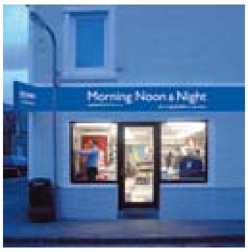



open

ethical



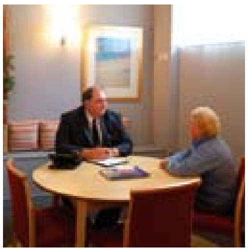



Annual Report & Financial Accounts

for the year ended 27 January 2007

rewarding






honest






responsible

caring



SCOTMID

Annual Report & Financial Accounts

for the year ended 27 January 2007

Contents

Directors, officers & advisors

President	Mr H Smallman
Vice President	Mr D Moon
Minute Secretary	Mr J Anderson

Directors

Mr I Bailey, Mr R Brown, Mr H Cairney, Mr J Gilchrist, Mr J Hill, Mrs M Hume, Mr D Jamieson, Mrs C Kerr, Mr J Middleton, Mr D Paterson, Mr J Watson, Miss A Williamson.

Management Executive

Chief Executive Officer	John Brodie
Head of Corporate Communications	Malcolm Brown
Chief Financial Officer & Secretary	John Dalley
Head of Property & Development Services	Adrian Lorimer
Chief Operating Officer	Colin McLean
Head of MST	Alan Thomson

Advisors and Registered Office

Independent Auditors	Deloitte & Touche LLP
Bankers	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 Annual Report to members for the year ended 27 January 2007.

Overview

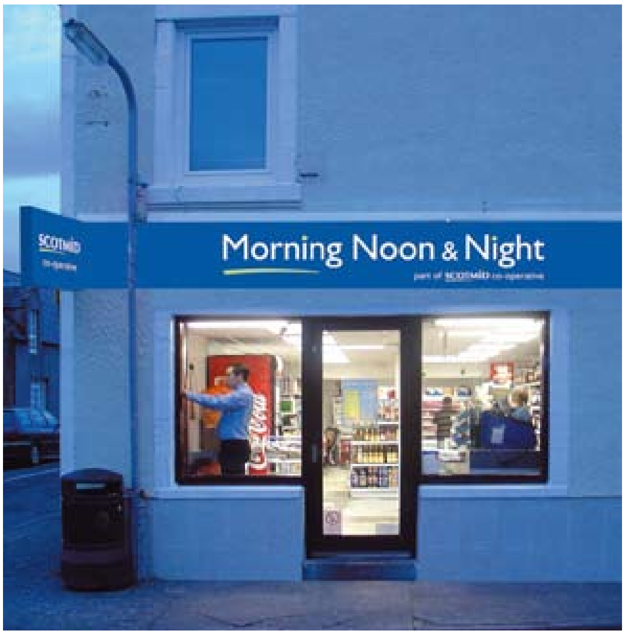
Scotmid has taken the first steps on the road to recovery and implementation of its long-term plans. Trading profit has improved and debt and gearing are significantly down, creating a solid foundation for the Society going forward. Nevertheless we are still in the early stages of the business turnaround and continuous improvement is our key focus going forward.

The results for the year ended 27 January 2007 show an operating surplus of £3.5m excluding exceptional items compared to £1.1m for the same period last year. This has been driven by an improved trading performance in the Food business and operational efficiencies in Semi Chem. Whilst the Society made a small profit at pre-tax level, taxation payable on disposals results in a post-tax loss of £1.6m.

The Society's strong balance sheet has been further improved in the year with net assets increasing by £8.5m to £91.9m. This has been achieved by tight control of operating cashflow and an investment property strategy focussing investment on the higher quality assets and the disposal of non-core, under achieving properties. We have also benefited from a reduction in the Society's pension deficit of £2.3m.

In summary our 'back to basics' approach has delivered early success in improving the long-term prospects for Scotmid but we acknowledge that there is still a long way to go.

Directors' report continued



Food division

The Food business aims to become a leading community convenience retailer in Scotland. The first step was to build a better platform for growth through the 'back to basics' campaign to ensure consistency of store standards across the estate.

The focus on core product availability in the year has helped to generate increased customer satisfaction and sales growth. The business also enjoyed the benefit of good weather and the World Cup, helping to drive additional sales growth in the summer months.

The former Morning, Noon & Night stores have now been fully integrated into the Scotmid estate and are performing well relative to our revised expectations.

The business is about to embark on a major programme of store refits to bring the estate up to a consistent customer standard. New stores have also been acquired in Bathgate and Burghead during the year.

Semi Chem

Implementation of the first stage of the Semi Chem action plan over the past 12 months has built a good platform for a successful business model going forward.

The key successes in the year were in supply chain, range rationalisation and a focus on store operational efficiencies and standards. Significant improvements in the efficiency of the supply chain were achieved by reviewing the frequency of store deliveries and operational efficiencies in our central warehouse.

The store estate has improved following major focus on addressing the 'basic' retail disciplines of product range management, stock control and product availability. The number of lines in store has been more than halved in the past 12 months to enable greater buying scale and focus on growing core business sales.

M & S Toiletries

The benefits of last year's action to reduce costs were realised this year. Despite the loss of sales to a major customer, M&S Toiletries has delivered an improved trading profit compared to last year. Further steps have been taken to improve efficiencies with the reduction in fleet, staff numbers and stock levels. A new sales structure has been put in place to help us gain a number of new customers this year and target growth in sales in the year ahead.

Property and Development

Property has achieved another good performance with all the investment units at South Queensferry now let and a major pre-let completed at the Montrose store redevelopment. The disposal programme of non-core investment properties is now nearing completion. This programme is very much a balancing of our property portfolio with the disposal of our under performing, lower quality properties, allowing us to invest in core asset properties. The Joint Venture at our former Head Office at Fountainbridge to create a major new office development is moving forward positively with a target completion date of October 2007.

Funerals

Market share has largely been maintained against a backdrop of a declining death rate. We have been successful in retaining a significant proportion of business after the relocation of our main funeral branch in Fountainbridge. This is despite the fact that the smaller Chalmers Buildings site has been impacted by the ongoing construction work nearby. Progress has also been made in the year to re-align the structure of the business to meet the demands of our multi-site operation.

Service Departments

The Service Departments continue to support all areas of the business but the focus this year was on the needs of the retail divisions. For example, the Human Resources team has successfully supported Retail in managing significant restructuring within the food business and created a management development programme for new food managers. Significant progress has also been made in improving the availability of timely management information for the retail businesses. Communication has been a more general area of focus with briefings for staff, a new website soon to be launched and the creation of a more informative Society newsletter.

Member Relations and Community Development

The importance of membership to the Society has been reflected in the creation of a new Membership Strategy, which will be launched during 2007. Stage one of the Strategy will be rolled out on a pilot basis, enabling us to properly communicate with members and ensuring membership is relevant in today's society.

Scotmid continues to deliver a range of community based activities. The Society has been a champion of Fairtrade for many years and we supported Fairtrade events throughout Scotland in schools and community organisations. We were delighted to be the main sponsor of the Edinburgh Fairtrade Directory launched at the Scottish Parliament. We continue to support over 30 breakfast clubs. Fruit Waves, which helps many youngsters receive fresh fruit on a daily basis, and blender schemes also continue to receive our support.

The current nominated charities are CHAS (Children's Hospice Association Scotland) and the Northern Ireland Children's Hospice. Several major fundraising events have been held helping us to raise over £60,000.

Political Donations

Donations to the Co-operative Party amounted to £10,693. A donation of £20,000 was made to the Scottish Midland Co-operative Society Party Council.

Appreciation

The Directors would like to thank our members, customers and staff for their ongoing and continued support of the business.

Signed on behalf of the Directors

Hollis Smallman President
David Moon Vice President

Group five year summary

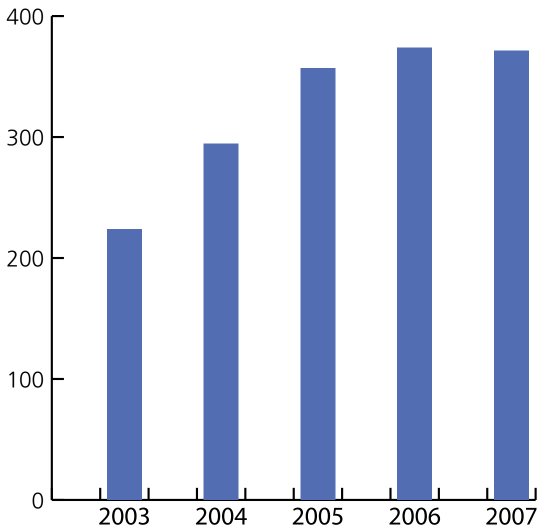
	2007 52 weeks	2006 52 weeks	2005 52 weeks restated**	2004 53 weeks	2003 52 weeks
number of members	235,819	235,739	234,885	234,757	234,612*
	£000	£000	£000	£000	£000
turnover	371,199	373,960	356,727	294,666	223,703
operating surplus before exceptionals	3,513	1,078	6,966	8,052	5,074
operating surplus/(loss) after exceptionals	2,325	(19,874)	2,767	7,081	5,074
surplus/(loss) before tax	114	(22,751)	3,178	6,301	9,098
retained (loss)/surplus	(1,640)	(19,080)	2,383	4,381	6,697
depreciation	7,482	7,397	6,351	5,375	4,522
net finance costs	3,160	3,559	3,080	1,103	881
purchase of fixed assets	3,753	15,659	12,540	11,625	11,376
fixed assets	143,366	152,274	152,354	111,307	94,338
net current (liabilities)/assets	(2,680)	(17,639)	(2,049)	7,369	1,669
total assets less current liabilities	140,686	134,635	150,305	118,676	96,007
less long term liabilities	38,630	38,314	43,140	20,932	11,755
less provision for liabilities and charges	2,638	3,101	3,391	3,831	3,394
less pension liability	7,514	9,774	6,653	-	-
net assets	91,904	83,446	97,121	93,913	80,858
share capital	4,952	4,874	4,753	4,541	3,878
revenue reserves	44,861	35,024	55,640	53,030	48,128
revaluation reserve	42,091	43,548	36,728	36,342	28,852
net worth	91,904	83,446	97,121	93,913	80,858

*During the year ended 25 January 2003 the share file was reviewed and 40,000 accounts below the £1.00 minimum holding were assessed as dormant

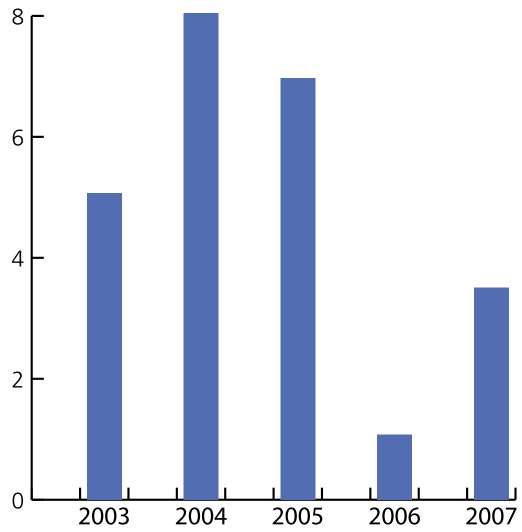
**The group revenue account for the year ended 29 January 2005 has been restated to reflect the adoption of FRS17 "Retirement Benefits"

Group five year summary continued

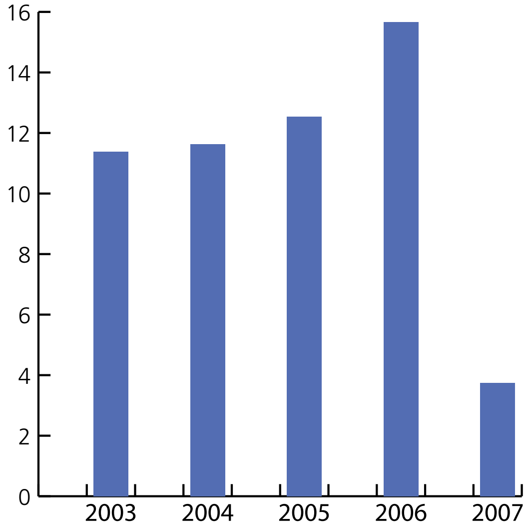
Turnover (millions)



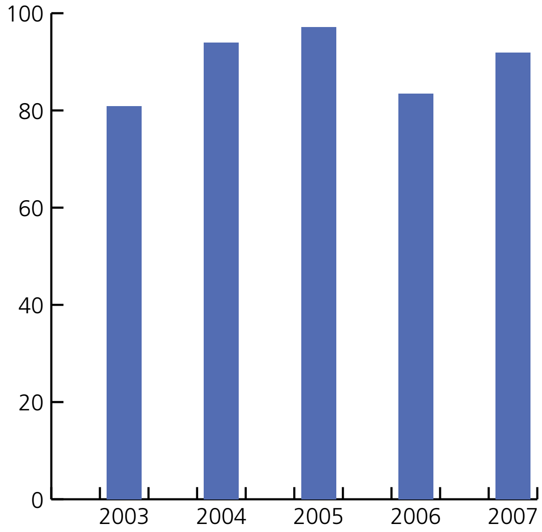
Operating surplus before exceptionals (millions)



Purchase of fixed assets (millions)



Net worth (millions)



Directors' responsibilities on corporate governance

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Industrial and Provident Society law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice. The financial statements are required by the Industrial and Provident Societies Acts 1965 to 2002 to give a true and fair view of the state of affairs of the group and of the profit or loss of the group for the period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002. They are also responsible for the system of internal control, for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern

After making all appropriate enquiries, the directors have an expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Society's financial statements.

Code of best practice

The Society substantially complies with the Co-operatives UK Corporate Governance Code of Best Practice (Updated in May 2005). In reviewing the detailed recommendations of the Code, the Board has identified four points where it believes that the Society is better served by maintaining the Society's existing rules and practices: 1) Age Rule: maintain the existing age rule of 70 for retirement of directors rather than adopt the model rule (age 68); 2) Percentage of Employee Directors on the Board where the existing rule is more restrictive than the recommended rule; 3) Interim Accounts: Interim accounts are published but not audited; 4) Co-opted Directors: the Board has decided not to make use of co-opted professional directors because it feels that it is better served by seeking external advice on an issue by issue basis rather than receiving ongoing general advice from expert directors that have not been democratically elected by the membership. In each case the Board has satisfied itself that the Society complies with the spirit of the code.

The members

Co-operatives are member owned democratic organisations and the Board has recognised the need to encourage members to play their part in the governance of the Society and to improve membership participation with the launch of the Membership Strategy at the members' meetings in May 2007. The Membership Strategy is also referred to in the Directors' report. The Member Relations Committee report provides details of activities during the financial year to January 2007 and other member related information is provided in the section on Key Social and Co-operative Performance Indicators.

Members' meetings

Members' meetings are advertised throughout the trading region and are held in two locations. The Board of the Society consists of 15 Directors drawn from the two Area Committees. There are 32 committee members in total. Committee members are elected at public meetings from Society members who meet the minimum share qualification level. Each committee member is voted onto the committee for 1 to 3 years and they have to be re-elected to retain their position at the end of the prescribed period. Details of meetings attended are given on page 40 of the report.

Board's role

Directors' responsibilities are set out in the Society Rules which are available to all members. Any changes to the rules must be agreed by a majority vote at a members' meeting. One Board member is employed by the Society and three are retired former employees of the Society.

Internal control framework

The Board is ultimately responsible for the Society's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Co-operatives UK Corporate Governance Code of Best Practice introduced a requirement that the directors review the effectiveness of the Society's system of internal controls. This extends the existing requirement in respect of internal financial controls to cover all controls including financial, operational, compliance and risk management and has become known as the Turnbull guidance.

Key elements in the Society's adopted internal control framework are detailed below. These are considered to be appropriate to the current size of the business.

Control environment

The Society is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations. The Society has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Society objectives. Lines of responsibility and delegations of authority are documented.

Information and communication

The Society undertakes periodic strategic reviews which include consideration of long term financial projections and the evaluation of business alternatives. Annual capital and revenue budgets are approved by the Board. Trading performance is actively monitored and reported to the Board on a regular basis. All significant capital projects and Society acquisitions require Board approval.

Through these mechanisms, Society performance is continually monitored, risks identified in a timely manner, the financial implications assessed, control procedures re-evaluated and the corrective actions agreed and implemented.

Board committees

There are four Board committees (Audit, Risk, Remuneration and Search) with terms of reference recommended in the Code. A General Purposes Committee has also been formed to provide a forum for addressing matters not specified in the terms of reference of the above committees.

Audit

The Society has an Internal Audit department reporting directly to the Chief Executive to encourage the greatest degree of independence. An annual report of the Internal Audit department has been produced for the year 2006/2007 and an audit plan for 2007/2008 has been agreed with the Audit Committee. Any control weaknesses identified are highlighted to management and to the Audit Committee, which monitors Internal Audit activity and ensures that appropriate actions are taken.

The Audit Committee of the Board comprises four directors and is chaired by a member who is not currently President of the Society. The Committee is scheduled to meet at least twice per year.

The terms of reference have been agreed by the Board and include:

- Consideration of the appointment of the external auditor and the scope of the audit;
- Review of the financial statements and auditors' management letter;
- Review of the internal audit programme and internal audit reports.

The Chair of the Audit Committee reports the outcome of the Audit Committee meetings to the Board and the Board receives the minutes of the Audit Committee meetings.

The Audit Committee has established a policy of rotating the audit partner every five years. In addition as part of this policy the external audit contract was put out to tender. Deloitte retained the contract following an open tender process.

Any non audit services to be carried out by the incumbent auditor exceeding a pre-set limit must be referred to the Audit Committee for approval.

Risk management

The Board and executive management are responsible for the identification and evaluation of key risks applicable to the Society. Risk registers are maintained which highlight the likelihood and impact of the risks occurring. The risk registers are updated at least twice a year and actions necessary to mitigate the risks are considered. The process enables resource to be focussed on key risk areas, helping to prioritise activities. A Risk Committee is in place, consisting of four directors who review, twice annually, the risks facing the Society to determine if adequate controls are in place.

The Risk Committee is also responsible for ensuring the Society has an effective whistle-blowing process to ensure that employees can raise concerns in confidence.

Remuneration

The Board determine executive remuneration annually on the recommendation of the Remuneration Committee, which consists of four directors, none of whom are employees, recently retired employees or the President of the Society. External advice is sought by the Remuneration Committee to ensure that the remuneration is appropriate to the scale and scope of the business. Advice is currently obtained from an independent advisor "mflhr". The Remuneration Committee is also responsible for making recommendations to the Board for the level of directors' remuneration and expenses. Note 2 to the financial statements gives details of the remuneration of directors and the management executive. Although not in the format recommended in Co-operative UK's best practice, it is felt sufficient disclosure of Board and management executive remuneration is provided in the salary bandings.

Search

The Search Committee is responsible for establishing a process to review Board skills and the balance and effectiveness of the Board. The Committee of five directors is also responsible for the development of an active membership and succession planning for both Directors and the management executive. During the year the Committee established a process for the review of Board skills and an evaluation of skills was completed. Output from the evaluation has been used to adapt and tailor the Board training programme for 2007. The Committee has obtained Board approval for a new Membership Strategy. Stage one of the strategy will be rolled out in 2007. This includes a review of format, location, accessibility and publicity for members' meetings.

For and on behalf of the Board

Hollis Smallman President
John Brodie Chief Executive Officer
John Dalley Secretary

Corporate social responsibility

To demonstrate our commitment to Corporate Social Responsibility we have adopted the 10 Key Social and Co-operative Performance Indicators recommended by Co-operatives UK. Because of the diverse nature of the Society's operations, these measures are not always relevant or readily available for all our individual businesses. To overcome this we have used sample information compiled via surveys or used information from our largest business (Food).

Member economic involvement

An exit survey was conducted in 9 stores to determine an estimate of our member economic involvement. The survey was conducted by an independent agency (Harris International). Member involvement as a percentage of sales was 6% based on the sample selected. The recent expansion of the business outwith our traditional boundaries will have caused a reduction in our average member economic involvement. This issue will be considered as part of our new Membership Strategy.

Member democratic participation

105 (2005/2006 - 144) members attended the Annual General Meeting on 8 May 2006, 85 (2005/2006 -126) attended the Ordinary General Meeting and Special Meeting on 2 October 2006 and 81 attended the Special Meeting held on 13 March 2006. There were no contested elections during the year ended 27 January 2007 however 81 members participated in a vote to approve a rule change at the Special Meeting. This represents 0.03% of the total membership.

Staff and member training

This year around 26,700 hours (2005/2006 -20,000) of formal staff training took place, an average of 6.6 hours per employee (2005/2006 - 4.7). During the year we successfully concluded a trial of e-learning and plan to roll this out during the coming year. Members actively participated in 7 training days each lasting 6 hours with an average of 20 attendees per training course. This totalled 840 hours compared to last years total of 540, which equates to 8 hours of training per "active" member (where active membership for training purposes has been defined as the number of members attending the AGM).

Staff injury and absentee rates

Staff injury and absentee rates provide the Society with an indication of how well we control the risks to the health, safety and wellbeing of our employees. Staff are encouraged to report all accidents, no matter how minor, and these are recorded to ensure that safety standards are maintained and continuously improved. This year we had 22 (2005/2006 - 30) reportable accidents equating to 0.5% of the average total workforce. There were also 155 minor injuries (2005/2006 - 146), which equates to 3.7% of the average total workforce. This gives a combined total of 4.2%.

This year 22,959 days were lost through absenteeism (2005/2006 - 24,070), an average of 5.5 days per employee. This compares to a Scotmid average of 5.7 days last year and a Scottish national average of 6.6 days (CBI/AXA absence and labour turnover survey 2006).

Staff profile

A staff survey was conducted to determine ethnic background of our workforce. We had 4,053 employees when the survey was conducted, with 2,866 (71%) female (2005/2006 - 71%) and 1,187 (29%) male (2005/2006 - 29%). The survey was completed by 1,249 members of staff (31%).

Ethnic Origin	% of Total Respondents
Asian	3.80
Black	0.40
Mixed	0.20
Other	1.20
White	94.40
Total	100.00

To put this in context the 2001 census shows 98% as the proportion from a white ethnic background in the total population of Scotland. We also asked for disability status and found that 1% of staff surveyed classify themselves as disabled.

Customer satisfaction

The Co-operative UK's definition of customer satisfaction has now been included in our regular customer surveys conducted by Harris International. In the course of their independent survey Harris carried out 1,000 shopper interviews in a sample of 50 of our stores across our trading area. The survey was conducted between February and April 2006. The proportion of shoppers classified as very satisfied was 73%, and as satisfied was 85%. Both of these figures exceeded the overall average in the Harris International Convenience Tracking Programme 2006.

Ethical procurement

The majority of the Society purchases are through the Co-operative Retail Trading Group (CRTG) and therefore we continue to benefit from their purchasing policies. CRTG is committed to the principles of sound sourcing, animal welfare, food integrity and health and ecological sustainability. During the year we have incorporated procurement conditions into staff uniform contracts and other expense contracts with external providers.

Investment in community

A total of £119,000 (2005/2006 - £113,000) was spent on investment in both community and co-operative initiatives, amounting to 104% of our pre-tax profit. Examples of projects benefiting from our investment in the community are provided in the Directors' report.

The environment

Carbon Dioxide (CO2) emissions are produced as a direct result of burning fossil fuels. For the year ended 27 January 2007 the Society produced an estimated 3,600 tonnes of CO2 from on-site operations (2005/2006 - estimate 4,000 tonnes of CO2). This equates to 0.86 tonnes of CO2 per employee (2005/2006 - 0.91 tonnes).

Our carbon footprint for electricity is neutral as all electricity is sourced from pure green renewable energy sources.

We have several new energy saving initiatives underway, for example the "smart metering" installation programme supported by assistance from the Carbon Trust. We are also driving energy reduction as part of our refurbishment programme by setting a target for each store.

Proportion of waste recycled/reused

Our waste uplift amounted to 3,064 tonnes. CRTG vehicles collect cardboard from our food outlets for recycling and have provided a percentage of the total amount of recycled waste attributable to Scotmid. As a result we estimate that we have recycled 1,950 tonnes of cardboard and 73 tonnes of plastic. These figures indicate that the proportion of waste recycled is in the region of 40%.

Independent Auditors' Report to the Members of Scottish Midland Co-operative Society Limited

We have audited the financial statements of Scottish Midland Co-operative Society Limited for the year ended 27 January 2007 which comprise the statement of accounting policies, the group revenue account, the group statement of total recognised gains and losses, the group note of historical cost profits and losses, the group balance sheet, the group cash flow statement and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Society, as a body, in accordance with section 9 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the Society those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the Society has not kept proper accounting records, if a satisfactory system of control over transactions has not been maintained, or if we have not received all the information and explanations we require for our audit.

We read the directors' report and the other information in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Society's affairs as at 27 January 2007 and of its loss for the year then ended and have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors, Edinburgh, UK
22 March 2007

Notes

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Statement of accounting policies

Basis of accounting
The accounts are prepared under the historical cost accounting convention as modified by the annual revaluation of investment properties, and under applicable United Kingdom accounting standards. The principal accounting policies are summarised below and have been applied consistently throughout the current and preceding year.

Accounting date
The accounts are prepared for the 52 weeks to 27 January 2007 (2006 - 52 weeks to 28 January 2006).

Turnover
Turnover includes cash sales, goods sold on credit and property rental income inclusive of value added tax.

Investments
Fixed asset investments are stated at cost less any provision for impairment.

Investment income
Interest and dividends received are accounted for on the basis of cash received during the year.

Goodwill
Purchased goodwill is capitalised in the year in which it arises and amortised over its estimated useful life up to a maximum of 20 years with no charge for amortisation in the year of acquisition. Provision is made for any impairment.

Tangible fixed assets and depreciation
No depreciation is provided on freehold land, investment properties and assets in the course of construction. For all other tangible fixed assets, depreciation is calculated to write down their cost or valuation to their estimated residual values by equal annual instalments over the period of their estimated useful economic lives, which are considered to be

Buildings - 40 years. Plant, transport and fixtures - between 3 and 10 years.

Investment properties are revalued annually and the aggregate surplus or deficit is transferred to the revaluation reserve. On disposal of investment properties, any related balance remaining in the revaluation reserve is transferred to the revenue reserve.

Assets leased to the Society
Fixed assets leased under finance leases are capitalised and depreciated over the shorter of the lease term and their expected useful lives. The finance charges are allocated over the primary period of the lease in proportion to the capital element outstanding. The costs of operating leases are charged to the revenue account as they accrue.

Assets leased by the Society
Rental income from property is accounted for on the accruals basis.

Capitalisation of interest
Interest costs relating to the financing of major developments are capitalised up to the date of completion of the project.

Stocks
Stocks are valued at the lower of cost and net realisable value. Provision is made for any damaged, slow-moving and obsolete stock as appropriate.

Debtors

Credit account balances are included at gross value, after providing for bad debts.

Consolidated financial statements

The group financial statements consolidate those of the Society and its subsidiary society and companies. In accordance with FRS 9, the group's interest in joint ventures is accounted for using the gross equity method of accounting.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. No provision is made for taxation on capital gains deferred under the rollover provisions of the Taxation of Chargeable Gains Act 1992. Deferred tax assets are recognised to the extent that they are regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Pension costs

The Society operates a defined benefit funded pension scheme and also contributes to a number of defined contribution schemes.

For the defined benefit scheme, the amounts charged to operating surplus are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the revenue account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other financial costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained triannually and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

For defined contribution schemes the amount charged to the revenue account in respect of pension costs and other post-retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Share based payment

The Society has applied the requirements of FRS 20 Share Based Payment. The Society issues equity-settled share-based payment to employees who opt to join the all employee share option plan. Equity-settled share-based payments are measured at fair value at the date of the grant. This is expensed in the revenue account.

Group revenue account
for the year ended 27 January 2007

	notes	2007 (52 weeks) before exceptionals £000	exceptional £000	total £000	2006 (52 weeks) total £000
turnover - group and share of joint ventures - continuing		371,199	0	371,199	374,545
less share of joint venture		0	0	0	(585)
turnover		371,199	0	371,199	373,960
value added tax		(39,473)	0	(39,473)	(40,149)
sales	27	331,726	0	331,726	333,811
cost of sales		(240,065)	0	(240,065)	(247,076)
gross profit		91,661	0	91,661	86,735
expenses	1	(88,148)	(1,188)	(89,336)	(106,609)
operating surplus/(loss) - continuing	27	3,513	(1,188)	2,325	(19,874)
share of joint venture operating surplus		0	0	0	247
operating surplus/(loss) including joint venture		3,513	(1,188)	2,325	(19,627)
surplus on disposal of tangible fixed assets		0	1,329	1,329	871
surplus/(loss) before finance charges		3,513	141	3,654	(18,756)
net finance charges	4			(3,160)	(3,559)
surplus/(loss) for year before distributions				494	(22,315)
distributions					
share interest				(181)	(179)
grants/donations	5			(199)	(257)
surplus/(loss) for year before taxation				114	(22,751)
taxation	6			(1,754)	3,671
transfer to reserves	17			(1,640)	(19,080)

Group statement of total recognised gains and losses and group note of historical cost profits and losses for the year ended 27 January 2007

	2007 (52 weeks) £000	2006 (52 weeks) £000
group statement of total recognised gains and losses		
loss for year	(1,640)	(19,080)
actuarial gain/(loss) relating to the pension scheme (net of deferred tax)	2,494	(2,982)
unrealised gain on investment properties	7,526	8,266
total gains and losses recognised since last report	8,380	(13,796)

	2007 (52 weeks) £000	2006 (52 weeks) £000
group note of historical cost profits and losses		
surplus/(loss) for year before taxation	114	(22,751)
realisation of property revaluation gains of earlier years	8,983	1,446
historical cost surplus/(loss) for year before taxation	9,097	(21,305)
historical cost surplus/(loss) for year after taxation	7,343	(17,634)

Group balance sheet as at 27 January 2007

	notes	£000	2007 £000	£000	2006 £000
fixed assets					
intangible assets	7		14,122		14,561
tangible assets	8		127,841		136,024
investments	9		1,403		1,689
			143,366		152,274
current assets					
stocks - goods for resale		24,505		27,523	
debtors and prepayments	10	13,138		14,468	
cash at bank and in hand		5,623		2,335	
		43,266		44,326	
current liabilities					
amounts falling due within one year					
bank overdraft (secured)		0		(6,347)	
creditors	11	(45,946)		(55,618)	
		(45,946)		(61,965)	
net current liabilities			(2,680)		(17,639)
total assets less current liabilities			140,686		134,635
long term liabilities					
amounts falling due after more than one year					
creditors - loan	12	(33,775)		(30,913)	
sundry	13	(4,855)		(7,401)	
			(38,630)		(38,314)
provisions for liabilities and charges					
deferred taxation	15	(1,714)		(1,355)	
other provisions	3	(924)		(1,746)	
			(2,638)		(3,101)
net assets excluding pension liability			99,418		93,220
pension liability	22		(7,514)		(9,774)
net assets	27		91,904		83,446
financed by					
share capital	16		4,952		4,874
reserves	17		86,952		78,572
shareholders' funds	18		91,904		83,446

On behalf of the board of directors

Hollis Smallman President
David Moon Vice President
John Dalley Secretary

22 March 2007

Group cash flow statement
for the year ended 27 January 2007

	notes	2007 (52 weeks) £000	2007 (52 weeks) £000	2006 (52 weeks) £000	2006 (52 weeks) £000
net cash inflow from operating activities	23		11,363		8,666
dividends from joint ventures and associates					
dividends from joint venture			0		150
returns on investment and servicing of finance					
interest and dividends received		149		122	
interest paid		(3,195)		(3,533)	
share interest paid, grants and donations		(380)		(436)	
net cash outflow from returns on investment and servicing of finance			(3,426)		(3,847)
taxation					
corporation tax received/(paid)			541		(1,011)
capital expenditure and financial investment					
sale of fixed asset investments		7		7	
receipts from sales of tangible fixed assets		13,514		4,234	
payments to acquire tangible fixed assets		(3,753)		(11,348)	
			9,768		(7,107)
acquisitions and disposals					
repayment/(purchase) of interest in joint venture		279		(407)	
acquisitions	19	(621)		0	
			(342)		(407)
net cash inflow/(outflow) before financing			17,904		(3,556)
financing					
bank loans advanced		38,406		5,447	
repayment of bank loans		(43,711)		(2,979)	
members share capital issued net of withdrawals		78		121	
repayment of finance leases		(3,042)		(2,923)	
net cash outflow from financing			(8,269)		(334)
increase/(decrease) in cash	24		9,635		(3,890)

Notes to the group accounts
for the year ended 27 January 2007

1. expenses	2007 £000	2006 £000
personnel costs	40,512	41,994
occupancy costs (excluding depreciation)	15,518	14,683
depreciation of owned assets	4,970	5,066
depreciation of assets held under finance leases	2,512	2,331
amortisation of goodwill	818	921
operating lease rentals - equipment and vehicles	923	1,077
fees - directors and committee members	128	83
expenses and delegations - directors and committee members	91	71
auditors' remuneration	70	70
other expenses	22,606	22,802
	88,148	89,098
exceptional items - impairment of goodwill	0	12,574
exceptional items - other costs (see note 3)	1,188	4,937
	89,336	106,609

Included within expenses is £5,975,000 relating to operating lease rentals for land and buildings (2006 - £6,125,000).

auditors' remuneration - other services

Fees paid to the auditors in respect of non-audit services were £34,000 (2006 - £69,000).

2. employees	number	number
the average number employed was		
full time	1,324	1,379
part time	2,854	3,007
	4,178	4,386
	£000	£000
the costs incurred in respect of these employees were		
wages and salaries	36,663	38,127
social security costs	2,490	2,672
other pension costs	1,359	1,195
	40,512	41,994

directors' emoluments	£000	£000
the total remuneration of the directors for their board duties was		
fees and delegations	118	73

	number	number
the average number of directors whose emoluments fell into each £2,500 bracket was		
£2,501 - £5,000	0	14
£5,001 - £7,500	12	3
£7,501 - £10,000	1	0
£10,001 - £12,500	0	0
£12,501 - £15,000	2	0
	15	17

2. employees - continued

	2007 £000	2006 £000
management executive emoluments		
the total remuneration of the management executive was		
wages & salaries	847	798
taxable benefits	60	105
pension costs	154	152
	1,061	1,055

the number of management executives whose emoluments, excluding pension and benefits, fell into each £10,000 bracket was

	2007 number	2006 number
£ 0 - £ 10,000	0	1
£ 30,001 - £ 40,000	0	1
£ 70,001 - £ 80,000	2	1
£ 90,001 - £100,000	1	3
£100,001 - £110,000	0	1
£120,001 - £130,000	0	1
£130,001 - £140,000	1	0
£190,001 - £200,000	1	0
£270,001 - £280,000	1	1

3. exceptional items

	£000	£000
gain on sale of tangible fixed assets	1,329	871
exceptional costs		
goodwill impairment	0	(12,574)
reorganisation and other costs	(1,188)	(8,378)
	(1,188)	(20,952)
total exceptional items	141	(20,081)

Exceptional costs include redundancy costs relating to the closure of retail stores and costs arising from a former acquired society.

£924,000 of reorganisation costs incurred in the year ended 28 January 2006 are included as ‘other provisions’ in the balance sheet (2006 - £1,746,000). The majority of these costs are expected to be incurred in the next financial year.

4. net finance charges

	£000	2007 £000	£000	2006 £000
interest payable				
bank overdraft and loan	2,681		2,999	
finance leases	433		520	
other interest	81		14	
expected return on pension scheme assets	(2,195)		(1,976)	
interest cost on pension scheme liabilities	2,309		2,124	
		3,309		3,681
less - interest receivable and investment income				
listed investments	1		1	
unlisted investments	88		91	
other interest	60		29	
joint venture	0		1	
		149		122
		3,160		3,559

Notes to the group accounts for the year ended 27 January 2007

5. grants / donations

	2007 £000	2006 £000
member relation activities & education grants	98	140
donations	101	117
	199	257

6. taxation

	£000	£000
current taxation		
UK corporation tax charge/(credit) for the year	1,283	(306)
adjustment in respect of prior years	148	(1,342)
joint venture	65	74
total current taxation	1,496	(1,574)
deferred taxation		
origination and reversal of timing differences	408	(1,932)
timing differences FRS17	(101)	0
adjustment in respect of prior years	(49)	(165)
total deferred taxation	258	(2,097)
total taxation charge/(credit)	1,754	(3,671)

factors affecting tax charge for the year

surplus/(loss) before tax	114	(22,751)
tax on surplus/(loss) at standard rate of corporation tax in the UK of 30% (2006 30%)	34	(6,825)
factors affecting charge for the year		
expenses not deductible for tax	510	4,519
capital allowances in excess of depreciation	138	(111)
movement in short term timing differences	(574)	(9)
deferred tax on pension schemes	101	59
generation/(utilisation) of tax losses	0	2,043
chargable gains	1,502	331
profit on sale of non-qualifying fixed assets	(426)	(239)
adjustments to tax in respect of prior years	211	(1,342)
current tax charge/(credit) for the year	1,496	(1,574)

No provision has been made for deferred tax on revaluing property to its market value. The tax on the gains arising from the re-valuation would only become payable if the property were sold without rollover relief being available. These assets are expected to be used in the continuing operations of the business and therefore no tax is expected to be paid in the foreseeable future.

Additionally, no deferred tax has been provided in respect of certain historical gains on disposal of fixed assets as such tax would only become payable if the replacement asset is sold without rollover relief being obtained. The tax which would be payable in such circumstances has not been quantified in the absence of March 1982 values.

Notes to the group accounts for the year ended 27 January 2007

7. intangible assets

goodwill	£000
cost	
28 January 2006	30,050
additions	379
27 January 2007	30,429
amortisation	
28 January 2006	15,489
provided for the year	818
27 January 2007	16,307
balance sheet value at 27 January 2007	14,122
balance sheet value at 28 January 2006	14,561

8. tangible fixed assets

	land & buildings	investment properties	plant, transport & fixtures	total
	£000	£000	£000	£000
cost or valuation				
28 January 2006	35,261	74,382	84,124	193,767
additions	88	1,241	2,424	3,753
disposals	(96)	(11,488)	(2,781)	(14,365)
acquisition (see note 19)	100	70	35	205
reclassification	0	203	(267)	(64)
revaluation	0	7,526	0	7,526
27 January 2007	35,353	71,934	83,535	190,822
depreciation				
28 January 2006	8,773	0	48,970	57,743
provided for the year	806	0	6,676	7,482
disposals	(22)	0	(2,158)	(2,180)
reclassification	0	0	(64)	(64)
27 January 2007	9,557	0	53,424	62,981
balance sheet value at 27 January 2007	25,796	71,934	30,111	127,841
balance sheet value at 28 January 2006	26,488	74,382	35,154	136,024

The net book value of the Society's fixed assets includes £8.1m (2006 - £10.5m) in respect of assets held under finance leases.

All assets under finance leases are held within plant, transport & fixtures.

Investment properties were valued independently as at 27 January 2007 at open market value on the basis of existing use by D M Hall Chartered Surveyors. The valuation was arrived at on the basis of an inspection and survey of a sample of the Society's total investment properties.

Notes to the group accounts for the year ended 27 January 2007

9. fixed asset - investments

	2007 shares £000	2007 loans £000	2006 shares £000	2006 loans £000
unlisted				
C W S Ltd	1,252	0	1,252	0
other I & P Societies	76	0	76	0
others	7	7	7	14
joint ventures	54	0	333	0
	1,389	7	1,668	14
listed				
others	7	0	7	0
	1,396	7	1,675	14
	7		14	
	1,403		1,689	

The market value of the listed investments at 27 January 2007 was £30,000 (2006 - £22,000).

During the year £9,000 was received in relation to the repayment of loans (2006 - £7,000).

The group has an interest in three joint ventures, the principal activity of these companies is property development and they are incorporated in Great Britain and registered in Scotland.

Scotmid - Miller (South Queensferry) Limited is in the process of being wound up. The Society's investment in this joint venture represents 50% of the equity share capital at cost as shown below. The Society's investment in Scotmid - Miller (Great Junction Street) Limited and Scotmid - Bett (Fountainbridge) Limited represents 50% of assets in the balance sheets also shown below.

	shares £
Scotmid - Miller (South Queensferry) Limited	50

	Scotmid - Miller (Great Junction Street) 2007 £000	Scotmid - Miller (Great Junction Street) 2006 £000	Scotmid - Bett (Fountainbridge) 2007 £000	Scotmid - Bett (Fountainbridge) 2006 £000
gross assets	98	164	5,684	235
gross liabilities	(65)	(65)	(5,684)	(232)
net assets	33	99	0	3
Society loan to joint venture	0	0	21	231
net investment	33	99	21	234

On 30 January 2003 the Society entered into certain guarantees in respect of obligations of Scotmid - Miller (Great Junction Street) Limited under its financing arrangements. In the event of a failure by Scotmid - Miller (Great Junction Street) Limited to meet certain obligations the guarantees require the Society (along with its joint venture partner) to meet any shortfall in interest payments, to fund any project cost overruns and to procure the completion of the project.

Notes to the group accounts
for the year ended 27 January 2007

10. debtors and prepayments due within one year	2007 £000	2006 £000
trade debtors	6,925	5,956
sundry debtors	6,213	6,683
corporation tax recoverable	0	1,829
	13,138	14,468

11. creditors falling due within one year	£000	£000
trade creditors	20,898	23,958
holiday pay	974	790
VAT	1,898	780
other sundry creditors	3,478	3,745
accrued charges	10,715	8,329
PAYE and social security	673	684
bank loan (see note 12)	2,571	10,738
deferred consideration	2,000	3,500
obligations under finance leases	2,531	3,094
corporation tax	208	0
	45,946	55,618

The deferred consideration of £2,000,000 (2006 - £3,500,000) shown above relates to the acquisition of Morning Noon & Night (Holdings) Limited.

This amount is repayable on demand in units of £10,000 before 1 August 2008. There is a £2,000,000 undrawn committed borrowing facility to cover repayments in relation to this deferred consideration, this loan will be repayable in more than 5 years.

12. loan creditors falling due after one year	£000	£000
bank loans	33,775	30,913
loan amounts falling due within one year (included in note 11 above)	2,571	10,738
between one and two years	16,400	2,669
between two and five years	4,500	8,006
after five years	12,875	20,238
	36,346	41,651

The above loans are secured by a bond and floating charge over all the assets of the Society.

13. sundry creditors falling due after one year	£000	£000
obligations under finance leases due in 1 - 5 years	3,605	6,084
funeral bonds	1,250	1,317
	4,855	7,401

The finance lease obligation due in 1 - 2 years is £2,045,000 (2006 - £2,532,000).

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

14. derivatives

The following table sets out the fair value for those derivatives that have not been included in the financial statements at fair value

	book value		fair value	
	2007 £000	2006 £000	2007 £000	2006 £000
derivative financial instruments held to manage interest rates				
interest rate derivatives	0	0	192	(214)

The Society's interest rate derivatives have been taken out to hedge interest rate risk on the bank loan.
The Society does not enter into derivates for speculative purposes.

15. deferred taxation

		£000
balance at 28 January 2006		1,355
revenue account charge	(note 6)	359
balance at 27 January 2007		1,714

the provision for deferred tax consists of the following amounts

	2007 £000	2006 £000
capital allowances in excess of depreciation	1,761	3,273
trading losses available	0	(2,043)
rolled over gains	160	160
lease premium	78	69
other timing differences	(285)	(104)
	1,714	1,355

16. share capital

	£000	£000
at beginning of year	4,874	4,753
interest	175	167
contributions	182	229
	5,231	5,149
withdrawals	279	275
at end of year	4,952	4,874

(i) share capital comprises 4,952,000 shares of £1 attracting interest at 4%

(ii) shares are withdrawable on periods of notice in accordance with Rule 21, however, the directors retain the right to refuse notice of redemption

(iii) each member is entitled to one vote

Notes to the group accounts
for the year ended 27 January 2007

17. movement on reserves

	revenue reserve £000	revaluation reserve £000	total £000
at 28 January 2006	35,024	43,548	78,572
loss for year	(1,640)	0	(1,640)
transfer of realised revaluation arising on disposal of properties	8,983	(8,983)	0
surplus on revaluation of properties	0	7,526	7,526
actuarial gain relating to the pension fund (net of deferred tax)	2,494	0	2,494
at 27 January 2007	44,861	42,091	86,952

18. reconciliation of movements in shareholders' funds

	2007 £000	2006 £000
loss after taxation	(1,640)	(19,080)
other recognised gains and losses relating to year	7,526	8,266
contributions and interest less withdrawals during year	78	121
actuarial gain/(loss) relating to the pension fund (net of deferred tax)	2,494	(2,982)
	8,458	(13,675)
opening shareholders' funds	83,446	97,121
closing shareholders' funds	91,904	83,446

19. acquisitions

During the year the Society acquired two independent convenience store businesses which are detailed below. These acquisitions have been accounted for using the acquisition method of accounting. The provisional value of goodwill arising as a result of these acquisitions is shown below.

	date of acquisition	consideration £000	acquisition costs £000	total £000
Bathgate	27 October 2006	292	8	300
Burghead	26 January 2007	314	7	321
		606	15	621

	fair value acquired total acquisitions £000
tangible fixed assets	205
stock	37
net assets	242
goodwill on acquisition	379
net assets acquired	621
satisfied by	
cash	606
acquisition costs	15
	621

Notes to the group accounts
for the year ended 27 January 2007

20. analysis of the net outflow of cash in respect of acquisitions

	2007 £000 net cash outflow	2006 £000 net cash outflow
acquisition consideration		
Bathgate	(300)	0
Burghead	(321)	0
net outflow of cash in respect of acquisitions	(621)	0

21. financial commitments

	2007 £000	2006 £000
future capital expenditure contracted for but not provided for	654	1,958

22. accounting for pension costs

The Society contributes to a number of defined contribution pension schemes. The assets of these schemes are held separately from those of the Society in independently administered funds. The costs relating to these schemes of £178,000 (2006 - £176,000) are included within note 2.

The Society operates a defined benefit (final salary) funded pension scheme, the Scottish Midland Co-operative Society Pension Plan. The most recent full actuarial valuation was carried out at 29 January 2005. The actuarial valuation method used was the projected unit method. The actuarial assumptions which had the most effect on the result of the valuation were those relating to the rate of return on investments and the rate of increases in salaries and pensions. It was assumed that the investment return would be 7% pre retirement and 5.25% post retirement per annum, that the rate of salary growth would be 4% per annum, and the rate of pension increase for service between 05/04/97 and 05/04/05 would be 2.5% per annum, and from 06/04/05 would be 2.0% per annum.

At the date of review, the market value of the funds' assets was £31,256,000 and the actuarial value of the assets represented 78.7% of the actuarial value of all benefits accrued to members at that date, after allowing for future wage increases.

Employer contributions made in respect of the accounting period amounted to £970,000 (2006 - £977,000) which includes a special contribution of £450,000 (2006 - £450,000).

This valuation has been updated by the actuary to 27 January 2007 in order to comply with FRS 17.

the major assumptions used by the actuary were	at 27 January 2007	at 28 January 2006	at 29 January 2005
rate of increases in salaries	4.25%	4.00%	4.00%
rate of increases in pensions accrued post 05/04/97	2.75%	2.50%	2.50%
rate of increase in deferred pensions	2.75%	2.50%	2.50%
discount rate	5.30%	4.66%	5.22%
inflation assumption	2.75%	2.50%	2.50%

22. accounting for pension costs - continued

The fair value of the assets in the scheme, the present value of liabilities in the scheme and the expected rates of return at each balance sheet date were

	2007		2006		2005	
	long term rate of return expected	fair value	long term rate of return expected	fair value	long term rate of return expected	fair value
	%	£000	%	£000	%	£000
equities	7.50%	18,664	7.00%	23,013	7.00%	20,241
bonds	5.30%	18,201	4.75%	12,751	5.50%	11,585
other	4.50%	429	4.50%	217	4.50%	(661)
total market value of assets		37,294		35,981		31,165
present value of scheme liabilities		(48,029)		(49,944)		(40,669)
deficit in scheme		(10,735)		(13,963)		(9,504)
related deferred tax asset		3,221		4,189		2,851
net pension liability		(7,514)		(9,774)		(6,653)

analysis of the movement in the scheme deficit in the year	2007 £000	2006 £000
opening deficit in the scheme	(13,963)	(9,504)
current service cost	(1,191)	(1,026)
contributions	970	977
net financing charge	(114)	(148)
actuarial gain/(loss)	3,563	(4,262)
closing deficit	(10,735)	(13,963)

amounts included within operating surplus/(loss)	£000	£000
current service cost	1,191	1,026

amounts included in other finance costs	£000	£000
expected return on pension scheme assets	2,195	1,976
interest cost on pension scheme liabilities	(2,309)	(2,124)
net finance cost	(114)	(148)

22. accounting for pension costs - continued

history of experience gains and losses

	2007		2006		2005		2004		2003	
	%	£000	%	£000	%	£000	%	£000	%	£000
actual return less expected return on pension scheme assets	0.3%	129	10.9%	3,935	3.7%	1,141	10.5%	3,179	24.3%	(6,406)
experience gains and losses arising on the scheme liabilities	1.5%	729	2.3%	(1,132)	0.6%	(233)	0.9%	(374)	2.5%	948
changes in assumptions underlying the value of scheme liabilities	5.6%	2,705	14.2%	(7,065)	1.9%	(781)	0.0%	8	6.0%	(2,301)
actuarial gain/(loss) before tax	7.4%	3,563	8.5%	(4,262)	0.3%	127	7.1%	2,813	20.1%	(7,759)

amounts taken to the statement of total recognised gains and losses

	2007 £000	2006 £000
actual return less expected return on pension scheme assets	129	3,935
experience gains and losses arising on the scheme liabilities	729	(1,132)
changes in assumptions underlying the value of scheme liabilities	2,705	(7,065)
actuarial gain/(loss) before tax	3,563	(4,262)

minimum funding requirement

The figures shown under FRS 17 show the pension scheme assets and liabilities at fair value and recognise the operating cost of providing retirement benefits to employees in the accounting periods in which the benefits are earned by the employees.

The cash contributions payable into the defined benefit pension scheme are governed by the scheme actuary's determination of the ongoing funding position of the scheme. This funding position is underpinned by the Minimum Funding Requirement (MFR). The MFR funding level calculation is quite different to the FRS 17 calculation. The MFR position is determined using a prescribed set of assumptions which are different to the market based assumptions prescribed and used under FRS 17. MFR regulations require that where the MFR funding level (ratio of assets to liabilities) is below 100%, the company must make up any shortfall by way of payments into the pension scheme within certain prescribed timescales.

The MFR funding level of the Scottish Midland Co-operative Pension Plan was formally calculated at 29 January 2005. The scheme actuary's assessment of the MFR funding level was a figure of 96.6% meaning that there is a shortfall in the funding of the scheme on an MFR basis. As a result, the company has agreed to make additional annual cash payments of £450,000 into the pension scheme for the next 10 years. The continued adequacy of these contributions will be reassessed each year.

23. cash flow statement : reconciliation of surplus/(loss) on ordinary activities to net cash inflow from operating activities

	2007 £000	2006 £000
operating surplus/(loss) including joint venture	2,325	(19,627)
depreciation charges	7,482	7,397
amortisation of goodwill	818	921
impairment of goodwill	0	12,574
decrease in stocks	3,055	5,356
(increase)/decrease in debtors	(499)	803
(decrease)/increase in creditors	(2,039)	1,193
movement in pension liability	221	49
net cash inflow from operating activities	11,363	8,666

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

	£000	£000
increase/(decrease) in cash for year	9,635	(3,890)
cash outflow from decrease in debt and lease financing	8,347	455
change in net debt resulting from cash flows	17,982	(3,435)
new finance leases	0	(4,311)
movement in net debt for the year	17,982	(7,746)
opening net debt	(54,841)	(47,095)
closing net debt	(36,859)	(54,841)

25. cash flow statement : analysis of net debt

	at 28 January 2006 £000	cash flow £000	other non-cash changes £000	at 27 January 2007 £000
cash at bank and in hand	2,335	3,288		5,623
bank overdraft	(6,347)	6,347		0
		9,635		
debt due after 1 year	(30,913)	(38,406)	35,544	(33,775)
debt due within 1 year	(10,738)	43,711	(35,544)	(2,571)
finance leases	(9,178)	3,042	0	(6,136)
		8,347		
total	(54,841)	17,982	0	(36,859)

26. cash flow statement : major non-cash transactions

During the year the Society entered into finance lease arrangements in respect of assets with a total capital value at the inception of the lease of £0m (2006 - £4.3m).

Notes to the group accounts
for the year ended 27 January 2007

27. segmental reporting

class of business	sales		operating surplus/(loss)		net assets	
	2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £000
retail / wholesale	327,896	329,729	938	(21,352)	19,970	9,064
property	3,830	4,082	1,387	1,478	71,934	74,382
	331,726	333,811	2,325	(19,874)	91,904	83,446

Disclosure of separate retail and wholesale results is considered to be prejudicial to the interests of the business.

28. operating lease commitments

At 27 January 2007 the commitment to make payments during the next year in respect of operating leases was as follows

	land & buildings	plant, transport & fixtures	land & buildings	plant, transport & fixtures
leases which expire	2007 £000	2007 £000	2006 £000	2006 £000
within one year	334	77	528	145
within two to five years	1,453	785	1,142	904
after five years	4,088	0	4,189	0
	5,875	862	5,859	1,049

Notice of meeting and agenda of business

Notice is hereby given that an Annual General Meeting of the Society will be held on Monday, 7 May 2007 at 7pm at the following places.

The Hilton Edinburgh Grosvenor Hotel, Grosvenor Street, Edinburgh and Motherwell Football Club, Fir Park, Motherwell.

Agenda of business

1. Synopsis of Minutes of Ordinary General Meeting held on 2 October 2006.
2. Synopsis of Minutes of Special Meeting held on 2 October 2006.
3. Obituary References.
4. Directors' Report/Annual Accounts.
5. Appointment of Tellers.
6. Elections for Area Committees

   East Area 4 Members to serve for 3 years

   North Area 1 Member to serve for 3 years

   West Area 5 Members to serve for 3 years, 1 Member to serve for 2 years
7. Elections for Member Relations Committee

   East Area 2 Members to serve for 3 years

   North Area 2 Members to serve for 3 years

   West Area 2 Members to serve for 3 years
8. Nomination and Election of Members' Delegates to Scottish Co-operative Party Conference 2007.
9. Synopses of Minutes of Board Meetings.
10. Consideration of remuneration for Office Bearers and Directors

    Present remuneration (per annum)

    Central Board President £8,900; Vice President £6,300; Minute Secretary £5,100; Directors £4,400

    Area Committees Chairman £2,200; Vice Chairman £1,800; Treasurer £1,700; Minute Secretary £1,600; Committee Members £1,500

    Member Relations Committee Chairman £1,200; Committee Member £1,000

    Tellers £5
11. Consideration of scale of fees for Directors' Delegations
    Present Scale Day Fee £100; Part Day Fee £60
12. Consideration of Remuneration for Auditors.
13. Member Relations Committee Report.
14. Society Co-operative Party Council Report.
15. Reports by Members' Delegates on attendance at Scottish Co-operative Party Conference
    28 October 2006.
16. General business.

Admission to general meeting

Members will be admitted to the General Meeting by presenting their share books showing the minimum qualification of £1.00 shareholding deposited prior to 27 January 2007.

The next General Meeting (Ordinary General Meeting) will be held on Monday, 1 October 2007 at Edinburgh and Motherwell.

Synopsis of ordinary general meeting

The Ordinary General Meeting of Members of Scottish Midland Co-operative Society Limited was held in the Roxburghe Hotel, Charlotte Square, Edinburgh and the Kaim Park Swallow Hotel, Edinburgh Road, Bathgate on Monday 2 October 2006 at 7pm.

Mr Hollis Smallman, President of the Society, presiding at Edinburgh.

Mr David Moon, Vice President of the Society, presiding at Bathgate.

1. Synopsis of Minutes of Annual General Meeting held on 8 May 2006 was submitted and adopted.
2. Sympathetic reference was made to the passing of Superannuated Employees.
3. The Directors' Report/Interim Accounts was read and accepted.
4. Mr John Anderson (East) and Mr James Watson (West) gave a report on the re-appointment of auditors.
5. The following Tellers were appointed

   East Area Mrs Begbie

   West Area Mrs K Williamson and Mr D Moon (Snr)
6. Nominations for Area Committees

   East Area 4 Members to serve for 3 years
   Mr R Brown, 14 Craigleith Hill Crescent, Edinburgh; Mr J Hill, 21 Cranston Street, Penicuik; Mrs C Kerr, 89 Northfield Drive, Edinburgh; Mr D Paterson, Flat 3F1, 61 Restalrig Road, Edinburgh.

   North Area 1 Member to serve for 3 years
   Mrs A Anderson, 'Dungeith', 1 Panmure Place, Montrose.

   West Area 5 Members to serve for 3 years, 1 Member to serve for 2 years
   Mr R Kelt, 2 Allan Park, Kirkliston; Mr D McGrouther, 138 Easter Bankton, Livingston; Mr T McKnight, 7 McLardy Court, Uphall; Mr J Middleton, 9 Ennis Park, Polbeth; Mr D Muirhead, Tanaugh, 18 Newlands Avenue, Bathgate; Mr J Watson, 36 Lawhill Road, Law, Carluke.
7. Nominations for Member Relations Committee

   East Area 2 Members to serve for 3 years
   Mrs H Anderson, 13 Fourth Street, Newtongrange.

   North Area 2 Members to serve for 3 years
   There were no nominations.

   West Area 2 Members to serve for 3 years
   Mrs M Scott, 26 Bartonhall Road, Waterloo, Wishaw.
8. The following reports were submitted and approved

   Member Relations Committee

   Society Co-operative Party Council
9. Questions were raised and satisfactorily answered at the time or followed up thereafter.

Synopsis of special meeting

Following the Ordinary General Meeting a Special Meeting was called to consider and if thought fit adopt a new consolidated rulebook. The new rulebook does not include any changes to the rules but consolidates all the individual rule changes since the last consolidation in 2002 into one new rulebook.

A summary of all the rule changes since the last consolidation was provided and the meeting agreed unanimously to adopt the new consolidated rulebook.

Synopses of board meetings

At each meeting, the Board dealt with minutes and correspondence.

In addition, the Chief Executive reported in detail on the Society trading performance, operating costs and property matters. Regular reports on the Society balance sheet and cash flow position were also given.

The main items of business other than the above were as follows:-

1. Presentation of the Society interim report and financial accounts.
2. Development Items

   Property refurbishment

   Sale of property

   Closures

   Acquisitions
3. Profit related pay proposals.
4. Pension plan actuarial valuation & legislation changes.
5. Strategic plans.
6. Appointment of President, Vice President and other Board officials.
7. Board skills / appraisals.
8. Audit tender.
9. Remuneration, fees and expenses review.
10. Review of corporate governance issues.
11. Capital and revenue budget approval.
12. Presentation of membership strategy.
13. Review of schedule of delegations.
14. Delegates reports on attendance at

    Shops Visits

    Co-operative Party Annual Conference, Sheffield 8 - 10 September 2006

    Co-operative Party Summerfest, St Andrews, 6 - 12 August 2006

    Co-operative Group Half Yearly Meeting, Manchester, 28 October 2006

Standing orders for ordinary and special meetings

1. Notice of motion, other than alterations of Rules, for inclusion in agenda of business must be in the hands of the Secretary twenty-one days before date of meeting.
2. Notice of any proposed new rule or alteration or repeal of an existing rule must be submitted in writing to the Secretary 42 days before the Annual General Meeting or any Special Meeting called for the purpose.
3. Movers of motions shall be allowed five minutes but shall not introduce new matters.
4. Any Member may move, without debate "that the question be now put", and if seconded, the motion shall be put forthwith.
5. No Member may speak twice on the same subject. Should a Member, however, persist in speaking more than once, thereby causing disruption, or make interjection during the discussion he shall be named by the Chairman and forbidden to take part in any further business on the Agenda, either by vote or speech.
6. Any Member may speak on a point of order, and the Member who was speaking must resume his seat until the Chairman has decided the point of order.
7. All questions of order, and questions arising out of debate or irrelevance to the question under discussion shall be decided by the Chairman. His decision shall be final unless it is challenged. In the event of such a challenge a vote of the Members present shall be taken, and the Chairman's decision shall be overturned if two-thirds of the votes cast are against the Chairman's decision.
8. If disorder should arise, the Chairman, acting on his discretion, may quit the chair and announce the adjournment of the meeting, and by that announcement the meeting is immediately adjourned, and no business subsequently transacted will be valid.
9. A motion once carried shall not be rescinded at any meeting without three months notice.
10. Where a negative is expressed against a motion or resolution, the Chairman shall declare an authoritative "For and against" vote and no amendment shall be valid.
11. These Standing Orders may be suspended at any time at any meeting provided that two-thirds of the members present and voting decide in favour of the course.

Board Directors/Committees

A - Audit Committee, G - General Purposes Committee, Re - Remuneration Committee, R - Risk Committee, S - Search Committee

Board Directors	Board Meetings 17 meetings held	A 4 held	G 3 held	Re 5 held	R 2 held	S 4 held
Mr H Smallman (President)	17		3		2	4
Mr D Moon (Vice President)	16	4	2	5		
Mr J Anderson (Minute Secretary)	16	4				
Mr I Bailey	14					4
Mr R Brown	15					4
Mr H Cairney	15			4		
Mr J Gilchrist	17			5		
Mr J Hill	15				1	
Mrs M Hume	17				2	
Mr D Jamieson	16				2	
Mrs C Kerr	13		2			4
Mr J Middleton	17			5		
Mr D Paterson	15					4
Mr J Watson	15	4	3			
Miss A Williamson	15	4	2			

Area Committees

East Area	12 meetings held	**West Area**	13 meetings held
Miss A Williamson (Chairperson)	12	Mr D Moon (Chairperson)	13
* Mrs C Kerr (Vice Chairperson)	11	* Mr J Watson (Vice Chairperson)	13
Mr J Anderson (Minute Secretary)	12	* Mr T McKnight (Minute Secretary)	13
Mr D Jamieson (Treasurer)	10	Mr J Gilchrist (Treasurer)	12
* Mr R Brown	11	Mr I Bailey	12
Mr H Cairney	7	Mr P Devenney	13
Mrs G Dow	11	Mr A Dewson (resigned March 2006)	1
* Mr J Hill	11	Mrs M Hume	13
Mr S Kerr	11	* Mr R Kelt	12
Mr J Miller	12	Mrs T McEleney	10
Mr F Murphy	12	* Mr D McGrouther	10
* Mr D Paterson	11	* Mr J Middleton	11
Mrs J Reid	12	Ms A Milne (elected May 2006)	12
Mrs G Smallman	12	* Mr D Muirhead	12
Mr H Smallman	12	Mrs M Ross	12
Mrs M Smith	10	Mr M Ross	11
* Mrs A Anderson	10		

* retire by rotation and are eligible for re-election.

retire under the age rule and are not eligible for re-election.

Member Relations Committee

Member Relations Committee	11 meetings held
* Mrs H Anderson	8
# Mrs I Dickson	10
Mr D Hop (elected May 2006)	10
Mr J McKenzie	11
Mrs M Moon	4
Mr D Reid (elected May 2006)	7
* Mrs M Scott	11
Mrs B Swift	4
Co-opted Observers	
Mr J Middleton (co-opted May 2006)	7
Mr S Kerr	8
Mrs J Reid	11

* retire by rotation and are eligible for re-election.

retire under the age rule and are not eligible for re-election.

Scottish Midland Co-operative Society Limited
Hillwood House, 2 Harvest Drive, Newbridge, Edinburgh EH28 8QJ
www.scotmid.coop