

SCOTTISH MIDLAND CO-OPERATIVE SOCIETY LIMITED

Interim Report

for the 26 weeks ended 1 August 2015



Scotmid
co-operative

Directors, Officers & Advisors

DIRECTORS

President

Harry Cairney

Vice President

Jim Watson

John Anderson

Jim Gilchrist

John Miller

David Paterson

Tom McKnight

Michael Ross

Andy Simm

Grace Smallman

Eddie Thorn

Sandra Williamson

MANAGEMENT EXECUTIVE

Chief Executive Officer

John Brodie

Head of Corporate Communications

Malcolm Brown

Chief Financial Officer & Secretary

John Dalley

Head of Innovation & Change

Stewart Dobbie

Head of Property & Development Services

Adrian Lorimer

Head of People & Performance

Steve McDonald

Chief Operating Officer

Colin McLean

ADVISORS AND REGISTERED OFFICE

Independent Auditors

Deloitte LLP

Bankers

The Royal Bank of Scotland plc

Solicitors

Anderson Strathern WS

Registered Office

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

Directors' Report

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

For the 26 weeks ended 1 August, 2015, the Society's operating surplus was £2m, just below (£0.1m) the equivalent period last year. This was a solid performance in the context of the challenging retail market and the poor summer weather in Scotland. Turnover in the period was £206m, £6m less than the equivalent six months in 2014, mainly due to the impact of closed stores. The Society continues to enjoy a strong balance sheet with net assets in excess of £87m.

Against the background of a retail sales decline reported by the Scottish Retail Consortium, the Society's retail trading businesses delivered a good performance in the six months to the end of July. Our food convenience business continued the programme of differentiation (including bakery and local products) and also made a significant investment in energy saving measures. Similarly, Semichem's core stores benefitted from the introduction of new products and supplier partnerships delivering lower prices on branded goods. Tough decisions continue to be taken on loss making stores but it is pleasing to report that a number of unprofitable stores were saved from potential closure through successful lease negotiations.

The Funeral business had a strong start to the year showing growth relative to a difficult first half in early 2014. Property continued to deliver positive results with the benefit of growth in rental income assisted by investment last year.

In March we announced a potential merger with Seaton Valley Co-operative, a Society based in the North East of England. Their Members' Meeting in August gave unanimous support for a merger effective on 3rd October. The merger will add to the Scotmid's membership development plans in the Lakes & Dales region and this opportunity together with other



Above: Trevor Waugh, Seaton Valley Chairman and Harry Cairney, Scotmid President at Seaton Valley's Members' Meeting that approved the merger.

new initiatives will be built into an updated membership strategy. A range of other incremental improvements to our governance/membership offer have also been progressed, including the development of a membership app which will be ready in the near future. The Society has also supported the implementation of The Co-operative Group's governance with two Scotmid representatives elected to their new National Members' Council.

In many respects the Society has been working very hard to maintain the same position, brought about by a number of factors such as poor weather, food deflation and lacklustre consumer spending – but has still been able to produce a healthy set of figures ahead of the local retail market. Looking forward, the timing of the introduction of the National Living Wage is much earlier than anticipated and its introduction in April 2016 represents a major challenge for the Society. An acceleration of efficiency and continuous improvement measures will be required to mitigate the impact on the Society's profitability. Therefore the Society will continue to innovate, with a clear focus on delivering long-term sustainable effectiveness in everything we do.

Directors' Report



Above: The launch of "The Kitchen" Food to Go trial at the Carricknowe Store



Above: Stockbridge Store Manager Craig McAulay celebrates at the Convenience Retail Awards.



Above: Robert Graham, Managing Director of Graham's Family Dairy and Colin McLean, Scotmid Chief Operating Officer, launch new products into Scotmid Stores.



Above: A newly refurbished Lakes & Dales store.

Directors' Report

FOOD RETAIL

Action taken by the Society's food convenience business enabled Scotmid to overcome difficult market conditions and poor summer weather in the first half of the year. The continuation of challenging market conditions was clearly illustrated by the Scottish Retail Consortium (SRC) who reported food like-for-like sales down by an average of 3.3% in the first six months of our financial year. The market was impacted by economic conditions, food deflation and the continued growth of food discounters. In July there was the additional weather impact and the SRC like-for-like food sales were down nearly 5%, the worst performance since 1999. However, Scotmid food has been able to outperform the market through a focus on differentiation backed up by tight cost control and investment in energy conservation.

The implementation of the "food vision" continued with a number of differentiation projects progressed in the first half of 2015. These projects included the further roll out of 16 in-store bakery counters, "Breadwinner" artisan bakery in eight more stores and the trial of an enhanced Food to Go offer in three stores. Food to Go core lines such as hot filled breakfast rolls that can be sold in all stores were also developed. This breakfast offer has been very well received with a survey indicating that 83% of our customers believe that Scotmid's bacon rolls are the best in Scotland. We have also focussed on the development of local fresh products from Raith Produce and Castleton Farms and the introduction of

Graham's ice-cream and yogurts, aided by our relationships with organisations such as the Grampian Food Forum and Food and Drink Scotland.

In the period we continued with the re-branding and improvement of our store estate including Lakes & Dales refits at Stanhope, Penrith, St John's Chapel and Frosterley. The energy efficiency programme was implemented in a further 56 stores and the post office transformation programme progressed with all "mains" Post Offices now converted to the new format.

Significant progress was also made with our stock management process. Improved reporting and a focus on the accuracy of stock has helped to reduce the proportion of orders requiring store intervention. This has led to reduced task in-store and a reduction in stock holding in certain categories while maintaining good stock availability for customers.

Customer feedback is encouraging with positive customer satisfaction indicated through our 'Tell Scotmid' platform where customers have the chance to feedback to our staff their thoughts on the Scotmid shopping experience. The Scotmid food business has also received external recognition of progress made with five major awards in 2015 – Convenience retailer of the Year; Best Multiple Convenience retailer; Best Customer Service; Energy Efficient Store of the Year (Moredun) and Employee of the Year.

Scotmid food has been able to outperform the market through a focus on differentiation backed up by tight cost control and investment in energy conservation.

Directors' Report



SEMICHEM

The focus for Semichem in the first half of 2015 has been on the implementation of the new Semichem strategy for our stores. Against a background of difficult market conditions encouraging progress has been made on the journey to improve the core store estate. Work done includes the introduction of new ranges and rollout of supplier supported ranging/pricing on leading branded products. It is encouraging to see that this has driven a positive increase in margin in comparable stores which together with rent savings resulted in improved store contribution despite the challenging market. Semichem has had to contend with sluggish economic conditions; the general lack of consumer confidence and ongoing competition in the discount sector -reflected in the Scottish Retail Consortium's like for like non-food turnover which was down every month in 2015.

Consumer confidence in Scotland still remains behind the rest of the UK and increased competition from major discounters plus increased marketing activity from other major retailers has impacted on a number of Semichem's key product categories. However, Semichem faced up to these challenges with growth in a number of categories including fragrance, seasonal and other new product lines

(ranging from toys to household - examples pictured above). Semichem continues to be 'famous' for its range of fragrances and a change in emphasis to feature a higher proportion of mainstream branded fragrances has delivered positive benefits.

The Society continues to take tough decisions on the closure on loss making stores where landlords are not forthcoming with affordable rental renewal terms. Six stores were closed in the period, however four of those were converted to the Bargain B's format as part of the Conviviality franchise trial. In addition a number of unprofitable stores were kept open through successful lease negotiations. With top-line growth at a premium, the business continues to focus on general cost control, targeted capital expenditure and stock management. Further progress has been made on stock control, realising valuable cash, and the supply chain continues to improve its efficiency with an increase in the number of out of hours deliveries.

Our on line business, supported by a new technical platform, produced increased sales on the equivalent period last year with a number of targeted activities around basket spend, postage costs and email campaigns.

Directors' Report



PROPERTY

Scotmid's Property business continued to perform well returning another strong set of results for the last six months. Improved rental income assisted by investment last year was the main driver in helping the business to move ahead over the period. Property markets have in general continued to benefit from low interest rates and greater economic stability since the General Election. Both commercial property income and residential rental income showed improvement, with the latter due to occupier demand for our Edinburgh flats which remained very robust.

During the period the sub division and major external refurbishment of the former Semichem warehouse was completed (pictured above). The refurbished property is now being marketed for lettings. A 200 panel commercial solar system was installed on the roof of the refurbished warehouse and the electricity generated by this system is fed into our adjacent Head Office generating electricity cost savings. In addition, four new commercial lettings were signed during the period comprising shop units in Edinburgh and Midlothian and an office suite at Rosewell House, Newbridge.

The trial of holiday lets in central Edinburgh has now come to end with the conclusion that the Society is best served by returning the two trial flats back into to our residential property portfolio for long-term rental.

FUNERAL

Scotmid Funerals saw an increase in funeral numbers during the first half of the year compared to same period last year. This was mainly due to external factors with an increased death rate in Scotland compared to the lower rates in 2014. However the growth has also been achieved against a background of increased competition in many of the areas in which we operate.

In line with our strategy for growth we continue to review the performance of our overall business whilst actively researching locations for potential new funeral homes. Our new Dundas Fye branded offices in East Kilbride and Hamilton are beginning to gain community recognition which will be further enhanced with a number of future initiatives.

We continue to improve the quality of facilities and service we offer to our clients. This focus on maintaining and developing our already high standards remains the key element of our strategy. The programme of continuous improvement in our sites and fleet included the delivery of several new vehicles. We also continue to engage with industry bodies and local communities and this includes annual memorial services, membership of the Working group on Funeral Poverty and representation at the Scottish Parliament.

Directors' Report



GOVERNANCE

Earlier in 2015, the Society was approached by Seaton Valley Co-operative Society for a potential transfer of engagements. Seaton Valley has experienced some trading challenges and as a result it sought a like-minded Society with a strong balance sheet to help maintain and develop its local co-operative presence. After appropriate diligence work, the Scotmid Board confirmed acceptance of the transfer of engagements and it received Seaton Valley Members' approval in August (pictured above). Subject to confirmation by the Financial Conduct Authority, the merger of the Societies is due to take place on the 3rd October. The merger will bring freehold stores in three locations in Seaton Delaval and Ashington and builds on our Lakes & Dales food convenience business in Northern England.

The merger with Seaton Valley provides the opportunity for Scotmid to further develop our democratic base in Northern England and two additional places on our East Regional Committee will be made available to their members. Development has also continued in our North Region and the Board size will increase to 13 following the election of additional North Board member at the OGM in October. A number of other incremental governance developments have

also progressed including annual planning and evaluation meetings for the Regional Committees, trials of new arrangements at Members Meetings and an updated learning programme for elected members. As a corporate member of the The Co-operative Group (TCG), Scotmid has also continued to support TCG through the reconfiguration of its governance and two Scotmid representatives have been elected to their newly formed Members' Council.

SUPPORT SERVICES

The priority for the service teams over the last six months has been the support of initiatives to help drive the trading businesses forward. Cross functional teams have supported a range of projects including the energy saving programme, Food to Go trials, Colleague violence reduction measures, "Keep it Simple" task reduction and the further development of our processes to control price, margin and stock. The franchise trial with Conviviality Retail has also been progressed and we have five stores trading with the Bargain B's fascia.

The Society's year-end accounts will be produced using the new Financial Reporting Standard (FRS102), the UK's guidance standard for the introduction of international accounting.

Directors' Report

This will result in changes to the accounting methodology, reporting and disclosures in our January 2016 year end accounts. However for the half year the un-audited interim report was prepared using the old UK accounting standards to show a fair comparison with last year's published interim result. If FRS102 had been applied at the half year interest charges would have been £0.25m higher, however the impact on revaluation of the investment properties and pension (both treated differently under the new accounting) has not been quantified because these valuations are completed at the year end.

MEMBERSHIP

Work has started on our Membership Strategy to increase member engagement and modernise our membership processes in order to attract younger members. Members have attended litter picks, fair trade and community events and met their regional Membership & Community Officer in the process. The Society is also aiming to engage with younger members through the introduction of a new membership app.

The Society organised three 'Big Co-op Clean' events in Coupar Angus, Uddingston and Edinburgh to celebrate Co-operatives Fortnight 2015. These events brought members of local environmental groups together with staff and Society members to litter pick, repair verges and plant seeds.

Co-operative training given to Society colleagues has been enhanced. A booklet, explaining our co-operative values and principles is now included in all employee induction packs and a presentation has been developed for the management training programme.

COMMUNITY

The Regional Committees continue to support a range of different local community initiatives across Scotland via the Scotmid Community Grant Fund. These include Nordoff Robbins Music Therapy in Scotland, The State (Leith) CIC, Midlothian Community Men's Shed, Step by Step (Moray), Brechin Public Park Group, Hillhouse Children's Charity (Kilmarnock),

Thorniewood Credit Unit (Viewpark), Amy's Care in Keswick and Lazonby Swimming Pool.

Other community initiatives include a grant given to The Rock Trust in Edinburgh to purchase ingredients for their weekly cooking classes for homeless people; sponsorship of Edinburgh International Science Festival's Cook for it! sessions in Aberdeenshire; and a donation to Milton of Campsie Railway Restoration Open Day. Scotmid in partnership with the Edinburgh Trussell Trust food banks and The City of Edinburgh Council has commenced a trial to provide fresh food vouchers to people in food poverty.

In partnership with the Salvation Army, 54 Scotmid stores now have clothes banks sited outside their stores and profits from the sale of donated items is shared between the Salvation Army, to help fund its valuable social welfare work, and our own local environmental projects.

The proceeds from the sale of single use carrier bags have enabled Scotmid to support St Andrew's First Aid with volunteer uniforms. The charity, which shares similar values and principles, provides first aid cover wherever it is needed, from local community events to large music events, national and international sporting fixtures.

Fairtrade continues to play an important role within the Society and we continue to support many Fairtrade groups and schools throughout Scotland.

The Society's staff, customers and members have raised £370,000 for our charity of the year, Anthony Nolan – the highest amount raised during a charity partnership 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



The Society in Focus



Above: The Launch of our new charity partnership for 2015-16 with Alzheimer Scotland and the Alzheimer Society. **Below left:** A clothes bank at Portobello store in partnership with the Salvation Army. **Below:** The Society working in partnership with USDAW promoting the "Freedom from Fear" campaign. **Opposite Page Top:** Members and colleagues join forces with the Friends of the Meadows and Bruntfield Links at the "Big Co-op Clean". **Opposite Page Left:** "Cook for it!" session in Aberdeenshire supported by Scotmid. **Opposite Page right:** The Scotmid stand at the Royal Highland Show. **Opposite Page Bottom:** The Everest Challenge at Braehead fundraising for Anthony Nolan.

Interim Statement of Group Trading Activities

	1 August 2015 £000	26 July 2014 £000
TURNOVER		
Total turnover	206,494	212,314
PROFIT		
Operating profit before exceptions	1,963	2,055
Exceptional items	(205)	(100)
Profit before interest	1,758	1,955
Net interest payable	(501)	(708)
Profit before distributions	1,257	1,247
Share interest/grants and donations	(346)	(355)
Surplus before taxation	<u>911</u>	<u>892</u>
NET ASSETS		
Fixed assets	143,971	145,395
Net current assets	4,973	5,435
Long term liabilities	(43,081)	(46,273)
Pension fund liability	(18,188)	(13,580)
Net assets	<u>87,675</u>	<u>90,977</u>
CASH FLOW		
Inflow from operating activities	9,759	2,877
Net interest paid	(946)	(913)
Corporation tax payment	(338)	(114)
Capital expenditure/acquisitions	(3,360)	(3,193)
Proceeds from sale of fixed assets	315	305
Decrease in members' share capital	(26)	(100)
Reduction/(increase) in net debt	<u>5,404</u>	<u>(1,138)</u>
NET DEBT		
Opening net debt	(43,623)	(39,091)
Reduction/(increase) in period	5,404	(1,138)
Closing net debt	<u>(38,219)</u>	<u>(40,229)</u>

NOTES TO THE INTERIM STATEMENT

1. The financial information does not constitute statutory accounts and is not audited.
2. For consistency the interim statement above has been prepared with the UK accounting policies used in the year ended 31 January 2015 Annual Report and Accounts. In contrast, the January 2016 year end Annual Report and Accounts will be prepared using FRS102 (the new Financial Reporting Standard applicable in the UK and Republic of Ireland) and this will result in some changes to the accounting methodology, reporting and disclosures. For members information some of the key areas of change that would impact on our interim statement are highlighted below.
3. Using FRS102 interest charges in these interim accounts would increase by £250k. (Additional pension Interest of £407k less a credit of £157k from the revaluation of interest rate swaps).
4. Investment properties revaluation adjustments are made annually at the year end. A property revaluation is not undertaken for the interim results.
5. Pension revaluation adjustments are made annually at the year end and consequently are not reflected in this interim statement.
6. No provision has been included in the net assets statement for any possible tax charge, either current or deferred, which may arise. The deferred tax asset of £2,579k which is netted off the pension liability in the interim net asset statement will be separately disclosed under FRS102.

Notice of Meeting & Agenda of Business

Notice is hereby given that an Ordinary General Meeting of the Society will be held on Monday, 5 October 2015 at The Hilton Edinburgh Grosvenor Hotel, Grosvenor Street, Edinburgh, EH12 5EF and Panorama Suite, Hamilton Park Racecourse, Hamilton, South Lanarkshire, KL3 0DW and on Tuesday 6 October 2015 at the Northern Hotel, 2 Clerk Street, Brechin, Angus, DD9 6AE.

AGENDA OF BUSINESS

1. Synopsis of Minutes of Annual General Meeting held on 27 and 28 April 2015.
2. Appointment of Tellers.
3. Nominations for Regional Committees:
 - East Regional Committee:** 4 Members to serve for 3 years and 1 Member 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 for 1 year
 Nominations are invited from Members living in the Penrith/Lakes & Dales area to represent Members from that area on the West Regional Committee: 1 Member to serve for 3 years and 1 Member for 2 years
4. Elections to the Board:
 - East:** 2 Regional Committee Members to serve for 3 years
 - North:** 1 Regional Committee Member to serve for 3 years
 - West:** 1 Regional Committee Member to serve for 3 years
5. Directors' Report/Interim Accounts.
6. Seaton Valley Co-operative Society Limited - Transfer of Engagements.
7. Membership and Community Development Report.
8. 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.

The deadline for registration is Monday 28 September 2015 at 4.00pm.

Members will be admitted to the General Meeting by presenting their admission ticket and Share Book. Transitional arrangements apply to West Lothian Members who may attend and vote at the meetings in either Edinburgh or Hamilton. Other Members will only be entitled to vote for individuals to represent their region unless approval has been 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 (Annual General Meeting) will be held on Monday 25 April 2016 at Edinburgh and Hamilton and on Tuesday 26 April 2016 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 of number of meetings held in the period (shown at the bottom of each table). Meetings held from 31 January 2015 - 1 August 2015

Board Directors	Board Meetings	General Purposes	Audit	Remuneration	Search
Mr H Cairney (P)	7	1			4 (C)
Mr J Watson (VP) *	7	1		1 (C)	
Mr J Anderson	7	1	2 (C)		
Mr J Gilchrist	6		2		
Mr T McKnight	6	1	2		
Mr J Miller	6			1	
Mr D Paterson *	7				3
Mr M Ross	7				2
Mr A Simm	7			1	
Mrs G Smallman	7				4
Mr E Thorn	7		2		
Miss A Williamson *	6	1		1	
Total meetings held	7	1	2	1	4

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

* Board Members due to retire by rotation at the Ordinary General Meeting on 5 and 6 October 2015 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 Member Council.

Regional Committee Members

East Regional Committee		West Regional Committee		North Regional Committee	
Miss A Williamson (C)	4	Mr T McKnight (C) ♦	3	Mr J Anderson (C)	4
Mr H Cairney (VC)	4	Mr J Watson (VC) ♦	4	Dr R McCready (VC) †	3
Mr D Paterson (MS) ♦	4	Mr J Gilchrist (T)	3	Mrs M Smith (MS)	4
Mr K Kelly	3	Mr M Ross (MS)	4	Mrs A Anderson ♦	4
Mr J Mackenzie ♦	4	Mr S Ballantyne (A 27/4/15)	2	Mr A Cullen ♦	3
Mr J Miller	4	Mr I Gilchrist	2	Mrs S Downie †	2
Mr D Reid	4	Mrs M Kane	3	Mr A Maclean	3
Mrs J Reid	4	Mr R Kelt ♦	2	Mr D Patterson	4
Mr D Jamieson ♦	3	Mr G Randell	2	Ms E Farquhar (A 28/4/15)	2
Mrs G Smallman	4	Mrs K Scott	3	Mr A Stokes ♦	3
Mr E Thorn ♦	4	Mr A Simm ♦	4		
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, A - Appointed

♦ Regional Committee Members due to retire by rotation in April 2016 and are eligible for re-nomination to the Regional Committee

† Regional Committee Members who have been nominated by their Regional Committee to stand for election to the Board and are eligible for election.

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Scotmid
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(semichem)

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Lakes & Dales
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