

SCOTTISH MIDLAND CO-OPERATIVE SOCIETY LIMITED



Interim Report

for the 26 weeks
ended 28 July 2018

Directors, Officers & Advisors

DIRECTORS

President

Harry Cairney

Vice President

Jim Watson

Sheila Downie

Iain Gilchrist

John Miller

David Paterson

Richard McCready

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

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.

With the benefit of very favourable weather conditions for our food convenience business, the Society delivered a strong half year performance despite a very unforgiving retail market. In the 26 weeks ended 28 July the Society's trading profit was £2.3m, 16% up on the equivalent period last year. This positive result was achieved in a period when the Society continued to face significant external cost increases. Trading turnover increased by £3m to £184m and the Society's balance sheet strengthened further with the net asset base now in excess of the £100m mark.

Despite externally imposed cost increases, the Society's food convenience business performed well with turnover growth driven by the favourable weather and the continued rollout of food-to-go. The background trading conditions for our Semichem stores were very difficult but the trading result improved at the half year because of action taken to reduce costs. Progress was also made with the trial of new store concepts. Scotmid Property continued to benefit from the net investment in our property portfolio. Funerals had a very strong half year result with a gain in market share.

Development of the Society's community activity in the period included the roll out of Community Connect into the East membership

region and other high-profile support for community wide organisations such as the Erskine Hospital, St Andrews First Aid, Great North Air Ambulance and the Social Bite Village. Community Connect also assisted the democratic membership activity with increased member engagement and attendance at our member meetings.

At the year-end we highlighted the cloud of an uncertain Brexit and that 2018 was likely to be yet another difficult year for retailers generally. This prediction has been confirmed with a large number of high street retailers hit hard by market issues and an increased probability of a "no deal" Brexit. At the half-way point the Society has performed strongly despite the very challenging general market conditions with the benefit of exceptionally supportive weather for our food retail business. Clearly we must be cautious when assessing this performance, but the background work on differentiation and cost efficiency measures has continued to underpin a favourable underlying result. The likely return to more normal weather will make the second half of 2018 more challenging. The Society will therefore continue to focus on innovation (including Semichem trials), effective investment and tight control of costs to continue to make progress in this unforgiving retail market.

Work on differentiation and cost efficiency measures has continued to underpin a favourable underlying result.

Directors' Report



The new-look store at Uddingston.



Food-to-go at Moredun.



New in-store butchery counter at Uddingston.



Board Member Iain Gilchrist officially opened the Uddingston store in July.

Directors' Report

FOOD RETAIL

In the first half of 2018, Scotmid's food convenience stores performed very well, assisted by the positive impact of the most extreme weather seen in Scotland for decades. Shoppers preferred to shop locally during the "Beast from the East" so our stores benefitted significantly during the snow. However the weather also severely disrupted the Coop supply chain resulting in a relatively slow recovery in a number of our stores. The summer period was one of the warmest experienced for the past 40 years. During the prolonged hot and dry weather the supply chain held up well and the business achieved record weekly sales over a sustained period.

The strategy of differentiation through the development of "food-to-go" continued, but with the benefit of the hot weather it was the key convenience categories and summer favourites that further boosted sales to deliver comparable turnover growth significantly ahead of the Scottish market. Minimum Unit Pricing of alcohol was introduced in Scotland in May, however with the glorious summer and the benefit of the 2018 World Cup, it has been difficult to draw conclusions about the impact of this new legislation.

With significant rises in the National Living Wage, business rates and utility costs, tight cost control and the benefit of efficiency

measures have been important to the delivery of the positive half-year result. The Society's "make it simple" project continued with further investment in both capital and process improvement to reduce unproductive store task.

The first half of 2018 saw continued investment in the store estate with refits completed at East Calder, Moredun, Bankton and Uddingston. A new look and feel has been trialled in these stores which includes new Scotmid branding, signage and colour palette. The fit out style has been refreshed with an expanded range of food-to-go products, new LED lighting and energy efficient refrigeration cabinets. The cabinets have the latest technology built-in and are supplied by refrigeration plant which is managed by a control system and run on a natural refrigerant (CO2). In addition, the equipment required to expand the range of food-to-go products was rolled out to more stores and revamp of the "Kitchen" stores was completed.

On 1 July Kevin Plant was confirmed as the new Head of Scotmid Food. Kevin was previously the Head of Food Operations after holding a similar role with Semichem. The success of the Society's food business was recognised externally with the HIM Awards' Favourite Food-to-Go Retailer 2018.

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Directors' Report



The launch of the SC Beauty trial store in Johnstone.

SEMICHEM

Market factors such as economic and political (Brexit) uncertainty coupled with structural changes in the retail industry have had a particularly damaging impact on non-food retailers. More names have disappeared from the high street and there has been an increase in CVAs (Company Voluntary Arrangements) across the retail sector. Unlike food retail, the change in customer shopping behaviour during the extreme weather in the first half of 2018 was generally unhelpful for non-food retailers. Semichem also felt the impact of lower consumer confidence in Northern Ireland and a reduction in cross-border trade. Against this very unhelpful market background, Semichem delivered an improved half-year result. This was achieved by the tight management of the cost base, closure of loss making stores and a reduction in business rates that helped to offset a decline in sales.

As part of continuous improvement activity and to build on the first trial at Bathgate, trials were launched in a further nine stores featuring some specific individual elements

of the original Bathgate model. These included separate testing of the impact of new store layouts, category space allocation, range consolidation and new ranges. A further key development was the recent launch of the first two SC Beauty stores – in Johnstone in the West of Scotland and Foyleside in Northern Ireland. These trial concept stores have a greater emphasis on cosmetics, skincare and health and beauty products and will enable a test of a potential alternative way forward for Semichem as part of a sustainable long-term model.

Other store development work included minor refit works at Newton Stewart, Coatbridge, Castle Douglas and Larne. The warehouse IT system was upgraded in the period with a number of benefits for both warehouse and stores and a lease extension for our depot at Livingston was secured.

On 1 July, Karen Scott was appointed as the new Head of Semichem, Karen has been promoted internally from within the Society after successfully developing through a number of roles in retail and central support services.

Directors' Report



Investment in the funeral business continued with the purchase of new vehicles.

PROPERTY

Scotmid's Property business posted another record surplus for the first half of 2018 driven by improved rental income during the period. Despite the continuing uncertainty around Brexit, the residential and commercial property markets have remained relatively robust. The notable exception is commercial retail property with several high profile non-food retailing failures and CVAs occurring including Poundworld, New Look, The Original Factory Shop and House of Fraser. The Society recognises the risk associated with the retail property sector and has continued with the long-standing Society strategy of diversification and reinvestment in other property categories.

Despite a lease expiry for a significant tenant, underlying commercial rental income increased in the first half due to successful re-investments, new lettings and lease renewals. Residential rental income grew year-on-year and this was achieved through new investment, rental growth and reduced voids.

The level of demand for quality private rented accommodation remains strong, keeping voids low and modest rental growth continues to be enjoyed. Some fundamental changes to residential tenancy law in Scotland were introduced in late 2017 for which the Society was well prepared and these have not had any discernible impact on the business.

Other development activity in the period included the acquisition of a development site in Drumnadrochit and commencement of construction of a new Scotmid food store (relocation) and four adjacent units for complimentary letting. The build is scheduled for completion in early 2019.

FUNERALS

Scotmid Funerals recorded a strong performance in the first half of 2018 driven by a significant increase in funeral numbers compared to a difficult first half last year. As a result the Society saw positive growth in market share.

Competition in the marketplace continues to grow together with a focus on affordable funerals. The Society remains committed to transparency of pricing including the recent introduction of a 'Cremation Without Ceremony' option.

Scotmid Funerals' strategy for organic growth for the funeral business continued with the opening of the Clermiston office in Edinburgh earlier this year. The Society also continues to play an important role within industry organisations and these include membership of the Scottish Working Group on Funeral Poverty, representation at the Scottish Parliament, engagement with the Scottish Government on the Burial & Cremation Act (Scotland) 2016 and the devolution of Social Security powers which includes the Social Fund Funeral Payment.

Directors' Report



The rollout of new CO2 refrigeration units has been a major project for the Store Development Team.

SUPPORT SERVICES & OTHER SOCIETY MATTERS

In 2018 to date, central teams have provided support for a number of the Society's business development and continuous improvement projects.

The "Make it Simple" project has continued the drive to simplify and automate store processes with the intelligent counter cache solution deployed to a further 28 food stores – now in 154 stores in total. Process improvements, such as one-click compliance documentation printing and a simplified range review process were trialled, proven and rolled out. The processes and till developments to support Minimum Unit Pricing were successfully developed and implemented and a new touch screen handheld device for Food stores has been selected. In addition the design and testing of new store back office computers has been completed which will enhance the stores' cyber security profile.

Support teams completed preparation work for the introduction of the General Data Protection Regulation legislation (GDPR). All relevant documentation was assessed and where necessary amended, all our customer facing websites were updated with new

privacy statements. In the first half of 2018 agreement was reached on a new deficit recovery plan for the Society's retirement cash balance pension scheme based on the results of the actuarial valuation at January 2017.

Following the Administration of Conviviality Plc, the retail part of the business was bought by Bestway. Franchise stores in Scotland are not currently their priority given market differences like minimum unit pricing, licensing and volume promotional restrictions. The trial in Scotland has therefore been postponed and our Bargain B's trial stores in Troon, Stevenston and Annan have been closed.

The Society's surplus before tax at the half year was £0.9m, £0.4m down on 2017. This reduction was largely due to lower one-off profits from the sale of investment property which last year included proceeds from the sale of Morningside Road in Edinburgh. The Society's net asset base grew to £100.5m (pre-tax), the first time in the Society's history it has exceeded the £100m threshold and positive cash flow of £1.9m was generated in the first half of the year.

Directors' Report



Community Connect Winning Groups at the AGMs in April/May 2018.

MEMBERSHIP & COMMUNITY

The development of the Society's community activity continued with the rollout of Community Connect into the East membership region. The good cause groups that received funding of £15,000 for projects in the last round were North Member Region's Highland Cycle Ability Centre and West Member Region's Street Connect. Other significant community support and donations included the Great North Air Ambulance, GIST Support UK, Erskine Hospital, the Social Bite Village and St Andrew's First Aid. Demand for Scotmid's Community Grants has also increased following the success of the Community Connect Scheme enabling additional support to be given to our local communities.

Community Connect also had benefits for the Society's democratic member activity with increased member engagement, enhanced attendance at member meetings and greater media coverage. Preparation work for a thorough cleanse of the Society's member database was also completed. The Jigsaw magazine continues to provide an effective way for the Society to connect to its membership and the latest issue was well-received and included features on local suppliers, in-store tasting events and information on GDPR and how it affected members. The Society would like to record

its thanks to John Anderson who retired from the Scotmid Board after 20 years of service to the Society and over 50 years to the Co-operative movement. At the North AGM on 1 May, Richard McCready was elected to replace John and we also welcomed four new elected members on to our Regional Committees.

The Society's members, colleagues and customers raised £315,000 during the year for our Charity of the Year, Samaritans. The funds raised will help fund 63,000 contacts from people needing support. The Scottish SPCA, RSPCA and USPCA were announced as the Society's new Charities of the Year, with an exciting range of activities planned throughout the year and funds raised dedicated to the charities programme aimed at educating primary schoolchildren across the country about animal welfare.

APPRECIATION

The Directors would like to thank our members, customers and employee colleagues 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 Society launched our new Charity of the Year partnership with the Scottish SPCA at the animal welfare charity's centre in Hamilton

Below: The Society funded the Social Bite Village's Community Hub. The project – a village for homeless people in Edinburgh – came to fruition earlier this year.



The Society in Focus



Above: Scotmid Co-operative raised a phenomenal £315,000 for our 2017/18 Charity of the Year partner, Samaritans. That sum will help Samaritans to be there when it matters – funding 63,000 calls for help.



Above: Scotmid provided three specially-built VW Caddy vehicles for armed forces veterans' charity, Erskine.



Above Right: Scotmid Vice President Jim Watson with St Andrew's First Aid volunteers at the Sir Chris Hoy Velodrome in Glasgow after the Society agreed to sponsor the charity's uniforms for a further three years.



Right: The Great North Air Ambulance celebrate the donation of medical equipment from the Lakes & Dales Co-operative at their base in Langwathby.

Interim Statement of Group Trading Activities

28 July 2018
£000

29 July 2017
£000

Turnover	187,452	184,740
Profit		
Trading profit	2,296	1,984
Exceptional items	<u>(332)</u>	<u>461</u>
Operating Profit	1,964	2,445
Net finance charges	<u>(707)</u>	<u>(742)</u>
Surplus before distributions	1,257	1,703
Share interest/grants and donations	<u>(320)</u>	<u>(332)</u>
Surplus before taxation	<u>937</u>	<u>1,371</u>
Net Assets		
Fixed assets	165,195	157,131
Net current assets	4,884	9,383
Long term liabilities	(48,712)	(49,423)
Provisions for liabilities and charges	(1,971)	(1,423)
Pension liability	<u>(18,908)</u>	<u>(22,789)</u>
Net assets	<u>100,488</u>	<u>92,879</u>
Cash Flow		
Inflow from operating activities	6,088	3,942
Net interest, grants and donations	(707)	(870)
Corporation tax paid	(363)	(675)
Capital expenditure/acquisitions	(3,372)	(9,867)
Proceeds from sale of fixed assets	260	10,356
Decrease in members' share capital	(5)	(23)
Reduction in net debt	<u>1,901</u>	<u>2,863</u>
Net Debt		
Opening net debt	(32,741)	(32,003)
Reduction in period	1,901	2,863
Closing net debt	<u>(30,840)</u>	<u>(29,140)</u>

NOTES TO THE INTERIM STATEMENT

1. The financial information does not constitute statutory accounts and is not audited.
2. 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 1 October 2018 in the President's Suite, BT Murrayfield Stadium, 110 Roseburn Street, Edinburgh, EH12 5PH and DoubleTree by Hilton, Strathclyde Business Park, Phoenix Crescent, Bellshill, ML4 3JQ and on Tuesday 2 October 2018 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 30 April and 1 May 2018
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 2 years
North Regional Committee: 4 Members to serve for 3 years
West Regional Committee: 4 Members to serve for 3 years and 1 Member to serve for 1 year
Penrith/Lakes & Dales area: 1 Member to serve for 3 years and 1 Member to serve for 1 year
5. Elections to the Board:
East: 2 Regional Committee Members to serve for 3 years
West: 1 Regional Committee Member to serve for 3 years and 1 Regional Committee Member to serve for 2 years
North: 1 Regional Committee Member to serve for 3 years
6. Consideration of remuneration and scale of delegation payments for Directors and Regional Committee Members
7. Directors' Report/Interim Accounts
8. Consideration of Rule changes to:
 - a) Re-align the Board terms of office with the Regional Committee terms
 - b) Apply inflationary increases to amend the eligibility criteria for Board and Regional Committee members
 - c) Increase the threshold to pay interest on share capital balances
 - d) Increase the threshold to enable the register of members to be amended due to lost contact with members
 - e) Amend the eligibility criteria for nomination and service as a Regional Committee member
 - f) Delete obsolete rules
9. Membership, Community and Charity Report
10. Any other competent business

ADMISSION TO GENERAL MEETING

If you have been a Member for six months or more and wish to attend the meeting please complete the registration form on the Society's website or telephone 0131 335 4433. Members who joined by 31 July 2018 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 24 September 2018 at 4.00pm.

Members will be admitted to the General Meeting by presenting their admission ticket and either Share Book or Community Connect Card. With the exception of Members living in West Lothian who may attend and vote at the meetings in either Edinburgh or Bellshill, 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.

All meetings will start promptly at 6:30pm for Community Connect presentations and voting and at 7:00pm for the remainder of the OGM. To ensure that there are no disruptions, Members will not be admitted to the meeting until the Community Connect voting has concluded. Entry after 7:00pm will not be permitted.

The next General Meeting (Annual General Meeting) will be held on Monday 29 April 2019 at Edinburgh and Bellshill and on Tuesday 30 April 2019 in Inverness.

Board Members

The following tables show the number of meetings attended by each member of the Board or Committee compared to the total number of meetings held in the period (shown at the bottom of each table). Meetings held from 28 January 2018 - 28 July 2018.

Board Directors	Board Meetings	General Purposes	Audit	Remuneration	Search
Mr H Cairney (P)	7	1 (C)			3 (C)
Mr J Watson (VP)*	7	1		1 (C)	
Mr J Anderson (R 1/5/18) †	4		2		
Mrs S Downie*	7	0			3
Mr I Gilchrist	7				3
Dr R McCready (E 1/5/18) †	2				
Mr T McKnight (R 1/10/18)‡	7				2
Mr J Miller	7			1	
Mr D Paterson*	6		1		
Mr M Ross	6				1
Mr A Simm	7	1		1	
Mrs G Smallman	6			1	
Mr E Thorn	6		2 (C)		
Miss A Williamson *	6	1	2		
Total Meetings Held	7	1	2	1	3

Key: P - President, VP - Vice President, C - Board Committee Chair, E - Elected, R - Retired

† At the AGM held on 1 May 2018, John Anderson retired from the Board and North Regional Committee with the thanks from the Board for his long and valued service and Richard McCready was elected to serve the remainder of John Anderson's term of office.

‡ Tom McKnight will retire from the Board and West Regional Committee with the thanks of the Board for his long and valued service.

The Board undertook a review of the composition of the Board Committees following which: Sheila Downie was appointed to the General Purposes Committee; Eddie Thorn replaced John Anderson as Chairman, Audit Committee; Tom McKnight joined the Search Committee from the Audit Committee; Michael Ross joined the Audit Committee from the Search Committee; Grace Smallman joined the Remuneration Committee from the Search Committee and Richard McCready was appointed to the Remuneration Committee.

* Board members whose terms of office will be complete at the Ordinary General Meeting held on 1 and 2 October 2018 who have been nominated by their Regional Committees and are eligible for re-election.

Regional Committee Members

East Regional Committee		West Regional Committee		North Regional Committee	
Miss A Williamson (C) Δ	4	Mr A Simm (C) ◇	4	Mrs S Downie (C) Δ	4
Mr H Cairney (VC)	4	Mr J Watson (VC) ◇ Δ	4	Mr J Anderson (R 1/5/18)	2
Mr D Paterson (MS) ◇ Δ	3	Mr J Gilchrist (T)	3	Mr A Cullen (VC) ◇	3
Mr A Clark Hutchison ◇	3	Mr M Ross (MS)	2	Mrs A Anderson ◇ Δ	4
Mr C Henderson	3	Mr S Ballantyne	3	Mrs M Smith (MS)	4
Mrs N Hill (A 30/4/18)	2	Mr I Gilchrist	3	Ms E Farquhar	4
Mr K Kelly	4	Ms K Harmon ◇ Δ	4	Mrs J Garnes (A 1/5/18)	2
Mr J Mackenzie ◇	4	Mrs M Kane	2	Mr A M Maclean	4
Mrs R McCabe	4	Mr T McKnight (R 1/10/18) ‡	3	Dr R McCready	4
Mr J Miller	4	Mr J Mills (A 30/4/18)	1	Mr D Patterson	4
Mr D Reid (R 30/4/18)	2	Mr G Randell	3	Ms E Pipe ◇	4
Mrs J Reid	3	Mrs K Scott	4	Mr A Stokes ◇	4
Mrs G Smallman	4	Ms R Smith ◇	1	Mrs D Taylor (A 1/5/18)	1
Mr E Thorn ◇	3				
Total Meetings Held	4	Total Meetings Held	4	Total Meetings Held	4

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

◇ Regional Committee Members whose terms of office will complete in at AGM 2019 and are eligible for re-nomination to the Regional Committee.

Δ Regional Committee members who have been nominated by their Regional Committees to stand for election to the Board and are eligible for election.

Harry Cairney, David Paterson and Jim Watson are Directors of Scotmid Pension Trustee Limited, the sole trustee for the Scottish Midland Co-operative Society Limited Pension Plan. Eddie Thorn 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 Member Council.

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