

Interim Report

for the 26 weeks
ended 27 July 2019



Directors, Officers & Advisors

DIRECTORS

President

Harry Cairney

Vice President

Jim Watson

Sheila Downie

Iain Gilchrist

Kaye Harmon

John Miller

David Paterson

Richard McCready

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

HSBC UK Bank 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.

Without the benefit of last summer's record-breaking sunshine, the Society delivered a strong half year performance despite Brexit uncertainty and continued cost pressures. In the 26 weeks ended 27 July the Society's trading profit was £2.5m, 8% up on the equivalent period last year. Turnover increased by £3m to £190m and the Society's balance sheet strengthened further with a net asset base in excess of £104m.

Food convenience and property were the main drivers of growth, with property continuing to benefit from new lettings and rental income growth. The performance of our food stores was particularly encouraging with the continued work on our "famous for food" strategy helping to drive growth in a summer period with only 12 sunny days compared to 31 days last summer. In the face of the significant market challenges for non-food retailers, Semichem held its position assisted by successful cost control. Funerals conducted were down compared to a very strong result at the interim stage last year, reflecting the cyclical pattern of this business.

Scotmid has been serving our communities for 160 years and in recent times this has

been demonstrated by a range of community support including the Community Grant scheme, Community Connect and funds raised for our charity partners. Membership and community activity in the period included the further development and refinement of the Community Connect scheme including the launch of a new member benefit. The Society was also honoured to receive a Gold National Award for Environmental Excellence from Keep Scotland Beautiful.

At the year-end we highlighted the importance of innovation, effective investment and cost control to help us on our journey of continuous improvement moving into the year of Scotmid's 160th anniversary. At the interim stage the Society has performed strongly despite less favourable weather and the delay and ongoing uncertainty surrounding Brexit. The position on Brexit remains unclear and the possibility of a "no deal" makes it hard to predict the impact on the Society's second half performance. The Society will therefore continue to focus on matters within our control and celebrate the success of Scotmid's 160 years of "serving our communities and improving people's everyday lives".

Directors' Report



An example of a consolidated food-to-go zone at Old Mill Road, Uddingston



Food-to-go continued to be an important driver of our sales growth

Directors' Report



"F Gas" energy efficient refrigeration has been installed in a number of stores.

FOOD RETAIL

In the first half of 2019 the Society's food convenience business was up against a particularly strong performance in 2018 which benefited from excellent summer weather and events such as the World Cup. In this context it is very encouraging to report a strong interim result. This was under-pinned by continuation of our "famous for food" strategy through the development of local products, food-to-go and the implementation of the best of the FRTS coop buying group offer.

In the six month period Scotmid's sales growth was ahead of the Scottish Retail Consortium's food sales like-for-like average. Food-to-go continued to be an important driver of our sales growth. In a number of stores, the offer has been consolidated into one food-to-go zone and the range continued to be developed with some new additions. A rib & wing bar was introduced into the Broxburn store and new product trials continued including self-serve ice cream, pancakes, flat breads and paninis.

The cost burden continued to grow with significant increases in employment costs, rent & rates and utility costs. We also experienced increases in coop distribution costs however this was offset by improved prices on some product lines due to increased purchasing power from the FRTS coop buying group.

Investment in the store estate included the further roll-out of "F Gas" energy efficient refrigeration cabinets with installations at Clydebank, Hunterfield, Culloden and Rimbleton. Our custom built store in Drumnadrochit was launched, a major refit of the Old Mill Road store in Uddingston was completed and 14 stores were re-branded with the new Scotmid Coop fascia. To support the development of our brand, a new marketing agency was appointed. Store investment to support food-to-go included new ovens and upgraded Costa coffee machines.

Directors' Report

SEMICHEM

Semichem continues to operate in a challenging market; the combination of declining high streets, Brexit uncertainty and rising costs have made it a very tough trading environment. Non-food retailers have been particularly hard hit and a number have used CVAs or pre-pack administration to help reduce the growing cost burden. Against this background Semichem held its position supported by tight management of the cost base and important work on future trial concepts also continued.

Semichem's sales growth in Scotland was ahead of the non-food like-for-like market reported by the Scottish Retail Consortium. Social media activity has been an important factor, working alongside influencers in the household category has seen a positive impact on the sales of the recommended product lines. With 16 stores

situated in Northern Ireland, Semichem felt the impact of lower consumer confidence in that trading area and low levels of cross-border trade.

As part of continuous improvement activity the initial series of shop trials have been developed further. Wishaw and Larkhall became the latest stores to undergo a remodelled design, including the introduction of coffee and snacking-on-the-go, increased footage and range of food products. Further work was done to refine the existing trials and



Store trials have included the introduction of coffee & snacking on the go.

some learnings and range improvements identified were deployed back into the core estate. Minor improvement works have also been carried out in a number of stores which includes new flooring, improved lighting, new fragrance counters and shop front tidy ups.

FUNERALS

Scotmid Funerals conducted fewer funerals in the first half of 2019 compared to a very strong first half last year. Although this performance was mainly impacted by cyclical factors like the fall in the death rate early in 2019 after a mild winter, other factors such as a temporary reduction in advertising and increased competition also contributed.

The Society continues to provide a high quality service with our funerals and funeral plans individually tailored to family requirements. We are also committed to our

long-standing policy of transparent pricing. During the period we opened a new funeral portacabin in Prestonpans. The focus on improving the facilities and the service we offer to our clients continues, with the re-branding of our funeral offices, a website upgrade and a number of ceremonial vehicles ordered.

Our strategy will continue to focus on quality and service so we expect to be well prepared for regulatory changes arising from the forthcoming Scottish Government code of practice for funeral directors.



Directors' Report



An illustration of the proposed development at Leven Street.

PROPERTY

Scotmid's Property business performed strongly with income at a record level for the first half of 2019 driven by both the commercial and residential sectors of the portfolio.

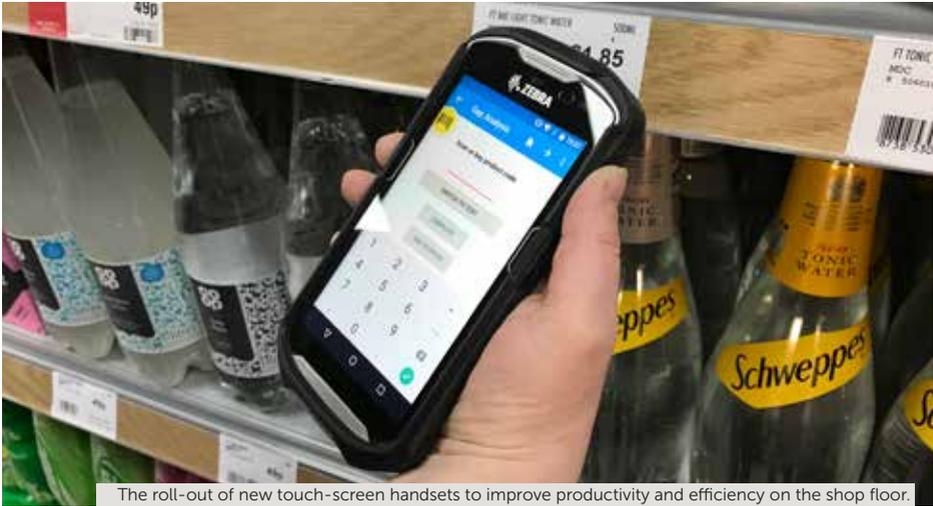
Despite Brexit uncertainty, property markets have held up so far, supported by favourable economic factors such as low interest rates and low unemployment. The market for commercial investment property slowed in the first half of 2019 but capital values were robust with the exception of retail property. The Scottish residential market had modest growth in property values in the period.

The retail property sector of the market was most under pressure with high profile retailer failures. Our long-standing strategy to reduce the Society's exposure to retail through disposal and reinvestment in other commercial sectors and residential continues successfully. Our investment portfolio still has a significant retail component but it is mainly located in more defensive neighbourhood or community

locations rather than higher risk high street or shopping centre retail assets. In-line with strategy, two high street retail assets were sold, one following a strong lease renewal to a national operator.

Work has progressed on three major development projects. Planning permission was obtained for two additional investment units and a re-build of the food store at Bo'ness. Work has started on site with the construction of a new temporary store which opened in August. A development for eight new flats above our store in Leven Street, Edinburgh has also secured planning permission. As part of the scheme our food store will be refitted and work on site started recently. We are working with our development partners and the planning authorities to establish if a potential student flats and food store development in Edinburgh can be revised to achieve an acceptable solution.

Directors' Report



The roll-out of new touch-screen handsets to improve productivity and efficiency on the shop floor.

SUPPORT SERVICES & OTHER SOCIETY MATTERS

In 2019, central teams continued to provide support for the Society's businesses in alignment with the continuous improvement philosophy.

The "Make it Simple" project has continued the drive to simplify and automate store processes. The installation of a new intelligent cash solution was completed and following successful trials last year, new wifi enabled touch-screen handsets were rolled out to all Food stores. The handsets allow tasks such as the generation of point of sale material or the processing of collect+ parcels to be completed more efficiently on the shop floor. They also provide easy access to certain store information.

Support teams completed important infrastructure and system security upgrades as part of a programme of cyber improvements. With an increase in violence against front-line colleagues across the retail sector the Society continue to invest in additional security solutions to help reduce the threat of violence against the teams in high risk stores. Training investment included cash-loss workshops, food to go

training and cyber awareness and a new graduate programme has been established with the first two candidates starting in the Autumn of 2019.

As part of our complementary diversification strategy the Society has an investment in the Start-Up Drinks Lab. This business continued to progress in-line with plan in the first half on 2019. In April the Society made a minority small investment in an on-line start-up business that helps to match supplier products with retailers. The focus in the last few months has been the development of a process to on-board retailers using Scotmid food and Semicchem to help prove the concept and identify process improvements required before engaging with other retailers.

The Society's surplus before tax at the half year was £1.9m, £0.9m up on 2018. This improvement was boosted by a one-off gain on sale within exceptional items this year. The Society's net asset base grew to £104.9m (before tax and pension revaluation) and positive cash flow was generated in the first half of the year to reduce net debt by £3.9m.

Directors' Report



Home-Start Kincardine, winners of the North Region Community Connect funding.



Society President, Harry Cairney, with "Oor Shopkeeper Wullie" at the Pilrig store in Edinburgh.

MEMBERSHIP & COMMUNITY

The development of the Society's community activity continued with Community Connect flourishing in all the Scottish trading areas and will be introduced into the Lakes & Dales region in Autumn 2019. The good cause groups that received funding of £15,000 for projects in the last round were Home-Start Kincardine (North Membership Region), Trust Jack Foundation (West) and Health in Mind (East). Since the scheme was launched in May 2017, 27 good cause groups in Scotland have been awarded funding of £230,000. Other significant community donations included support for children's hospital charities with the funding for "Oor Shopkeeper Wullie" as part of Edinburgh's Oor Wullie Big Bucket Trail and being the principle funder of Keep Scotland Beautiful's Spring Clean 2019 campaign. Demand for Scotmid's Community Grant Scheme continues to grow enabling additional community projects and initiatives to come to fruition and additional funds will be made available in our 160th anniversary year.

Jigsaw magazine continues to be a communications tool that is welcomed by members. Over a thousand members responded to a survey in the summer edition and the feedback was overwhelmingly positive. The suggestions made have been incorporated into the Society's member engagement plans.

The Society was saddened that North Regional Committee member Angus Maclean passed away suddenly at the end of July. Angus was a valued and much loved supporter of Scotmid, he served on the Committee for seven years and was proud to open his new local store at Drumnadrochit in January.

The Society's members, colleagues and customers raised £325,000 during the year for our Charities of the Year, Scottish SPCA, RSPCA and USPCA. The funds raised will help fund the education of primary schoolchildren about animal welfare. This means that Scotmid have now raised £2m for their last six charity partners since 2013. Chest, Heart and Stroke Scotland, Chest, Heart and Stroke NI and Different Strokes were announced as the Society's new Charities of the Year, with a range of activities planned throughout the year and funds raised dedicated to the charities programme aimed at supporting stroke survivors to enjoy a good quality of life.

APPRECIATION

The Directors would like to thank our members, customers and colleagues for their 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 Chest Heart & Stroke Scotland.

Below: The Society received the prestigious Gold Level National Award for Environmental Excellence from Keep Scotland Beautiful.



The Society in Focus



Above: The Society raised a phenomenal £325,000 for our 2018/19 Charity of the Year partners, SSPCA, USPCA & RSPCA.



Above: The Society received the Fair Tax mark for a fourth consecutive year.

Above right: Membership Manager Lynne Ogg and Director Richard McCready take part in Spring Clean 2019.



Right: The Society supported the cooperation band.

Interim Statement of Group Trading Activities

	27 July 2019 £000	28 July 2018 £000
Turnover	190,440	187,452
Profit		
Trading profit	2,476	2,296
Exceptional items	<u>364</u>	<u>(332)</u>
Operating Profit	2,840	1,964
Net finance charges	<u>(660)</u>	<u>(707)</u>
Surplus before distributions	2,180	1,257
Share interest/grants and donations	<u>(313)</u>	<u>(320)</u>
Surplus before taxation	<u>1,867</u>	<u>937</u>
Net Assets		
Fixed assets and investments	167,963	165,195
Net current assets	7,686	4,884
Long term liabilities	(50,716)	(48,712)
Provisions for liabilities and charges	(559)	(1,971)
Pension liability	<u>(19,490)</u>	<u>(18,908)</u>
Net assets	<u>104,884</u>	<u>100,488</u>
Cash Flow		
Inflow from operating activities	6,613	6,088
Net interest paid, grants and donations	(719)	(707)
Corporation tax (payment)/receipt	(300)	(363)
Capital expenditure/acquisitions	(3,202)	(3,372)
Proceeds from sale of fixed assets	1,476	260
Decrease in members' share capital	<u>(10)</u>	<u>(5)</u>
Reduction in net debt	<u>3,858</u>	<u>1,901</u>
Net Debt		
Opening net debt	(29,433)	(32,741)
Reduction in period	3,858	1,901
Closing net debt	<u>(25,575)</u>	<u>(30,840)</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 30 September 2019 in the President Suite, BT Murrayfield Stadium, 110 Roseburn Street, Edinburgh, EH12 5PH and on Tuesday 1 October 2019 at DoubleTree by Hilton, Strathclyde Business Park, Phoenix Crescent, Bellshill, ML4 3JQ and 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 29 and 30 April 2019.
4. Nominations for Regional Committees:
 - East Regional Committee:** 4 Members to serve for 3 years and 1 Member to serve for 1 year
 - Seaton Valley area:** 1 Member to serve for 3 years
 - North Regional Committee:** 4 Members to serve for 3 years; and 1 Member to serve for 1 year
 - West Regional Committee:** 4 Members to serve for 3 years; and 1 Member to serve for 2 years
5. Directors' Report/Interim Accounts
6. Consideration of scale of Directors' fees, delegations and attendance payments
Present scale: Day payment £110; Part-day payment £70; Attendance payment £40
7. Membership and Community Development Report
8. 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 by telephone 0131 335 4433. Members who joined by 30 July 2019 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 Chair 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 for the meetings is Monday 23 September 2019 at 4.00pm.

Members will be admitted to the General Meeting by presenting their admission ticket and Share Book or Community Connect card. 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 there are no disruptions late entry will not be permitted until the Community Connect voting has concluded or after 7.00pm.

The next General Meeting (Annual General Meeting) will be held on Monday 27 April 2020 at Edinburgh and Hamilton and on Tuesday 28 April 2020 in Aberdeen.

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 27 January 2019 - 27 July 2019.

Board Directors	Board Meetings	General Purposes	Audit	Remuneration	Search
Mr H Cairney (President)	7	2 (C)			3 (C)
Mr J Watson (Vice President)	7	2		1 (C)	
Ms S Downie	7	1			3
Mr I Gilchrist	6				2
Mrs K Harmon	6				3
Mr J Miller	7			1	
Mr D Paterson	7		2		
Mr M Ross	6		1		
Mr A Simm	6	2		0	
Mrs G Smallman	7			0	
Mr E Thorn	6		2 (C)		
Dr R McCready	6			1	
Miss A Williamson	6	1	1		
Total Meetings Held	7	2	2	1	3

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

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 National Member Council.

Regional Committee Members

East Regional Committee		West Regional Committee		North Regional Committee	
Miss A Williamson (C)*	3	Mr A Simm (C)	4	Mrs S Downie (C)	3
Mr H Cairney (VC) ◇	4	Mr J Watson (VC)	4	Mr A Cullen (VC)	3
Mr D Paterson (MS)	4	Mr M Ross (MS) ◇	4	Mrs M Smith (MS) Δ	4
Mr A Clark Hutchison	4	Mr S Ballantyne	4	Mrs A Anderson (R 30/4/19)	1
Mr C Henderson ◇	2	Mr S Curran (E 29/4/19)	3	Ms E Farquhar	3
Mrs N Hill	4	Mr I Gilchrist ◇	4	Mrs J Garnes	3
Mr K Kelly ◇	3	Mr J Gilchrist Δ	3	Mr A M Maclean •	4
Mr J Mackenzie	4	Ms K Harmon	4	Dr R McCready ◇	4
Mrs R McCabe	3	Mrs M Kane ◇	3	Mrs S McSorley (E 30/4/19)	2
Mr J Miller*	4	Mr J Mills	3	Mr D Patterson ◇	3
Mrs J Reid ◇	3	Ms M Nolan (E 29/4/19)	3	Ms E Pipe	4
Mrs G Smallman*	4	Mr G Randell	3	Mr A Stokes	4
Mr E Thorn	3	Mrs K Scott ◇	4	Mrs D Taylor ◇	3
		Ms R Smith	1		
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, E - Elected

* Regional Committee Members whose terms of office have been extended to coincide with their Board terms of office and will retire at OGM 2020 with the thanks of the Society.

◇ Regional Committee Members whose terms of office will complete at AGM 2020 and are eligible for re-nomination to the Regional Committee.

Δ Regional Committee Members whose terms of office will complete at AGM 2020 and will retire with the thanks of the Society at that time.

• Angus Maclean, North Regional Committee member sadly passed away on 29 July 2019.



Scotmid 

OUR CORE PURPOSE:

To serve our communities
and improve people's
everyday lives.

www.scotmid.coop

Scottish Midland Co-operative Society Limited,
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