>
<b>deferred consideration</b>		
between one and two years	-	2,700
on demand or within one year	2,700	2,700
	<u>2,700</u>	<u>5,400</u>
 <b>total bank loans, deferred consideration, and finance leases excluding bank overdraft</b>		
between one and two years	2,109	4,533
between two and five years	41,125	13,791
after five years	-	28,000
	<u>43,234</u>	<u>46,324</u>
on demand or within one year	5,001	4,639
	<u>48,235</u>	<u>50,963</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.

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

## Notes to the Group Accounts

### 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	
	2014-15 £000	2013-14 £000	2014-15 £000	2013-14 £000
derivative financial instruments held to manage interest rates				
interest rate derivatives	-	-	(201)	(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 25 January 2014	2,223
revenue account charge	(992)
amounts released to the statement of recognised gains and losses	(101)
balance at 31 January 2015	1,130

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	2014-15 £000	2013-14 £000
capital allowances in excess of depreciation	520	1,451
trading losses available	392	392
other timing differences	218	380
	1,130	2,223



<b>15. share capital</b>	<b>2014-15 £000</b>	<b>2013-14 £000</b>
at beginning of year	5,964	5,312
interest	79	75
	<u>6,043</u>	<u>5,387</u>
contributions	108	134
cross investment	-	2,500
issued to members of incoming society	-	636
	<u>6,151</u>	<u>8,657</u>
withdrawals	(277)	(193)
cross investment offset	-	(2,500)
at end of year	<u>5,874</u>	<u>5,964</u>

(i) share capital comprises 5,874,000 shares (2013-14 - 5,964,000) 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 Ltd 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 25 January 2014	59,501	24,721	84,222
surplus for year	1,316	-	1,316
transfer of realised revaluation arising on disposal of properties	169	(169)	-
gain on revaluation of properties	-	1,602	1,602
actuarial loss relating to the pension fund (net of tax adjustments)	(6,225)	-	(6,225)
at 31 January 2015	<u>54,761</u>	<u>26,154</u>	<u>80,915</u>

<b>17. reconciliation of movements in shareholders' funds</b>	<b>2014-15 £000</b>	<b>2013-14 £000</b>
surplus/(loss) after taxation	1,316	(3,394)
other recognised gains relating to year	1,602	152
transfer of reserves from incoming society net of fair value adjustments	-	(1,158)
contributions and interest less withdrawals of members' capital during year	(90)	16
transfer of members' capital from incoming society	-	636
actuarial loss relating to the pension fund (net of tax adjustments)	(6,225)	(10)
net movement in shareholders' funds	<u>(3,397)</u>	<u>(3,758)</u>
opening shareholders' funds	90,186	93,944
closing shareholders' funds	<u>86,789</u>	<u>90,186</u>

### 18. 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 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 and Penrith Final Salary sections are both closed to new entrants and ceased future accrual on 15 June 2013. The Retiral Cash Balance section became available to new entrants, subject to membership criteria, from 1 March 2013.

The disclosures below are as at 31 January 2015 and for the year up to 31 January 2015. 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 £1,916,000 (2013-14 - £1,889,000) include special contributions of £312,000 (2013-14 - £227,000) and funding of £969,000 (2013-14 - £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 2015-16 are estimated to be £1,716,000 and £969,000 respectively.

This valuation has been updated by the actuary to 31 January 2015 in order to comply with FRS 17.

<b>the major assumptions used by the actuary were</b>		<b>at 31 Jan 2015</b>	<b>at 25 Jan 2014</b>	<b>at 26 Jan 2013</b>
rate of increases in salaries		n/a	3.95%	3.85%
rate of increases in pensions accrued post 05/04/97	LPI 5% (RPI)	2.70%	3.20%	3.10%
	LPI 2.5% (RPI)	1.95%	2.30%	2.30%
rate of increase in deferred pensions	LPI 2.5% (RPI)	2.75%	n/a	n/a
rate of increase in deferred pensions	LPI 2.5% (CPI)	1.75%	2.30%	2.40%
discount rate		3.00%	4.40%	4.50%
inflation assumption		2.75%	3.20%	3.10%
expected return on the scheme assets		5.61%	5.38%	5.46%
life expectancy	male	85.9 years	85.5 years	85.4 years
	female	89.6 years	89.6 years	89.5 years

**18. 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

	2014-15		2013-14		2012-13	
	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	6.5%	32,730	7.0%	27,798	6.6%	22,132
bonds	3.8%	421	4.3%	907	4.2%	-
other	1.5%	805	1.5%	1,691	1.5%	759
asset backed funding arrangement contribution	1.5%	969	1.5%	969	1.5%	969
buy-in	3.9%	24,061	4.4%	22,132	4.5%	23,119
property	5.5%	651	n/a	-	n/a	-
total market value of assets	5.32%	59,637	5.61%	53,497	5.38%	46,979
present value of scheme liabilities		(80,503)		(68,772)		(64,440)
deficit in scheme		(20,866)		(15,275)		(17,461)
related deferred tax asset		2,579		1,845		3,070
net pension liability		(18,287)		(13,430)		(14,391)

In setting the expected return on the assets as at 31 January 2015, 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 £10,625,000 (2013-14 - £4,688,000) is lower due to different accounting treatment of the Asset Backed Funding arrangement in the Society and these group accounts.

<b>analysis of the movement in the scheme deficit in the year</b>	<b>2014-15 £000</b>	<b>2013-14 £000</b>
opening deficit in the scheme	(15,275)	(17,461)
current service cost	(782)	(936)
contributions	1,916	1,889
net financing charge	(1)	(305)
actuarial (loss)/gain	(6,858)	494
gain on curtailment	134	2,570
transfer of incoming society pension deficit	-	(1,526)
closing deficit	(20,866)	(15,275)

## Notes to the Group Accounts

### 18. accounting for pension costs - continued

<b>amounts included within operating surplus/(loss)</b>	<b>£000</b>	<b>£000</b>
current service cost	782	936
<b>amounts included in other finance costs</b>	<b>£000</b>	<b>£000</b>
expected return on pension scheme assets	(2,988)	(2,568)
interest cost on pension scheme liabilities	2,989	2,873
net finance cost	1	305
<b>reconciliation of present value of scheme liabilities</b>	<b>£000</b>	<b>£000</b>
opening defined benefit obligation	68,772	64,440
service cost	782	936
interest cost	2,989	2,873
contributions by employees	400	439
actuarial losses	10,486	172
benefits paid	(2,792)	(2,474)
liabilities acquired from incoming Society	-	4,956
gain on curtailment	(134)	(2,570)
closing defined benefit obligation	80,503	68,772
<b>reconciliation of present value of scheme assets</b>	<b>£000</b>	<b>£000</b>
opening fair value of the scheme assets	53,497	46,979
expected return	2,988	2,568
actuarial gains	3,628	666
contributions by employer	1,916	1,889
contributions by employees	400	439
benefits paid	(2,792)	(2,474)
assets acquired from incoming Society	-	3,430
closing fair value of the scheme assets	59,637	53,497
actual return on scheme assets	6,616	3,234

## 18. accounting for pension costs - continued

## history of experience gains and losses

	2014-15		2013-14		2012-13		2011-12		2010-11	
	%	£000	%	£000	%	£000	%	£000	%	£000
defined benefit obligation		(80,503)		(68,772)		(64,440)		(59,985)		(53,064)
scheme assets		59,637		53,497		46,979		44,841		39,330
deficit		<u>(20,866)</u>		<u>(15,275)</u>		<u>(17,461)</u>		<u>(15,144)</u>		<u>(13,734)</u>
actual return less expected return on pension scheme assets	6.1%	3,628	1.2%	666	0.1%	45	4.9%	2,190	3.5%	1,384
experience gains and losses arising on the scheme liabilities	2.0%	1,640	0.6%	406	0.0%	(18)	2.1%	1,270	(0.7%)	(348)
changes in assumptions underlying the value of scheme liabilities	(15.1%)	(12,126)	(0.8%)	(578)	(3.2%)	(2,067)	(10.1%)	(6,085)	0.0%	(8)
actuarial (loss)/gain before tax	(8.5%)	<u>(6,858)</u>	0.7%	<u>494</u>	(3.2%)	<u>(2,040)</u>	(4.4%)	<u>(2,625)</u>	1.9%	<u>1,028</u>

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

	2014-15 £000	2013-14 £000
actual return less expected return on pension scheme assets	3,628	666
experience gains arising on the scheme liabilities	1,640	406
changes in assumptions underlying the value of scheme liabilities	(12,126)	(578)
actuarial (loss)/gain before tax adjustments	<u>(6,858)</u>	<u>494</u>
net cumulative actuarial losses since 25 January 2003	<u>(22,847)</u>	<u>(15,989)</u>

## Notes to the Group Accounts

### 19. cash flow statement : reconciliation of surplus on ordinary activities to net cash inflow from operating activities

	2014-15 £000	2013-14 £000
operating surplus/(loss)	4,232	(1,119)
depreciation charges	8,401	9,241
impairment of fixed and other assets	-	4,279
amortisation of goodwill	1,915	1,879
decrease in stocks	1,984	2,619
increase in debtors	(3,563)	(742)
decrease in creditors	(3,351)	(3,046)
movement in pension liability	(1,135)	(953)
pension funding credit on curtailment	(134)	(2,570)
net cash inflow from operating activities	<u>8,349</u>	<u>9,588</u>

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

	£000	£000
decrease in cash for year	(4,560)	(2,063)
cash outflow/(inflow) from change in net debt and lease financing	<u>2,221</u>	<u>(2,895)</u>
change in net debt resulting from cash flows	(2,339)	(4,958)
new finance leases	(2,193)	(1,581)
transfer from incoming society	-	(54)
movement in net debt for the year	(4,532)	(6,593)
opening net debt	(39,091)	(32,498)
closing net debt	<u>(43,623)</u>	<u>(39,091)</u>

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

	at 25 Jan 2014 £000	cash flow £000	other non cash changes £000	at 31 Jan 2015 £000
cash at bank and in hand	6,472	(2,722)	-	3,750
bank overdraft	-	(1,838)	-	(1,838)
	6,472	(4,560)	-	1,912
debt due after 1 year	(42,000)	-	1,000	(41,000)
debt due within 1 year	(1,000)	1,000	(1,000)	(1,000)
finance leases	(2,563)	1,221	(2,193)	(3,535)
	(45,563)	2,221	(2,193)	(45,535)
total	<u>(39,091)</u>	<u>(2,339)</u>	<u>(2,193)</u>	<u>(43,623)</u>

22. segmental reporting

class of business	sales		operating surplus/(loss)		net assets	
	2014-15 £000	2013-14 £000	2014-15 £000	2013-14 £000	2014-15 £000	2013-14 £000
retail / wholesale	381,276	376,189	2,376	(2,903)	18,187	24,911
property	5,125	4,926	1,856	1,784	68,602	65,275
continuing	<u>386,401</u>	<u>381,115</u>	<u>4,232</u>	<u>(1,119)</u>	<u>86,789</u>	<u>90,186</u>

23. operating lease commitments

At 31 January 2015 the commitment to make payments during the next year in respect of operating leases was as follows

leases which expire	land & buildings	plant vehicles & fixtures	land & buildings	plant vehicles & fixtures
	2014-15 £000	2014-15 £000	2013-14 £000	2013-14 £000
within one year	1,494	387	1,799	225
within two to five years	2,410	140	2,513	271
after five years	2,990	-	3,467	-
	<u>6,894</u>	<u>527</u>	<u>7,779</u>	<u>496</u>

## Board Members

Board Directors	Board	General Purposes	Audit	Remuneration	Search
Mr H Cairney (P)	13	2 (C)		2	2 (C)
Mr J Watson (VP)	12	2	3	1 (C)	
Mr J Anderson	12	2	3 (C)		
Mr I Bailey *(R 3/9/14)	6		2		2
Mr P Devenney *(R 15/9/14)	8				2
Mr J Gilchrist	11		1	1	
Mr T McKnight	12	2	3		
Mr J Miller	12			2	
Mr D Paterson	10				3
Mr M Ross (A 30/9/14)	3				
Mr A Simm Δ (A 20/11/14)	1				
Mrs G Smallman	11				3
Mr E Thorn (A 29/9/14)	3				
Miss A Williamson	12	2		1	
Total meetings held	13	2	3	2	3

### KEY

P = President VP = Vice President A = Appointed R = Retired C = Committee Chair

### DIRECTORS

At the OGM held on 29 & 30 September 2014, Grace Smallman, John Miller and Tom McKnight were re-elected to serve as Directors for a further 3 year term of office, Michael Ross and Eddie Thorn were elected to serve 2 year terms of office.

\* Ian Bailey and Pat Devenney retired from the Board and West Regional Committee on 3 September 2014 and 15 September 2014 respectively with our thanks and appreciation for their long service to the Society.

Δ Following the resignation of Pat Devenney from the Board and West Regional Committee on 15 September 2014, the Board appointed Andy Simm to fill the casual vacancy. The West Regional Committee have nominated Andy Simm for election to the Board.

As a result of the appointment of Harry Cairney as President, Jim Watson as Vice President and a number of changes to the Board, a review of the composition of Board Committees was undertaken and the Board approved the following changes on July 2014. Harry Cairney resigned as Chairman of the Remuneration Committee and was appointed as Chairman of the Search Committee. Jim Watson resigned as Chairman of the Audit Committee and was appointed as Chairman of the Remuneration Committee and John Anderson was appointed as Chairman of the Audit Committee and Jim Gilchrist was appointed to the Audit committee. On 10 November 2014, Eddie Thorn was appointed to the Audit Committee and Michael Ross was appointed to the Search Committee. On 11 December 2014, Andy Simm was appointed to the Remuneration Committee.

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



## Regional Committee Members

East Regional Committee		West Regional Committee		North Regional Committee	
Miss A Williamson (C)	8	Mr T McKnight (C)	8	Mr J Anderson (C) ◇	8
Mr H Cairney (VC)	7	Mr J Watson (VC)	9	Dr R McCready (VC)	6
Mr D Paterson (MS)	7	Mr J Gilchrist (T)	9	Mrs M Smith (MS) ◇	8
Mr D Jamieson	7	Mr M Ross (MS) ◇	9	Mrs A Anderson	8
Mr K Kelly	7	Mr I Bailey (R 3/9/14)	3	Mr A Cullen	5
Mr J Mackenzie	6	Mr P Devenney (R 15/9/14)	5	Mrs S Downie ◇	8
Mr J Miller ◇	8	Mr I Gilchrist ◇	9	Mr A Maclean	6
Mr D Reid ◇	8	Mrs M Kane	9	Mr D Patterson	5
Mrs J Reid	7	Mr R Kelt	8	Mr A Stokes	7
Mrs G Smallman ◇	7	Mr G Randell ◇	7		
Mr E Thorn	7	Mrs K Scott	7		
		Mr A Simm	9		
Total meetings held	8	Total meetings held	9	Total meetings held	8

### KEY

C = Committee Chair VC = Vice Committee Chair MS = Minute Secretary T = Treasurer A = Appointed R = Retired  
 ◇ Regional Committee Members due to retire by rotation in April 2015 and were nominated for re-election at OGM 2014.

# Notice of Meeting and Agenda of Business

Notice is hereby given that an Annual General Meeting of the Society will be held on Monday, 27 April 2015 at 7.00pm at the following locations: The Hilton Edinburgh Grosvenor Hotel, Grosvenor Street, Edinburgh, EH12 5EF and Panorama Suite, Hamilton Park Racecourse, Hamilton, South Lanarkshire, ML3 0DW and on Tuesday 28 April 2015 at 7.00pm at The Hilton Treetops Hotel, 161 Springfield Road, Aberdeen, AB15 7AQ.

## AGENDA OF BUSINESS

1. Synopsis of Minutes of Ordinary General Meetings held on 29 & 30 September 2014
2. Appointment of Tellers
3. Elections:  
Regional Committees:  
**East Region:** 3 Members to serve for 3 years;  
**North Region:** 4 Members to serve for 3 years;  
**West Region:** 4 Members to serve for 3 years  
Board nominee:  
**West Region:** 1 Member to serve for 2 1/2 years - until OGM 2017
4. Directors' Report/Annual Accounts
5. Synopses of Minutes of Board Meetings
6. Consideration of remuneration for Office Bearers and Directors:  
Present remuneration (per annum):  
**Central Board:** President £10,870 ; Vice President £7,750 ; Directors £5,345;  
**Regional Committees:** Chairman £3,170 ; Vice Chairman £2,620; Treasurer £2,460;  
Minute Secretary £2,295; Committee Members £2,185; Tellers £5
7. Consideration of scale of Directors' Delegations and Attendance payments:  
Present Scale Day Payment £105; Part Day Payment £65; Attendance Payment £35
8. Membership & Community Development Report
9. General business

## ADMISSION TO GENERAL MEETING

If you have been a Member for 6 months or more and wish to attend the meeting, please complete the registration form on the Society's website or telephone 0131 335 4433. If you plan on attending the meeting and would prefer the Chairman to ask a question on your behalf, you may submit your question in advance of the meeting in writing, by telephone or via the Society's website.

If you live in the North Region and joined the Society between 28 October 2014 and 5 March 2015 and wish to attend to observe the meeting in Aberdeen, please complete the registration form on the Society's website or telephone 0131 335 4433. The deadline for registration and submitting questions prior to the Meeting is Monday 20 April 2015 at 4.00pm.

Members will be admitted to the General Meeting by presenting their admission ticket and Share Book. With the exception of Members living in West Lothian who may now attend and vote at the meetings in either Edinburgh or Hamilton, all other Members whose principal residential address lies within the geographic boundaries of that region will only be entitled to vote for individuals to represent that region unless approval is granted by the Secretary in advance of the meeting.

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

The next General Meeting (Ordinary General Meeting) will be held on Monday 5 October 2015 in Edinburgh and Hamilton and on Tuesday 6 October 2015 in Brechin.





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**Scottish Midland Co-operative Society Limited**

Registered Office: Hillwood House, 2 Harvest Drive, Newbridge, Edinburgh EH28 8QJ