

Interim
Report
for the 26 weeks
ended 29 July 2017

Scotmid
co-operative

Directors, Officers & Advisors

DIRECTORS

President

Harry Cairney

Vice President

Jim Watson

John Anderson

Sheila Downie

Iain Gilchrist

John Miller

David Paterson

Tom McKnight

Michael Ross

Andy Simm

Grace Smallman

Eddie Thorn

Sandra Williamson

MANAGEMENT EXECUTIVE

Chief Executive Officer

John Brodie

Chief Financial Officer & Secretary

John Dalley

Head of Innovation & Change

Stewart Dobbie

Head of Property & Facilities

Maurissa Fergusson

Head of People & Performance

Steve McDonald

Chief Operating Officer

Colin McLean

ADVISORS AND REGISTERED OFFICE

Independent Auditors

KPMG LLP

Bankers

The Royal Bank of Scotland plc

Solicitors

Anderson Strathern WS

Registered Office

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

Directors' Report

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

Scotmid Society delivered another steady half year performance against a background of unprecedented uncertainty. In the 26 weeks ended 29 July the Society's trading profit was £2m, in line with the equivalent period last year, and turnover of £184.7m was £0.8m down. The result was achieved in a period when the Society had to absorb significant additional costs including the Apprenticeship Levy, an increased cost of imported goods, a Scottish rating revaluation and the ongoing inflationary impact of the National Living Wage. The Society's balance sheet strengthened further with the asset base growing by £1.4m to £92.9m.

The Society's food convenience business delivered a solid performance with turnover growth driven by the continued rollout of food-to-go and efficiency enhancements from our "make it simple" programme. Our Semichem stores delivered a sales performance ahead of the non-food market in Scotland but the bottom line result was impacted by supplier price increases.

Scotmid Property had a very successful six months delivering a strong half year result and making significant progress on the portfolio diversification strategy. The sale of a major retail commercial property (Morningside Road, Edinburgh) has been completed and the programme of reinvestment of the proceeds in quality industrial and residential

assets is well advanced. The Funeral business had more mixed results with good growth in pre-need funeral bond sales but a reduction in the number of funerals conducted.

Development of the Society's close links with local communities continued with the launch of "Community Connect" which is on trial with members in our North Region. Members using their Community Connect card collect a vote each time they shop in a store and will have the opportunity to vote for their favoured good cause groups at the North Members Meeting (OGM) in October. Initial results of the trial have been positive and Community Connect will be extended to the West membership region for the next cycle running to the AGM in April 2018.

At the year-end we highlighted the significant cost challenges faced by the Society in 2017. At the half-way stage, the Society has made good progress facing up to these challenges through innovation and cost efficiency measures. We also made significant progress with the diversification of our investment property portfolio with the successful re-investment of proceeds from the sale of the Morningside Road property. We expect the second half of 2017 to be equally or even more challenging with increased cost growth from external factors and the continued market uncertainty over the Brexit outcome. To overcome these challenges the Society will therefore continue to focus on innovation, "make it simple" initiatives and investment for long-term sustainable growth.

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Directors' Report



Above & below right: The relaunch of the Pllrig food store following a refresh. **Below left:** The "Kitchen" food-to-go proposition has been rolled out to a number of stores. **Bottom left:** High profile food-to-go breakfast graphics at the Balerno 2 store. **Bottom right:** Food Operations Director Kevin Plant picks up the CTP award for Most Trusted Ethical Retailer 2017.



Directors' Report

FOOD RETAIL

Against the backdrop of a difficult food market and economic uncertainties, Scotmid's food convenience stores performed well. This was driven by the continued benefit of an improved Coop product range and offer, together with our own Scotmid product differentiation programme. Food-to-go was the main focus of the differentiation programme, helping the business to deliver growth in like-for-like sales despite the poor summer in Scotland. Sales growth was also supported by a programme of activity including additional promotional space and locally sourced products across key categories.

The food convenience business absorbed significant extra costs in the first half of the year driven by the National Living Wage, Apprenticeship Levy and increased business rates. The Society responded to this challenge with our "make it simple" programme. This is an ongoing project to reduce unproductive task and implement process simplification and efficiency improvements. "Make it simple" initiatives completed in the period included the installation of upgraded cash solutions in 50 stores and new stock handling trolleys in 60 stores which help to reduce double handling.

Food-to-go continues to be the key focus area with the development of our offer and the supporting infrastructure to deliver sales growth. Our market-leading bacon roll and coffee offer was heavily promoted to increase awareness. Upgraded

"backline" store preparation areas have now been installed in over 130 stores, which has enabled us to trial new offers of soup, baguettes, slushee, hot chicken and hotdogs. This has been supported by a comprehensive programme of food-to-go training.

The Coop buying group's "range reset" programme was completed successfully and enhanced controls over the introduction of new lines and the clearance of delisted lines has seen de-ranged stock in the business at its lowest level for many years.

In addition to investment to support the food-to-go programme, other investment in the store estate included refresh works at our Pilrig, Newhaven, Clarkston and Stockbridge stores. Hunterfield and Coupar Angus had refit work completed and their post offices converted to "Local" format as part of the ongoing Post Office transformation programme. Our two loss-making petrol filling stations in Scotland were successfully sold to a multiple forecourt operator. The energy efficiency drive continued with new ceiling lights, LED signage and fridge lights being installed across the estate. We have also invested in additional selling footage across the stores including side-stacks, increased promotional shelving and the introduction of wine towers.

The success of the Society's food business was acknowledged externally with the Convenience Tracking Programme (CTP) award for the most Trusted and Ethical Convenience Retailer 2017.

Food-to-go continues to be the key focus area with the development of our offer and the supporting infrastructure to deliver sales growth.

Directors' Report



SEMICHEM

The non-food retail market in Scotland continued to be challenging with average like-for-like non-food sales reported by the Scottish Retail Consortium down by an average of 2.9% in the first six months of the Society's financial year. Consumer uncertainty driven by rising inflation and weak consumer confidence primarily due to Brexit has taken its toll on non-discretionary spend this year. The Scottish government reported that over 180 retail outlets and 6,400 jobs have been lost in Scotland in the last 12 months, more than in any other part of the UK. As a high street retailer, Semichem is not immune to these pressures and responded with tight control of the cost base and careful management of the balance between driving sales and margin. Our major suppliers have also reacted to the market uncertainty by consolidating their brands, increasing prices and tightly managing stocks of new product and clearance lines.

Semichem continued to benefit from growth in the sales of private label ranges and a number of our stores in Northern Ireland also experienced growth in cross-border trade due to the weaker pound. Overall with the careful management of deeply discounted customer offers the business delivered a like-for-like sales performance ahead

of the non-food market. In addition, in-store efficiencies together with savings in business rates and advertising have helped to offset the increase in costs from the National Living Wage and the Apprenticeship Levy. Central buying and stock management support has also been simplified and where landlords have not agreed to reduced rents it has been necessary to take the difficult decision to close some loss-making stores.

Moving forward for Semichem, a review of the brand, product offer and the supply chain has commenced and this will be supported by store trials to test and enhance the store proposition. The decision has been taken to focus on our stores so Semichem on-line has been converted to a promotional website. Investment in the Semichem business in the first six months included four mini-refits (Haddington, Port Glasgow, Dunoon & Stonehaven) and this programme will continue into the second half. ATM's were installed in a number of stores to drive additional income and the distribution vehicle fleet has been renewed. Investment was also made in new hands-free headsets and changes to the layout of stock in the warehouse to increase picking rates and enhance productivity.

Directors' Report



Above: The Society acquired a block of eight flats in Edinburgh.



Above: The new funeral office in Dunfermline.

PROPERTY

Scotmid's Property business continued to make progress and posted a record surplus for the half year. This was driven by improved rental income dampened by increased expenses in the period including vacant rates and legal/professional fees. Local residential and commercial property markets were generally healthy over the period despite underlying macro-economic uncertainties, being underpinned by low unemployment, a healthy supply of finance and low interest rates.

Our commercial rental income grew due to additional income generated from new lettings and lease renewals. Residential rental grew strongly through a combination of new investment and rental growth. The demand for private rented accommodation remains robust and core Edinburgh property has shown continued rental growth.

To avoid the over concentration of value and risk in one asset and as part of the Society's diversification strategy, the key focus for the property business this year was sale of our highest valued retail investment property asset and the reinvestment of the proceeds in similar quality assets with good long-term growth prospects. Our Morningside Road property in Edinburgh was sold to an overseas investor successfully generating a gain on sale. Re-investment of the proceeds is also proceeding well with the purchases of a modern block of 8 flats in Edinburgh and a prime industrial trade counter investment in central Glasgow. Other potential

investment opportunities have been identified and the Society is on track to complete the programme of re-investment by the year end.

Other development activity in the period included the completion of the conversion of the former Seaton Valley head office into four modern two bedroom flats. We also completed the successful sale of the vacant former head office of Penrith Society which has generated further funds for re-investment in the property portfolio.

FUNERALS

Scotmid Funerals conducted fewer funerals in the first half of the year than the equivalent period last year. Factors that may have contributed to this performance include increased competition, market factors and a reduction in advertising activity. However the business saw an encouraging increase in the number of funeral plans sold, so overall it was a mixed result.

The focus on improving the quality of facilities and service we offer to our clients continues. A new funeral office in Dunfermline opened in April and is performing well. We have also completed refurbishment works at our Leith and Fountainbridge funeral offices. Our strategy will continue to focus on quality and organic growth but will also include some additional areas of focus in response to the evolving market.

Directors' Report



Above: The Society successfully sold the investment property on Morningside Road.

SUPPORT SERVICES & OTHER SOCIETY MATTERS

A key priority for the support teams over the last six months has been the "make it simple" programme, rolling out a range of process improvements to save task in our retail stores. A new Shelf Edge Labelling solution was implemented in our food convenience business, cash handling processes have been simplified and intelligent counter cache devices installed in a number of stores.

Cross functional teams have also supported a range of other projects and initiatives including the further rollout of electronic product tagging, energy efficiency measures and the upgrade of the Society's network. Work has also progressed on the Society's response to the Modern Slavery Act and planning for the General Data Protection Regulation (GDPR) which comes into force in May 2018. In addition the Society was awarded the Fair Tax Mark, the UK's only certification for businesses behaving responsibly on corporation tax, for the second consecutive year.

With the support of Conviviality Retail Plc, the trial of the Bargain B's stores has been extended. Like-for-like sales in trial stores continue to grow and we currently have two potential new sites working their way through the licensing process.

The Society's surplus before tax at the half year was £1.4m, £1m up on 2016. This improvement was largely due to the profit crystallised from the sale of our Morningside Road investment property offset by exceptional expenses relating to business rationalisation costs. As a result the Society's net asset base increased by £1.4m in the period (pre-tax) to £92.9m. The Society generated a positive cash flow of £2.9m in the first half of the year assisted by a timing benefit from the Morningside Road receipt, with around two thirds of the proceeds re-invested at the half-year stage.

MEMBERSHIP & COMMUNITY

Implementation of the Society's updated Membership Strategy has commenced with an emphasis on three main projects: development of membership in the Lakes & Dales with the appointment of a new Membership Officer for the area; cleansing of the Society's database; and development and delivery of the new community engagement initiative Community Connect.

North region members have trialled the initiative whereby votes are collected each time a member shops in store and uses their Community Connect

Directors' Report



Above: Record breaking cyclist Mark Beaumont helped launch the trial of Community Connect in the North membership region.

card. Three good cause groups, chosen by members, will be invited to give presentations at the North OGM, before members cast their votes to decide which group will be given a financial award. In addition, members are entered into a monthly prize draw each time they shop in store to win up to £100 in Society vouchers. Initial trial results have been positive with feedback on processes highlighted and changes to enhance the process identified. The impact on member attendance at the OGM is still to be gauged, however, given the achievements to date, the Board has agreed to extend the trial to the West membership region for the next Community Connect cycle to be awarded at AGM 2018.

Members continue to receive updated communications with the 20th edition of Jigsaw magazine issued in July. In addition to the usual updates and offers, members were invited to enter a competition to update their digital contact details. The Social Media and Members' App offer continues to be developed.

The Regional Committees continue to provide support to local communities via the Community Grant funds with 579 groups supported this year. Examples of groups supported include the Seagull

Trust Ratho (canal cruises for the elderly and people with special needs), New Hartley in Bloom (local litter picks), Angus Voice (advocacy project for mental health) and West Dumbartonshire Food share.

The Society's members, colleagues and customers raised £345,000 during the year for our Charity of the Year, Childline. The money raised will help fund 86,250 contacts from young people. Samaritans was announced as the Society's new Charity of the Year, with a broad range of activities planned throughout the year.

APPRECIATION

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

Signed on behalf of the Directors

Harry Cairney, President

Jim Watson, Vice President

The Society in Focus



Above: The launch of our new charity partnership for 2017/18 with Samaritans.



Above left and below: Alyth Brownies and Chapehall Allotments, just two examples of hundreds of local groups to receive funding through the Society's Community Grant Programme.



Above: The Society ended its partnership with Childline with a grand total of £345,000 having been raised for the charity



The Society in Focus



Left: The Society continued its support of St. Andrew's First Aid with a donation to help the charity purchase bikes for their cycle response squad.

Above: Society President Harry Cairney (left) congratulates Malcolm Brown, Head of Corporate Communications, on his retirement after 11 years with Scotmid.



Above: Visitors to the Scotmid stand at the Royal Highland Show.



Above right: Society employees took part in "Big Co-op Clean" events as part of Co-operatives Fortnight.



Above and right: The Society supported the Edinburgh Fairtrade Festival as part of Fairtrade Fortnight.



Interim Statement of Group Trading Activities

29 July 2017
£000

30 July 2016
£000

Turnover	184,740	185,531
Profit		
Trading profit	1,984	1,977
Exceptional items	461	(387)
Operating Profit	<u>2,445</u>	<u>1,590</u>
Net finance charges	(742)	(872)
Surplus before distributions	<u>1,703</u>	<u>718</u>
Share interest/grants and donations	(332)	(340)
Surplus before taxation	<u>1,371</u>	<u>378</u>
Net Assets		
Fixed assets	157,131	153,746
Net current assets	9,383	4,003
Long term liabilities	(49,423)	(47,677)
Provisions for liabilities and charges	(1,423)	(2,231)
Pension liability	<u>(22,789)</u>	<u>(16,003)</u>
Net assets	<u>92,879</u>	<u>91,838</u>
Cash Flow		
Inflow from operating activities	3,942	3,594
Net interest paid	(870)	(941)
Corporation tax (payment)/receipt	(675)	588
Capital expenditure/acquisitions	(9,867)	(4,008)
Proceeds from sale of fixed assets	10,356	580
Decrease in members' share capital	(23)	(13)
Reduction/(increase) in net debt	<u>2,863</u>	<u>(200)</u>
Net Debt		
Opening net debt	(32,003)	(34,981)
Reduction/(increase) in period	<u>2,863</u>	<u>(200)</u>
Closing net debt	<u>(29,140)</u>	<u>(35,181)</u>

Notes to the Interim Statement

- The financial information does not constitute statutory accounts and is not audited.
- Turnover includes cash sales, goods sold on credit and property rental income exclusive of value added tax, funeral disbursements and discounts. Investment properties revaluation adjustments are made annually at the year end. A property revaluation is not undertaken for the interim results. Pension revaluation adjustments are made annually at the year end and consequently are not reflected in the interim statement. No provision has been included in the net assets statement for any possible tax charge, either current or deferred, which may arise in the current year.

Notice of Meeting & Agenda of Business

Notice is hereby given that an Ordinary General Meeting of the Society will be held on Monday 2 October 2017 in the President's Suite, BT Murrayfield Stadium, 110 Roseburn Street, Edinburgh, EH12 5PH and Panorama Suite, Hamilton Park Racecourse, Hamilton, South Lanarkshire, ML3 0DW and on Tuesday 3 October 2017 at Brechin Community Campus, Duke Street, Brechin DD9 6JZ.

AGENDA OF BUSINESS

1. Appointment of Scrutineers
2. Community Connect Presentations and Voting
3. Synopsis of Minutes of Annual General Meeting held on 24 and 25 April 2017
4. Nominations for Regional Committees:
East Regional Committee: 4 Members to serve for 3 years
Seaton Valley/Lakes & Dales area: 1 Member to serve for 3 years
North Regional Committee: 4 Members to serve for 3 years; and 1 Member to serve for 2 years
West Regional Committee: 4 Members to serve for 3 years; and 1 Member to serve for 2 years
Penrith/Lakes & Dales area: 1 Member to serve for 3 years
5. Elections to the Board:
East: 2 Regional Committee Members to serve for 3 years
West: 2 Regional Committee Members to serve for 3 years
6. Directors' Report/Interim Accounts
7. Consideration of scale of Directors' Delegations and Attendance payments:
Present Scale Day Payment £105; Part Day Payment £65; Attendance Payment £35
8. Membership and Community Development Report
9. Any other competent 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. North Region members who joined by 31 July 2017 and wish to attend the Community Connect presentations, cast their votes and observe the remainder of the OGM should also register to attend the meeting. 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.

The deadline for registration is Monday 25 September 2017 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 attend and vote at the meetings in either Edinburgh or Hamilton, all other members will only be entitled to vote for members to represent that region where they live unless approval is granted by the Secretary in advance of the meeting.

East and West meetings will start promptly at 7.00pm. To ensure there are no disruptions late entry will not be permitted. The North meeting will start promptly at 6.30pm for Community Connect presentations and voting and at 7.00pm for the remainder of the OGM. Members will not be admitted to the meeting once the Community Connect voting has concluded.

The next General Meeting (Annual General Meeting) will be held on Monday 30 April 2018 at Edinburgh and Hamilton and on Tuesday 1 May 2018 in Dundee.

Board Members

The following tables show the number of meetings attended by each member of the Board or Committee compared to the total of number of meetings held in the period (shown at the bottom of each table). Meetings held from 29 January 2017 - 29 July 2017

Board Directors	Board Meetings	General Purposes	Audit	Remuneration	Search
Mr H Cairney (P)	8	1 (C)			3(C)
Mr J Watson (VP)	8	1		3 (C)	
Mr J Anderson	8	1	2 (C)		
Mrs S Downie	8				3
Mr I Gilchrist	7				2
Mr T McKnight *	7		2		
Mr J Miller *	8			2	
Mr D Paterson	7				3
Mr M Ross	5				0
Mr A Simm *	7	1		3	
Mrs G Smallman *	7				3
Mr E Thorn	8		2		
Miss A Williamson	7	0		2	
Total meetings held	8	1	2	3	3

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

* Board members due to retire by rotation at the Ordinary General Meeting on 2 October 2017 who have been nominated by their Regional Committees and are eligible for re-election.

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 and a member of The Co-operative Group National Member Council.

Regional Committee Members

East Regional Committee		West Regional Committee		North Regional Committee	
Miss A Williamson (C)	5	Mr A Simm (C) Δ	5	Mr J Anderson (C)	5
Mr H Cairney (VC)	5	Mr J Watson (VC)	5	Dr R McCready (VC)	4
Mr D Paterson (MS)	5	Mr J Gilchrist (T)	5	Mrs M Smith (MS) ◊	5
Mr A Clark Hutchison	5	Mr M Ross (MS) ◊	2	Mrs A Anderson	5
Mr C Henderson	5	Mr S Ballantyne ◊	5	Mr A Cullen	3
Mr K Kelly	4	Mr I Gilchrist ◊	5	Mrs S Downie ◊	5
Mr J Mackenzie	4	Mrs M Kane	4	Mr A M Maclean	4
Mrs R McCabe ◊	5	Mr T McKnight Δ	3	Mr D Patterson	3
Mr J Miller ◊ Δ	4	Mr G Randell ◊	3	Ms E Farquahar ◊	4
Mr D Reid ◊	3	Mrs K Scott	5	Mr A Stokes	5
Mrs J Reid	5	Ms R Smith	2	Ms E Pipe	5
Mrs G Smallman ◊ Δ	5	Ms K Harmon	4		
Mr E Thorn	4				
Total meetings held	5	Total meetings held	5	Total meetings held	5

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

◊ Regional Committee members due to retire by rotation in April 2018 and are eligible for re-nomination to the Regional Committee.

Δ Regional Committee member who has been nominated by their Regional Committee to stand for election to the Board and is eligible for election.

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