Annual Report & Financial Accounts

for the year ended 26 January 2008

ethical

open

rewarding

honest

caring

responsible

SCOTMID co-operative

Annual Report & Financial Accounts

for the year ended 26 January 2008

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

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

Scotmid - main sponsors of Edinburgh's Ethical Christmas Fayre


Boroughmuir High School, winners of Scottish Young Consumers supported by Scotmid

New format store in Cleland

The first issue of our membership magazine - Jigsaw

The Directors of Scottish Midland Co-operative Society are pleased to present their Annual Report to members for the year ended 26 January 2008.

Overview

Over the last 12 months Scotmid has continued to concentrate on "back to basics". The benefits of this approach are shown in our year-end results, with operating surplus before exceptionals increasing by 91% to £6.7m, compared to £3.5m last year. All the Society's trading divisions grew their underlying profitability, in particular the Food convenience business and the Semi Chem health and beauty retailer recorded significant progress. In parallel with the Society's improvement commercially, we continue to make progress developing our democratic membership base and initial results from membership trials have been encouraging.

The Society has delivered a bottom line surplus for the first time in three years with a post-tax profit of £1.0m compared to a loss of £1.6m last year. In addition, a combination of focussed investment property development and prudent financial management has enabled us to further improve our balance sheet, with net assets increasing from £91.9m to £95.9m and net debt reducing by £7.5m.

In general, this has been an encouraging year but we acknowledge that the Society is still only at an early stage of the recovery process. The need to drive continuous improvement is fundamental to the long-term development of Scotmid. To move to the next stage, stakeholders at all levels of the business will be asked to focus on "raising the bar".

Examples of new store formats and in-store signage (above and below)

The official opening of Cleland store (above left). Inside the new format store in Macduff (above right)

Scotmid Fairtrade cotton bags are now available in stores

Food division

The Food division continues to improve and grow, taking another positive step towards the stated aim "to be the leading community convenience retailer in Scotland". Despite an extremely competitive environment, comparable sales were up year-on-year, driven through continued focus on product availability, event management and promotional activity.

During the year the Board approved a three-year plan of capital investment in the Food estate. This investment began with the opening of three new stores and a programme of refits to bring the estate to a consistent customer standard. The new format for refits was initially trialled in three stores and the lessons learned were then incorporated into a further six refits. The early success of one of the "new format" stores was acknowledged at the 2008 Scottish Grocer Awards when Macduff won the coveted Convenience Store of the Year Award. As part of the process to improve overall estate consistency we have also sold or closed four under-performing branches in the year.

Scotmid's Food stores were acknowledged for commitment to responsible community retailing as we were also awarded the 2008 Scottish Grocer Award for Social Responsibility. The Society is fully supportive of the Scottish Grocers' Federation position and commitment to the implementation of the Scottish Government's new alcohol licensing laws but we acknowledge the pressure this puts on staff and the potential conflict with customer relationships.

Directors' report continued

Semi Chem Christmas Shops in the Gyle Shopping Centre (above and below right) and in our Strathaven Food store (below left)

Inside our new Semi Chem store in Enniskillen, Northern Ireland

Semi Chem Deals of the Week (above). MST Warehouse (below)

Semi Chem

Semi Chem overcame the disappointing summer weather and its impact on trade with a strong performance over Christmas. This encouraging improvement in comparable sales was achieved in the face of an economic downturn and reductions in High Street footfall. The sales growth was driven by the focus on big main lines, Deals of the Week and fragrance Weekend Specials. In addition, we benefited from strong growth in the household and fragrance categories and by the reintroduction of a larger food range.

The business made significant progress in driving forward operating margins. This was achieved by focussing on buying, with improved controls on purchasing, range and replenishment. Further improvements were also made at our central warehouse in Livingston.

M & S Toiletries

Underlying trading conditions continue to be challenging for M & S Toiletries core customer base of independent retailers and pharmacies, but the business has been successful in opening new accounts and increasing sales to a number of our larger existing customers. The loss of a major High Street customer last summer has impacted sales but despite this M & S Toiletries still delivered overall sales growth.

Costs were well controlled in the business, helping to offset the inflationary pressures on expenses such as fuel. Work continues on reviewing and developing strategy to meet the needs of the changing marketplace in which the business operates.

The Joint Venture development of our former Head Office at Fountainbridge

Thomas Brown Funeral Directors in Broxburn

Property development and new store at Kirkliston due to open in 2008

Property and Development

The Division has turned in another good performance through a programme of development and selected disposals.

The redevelopment of the Montrose High Street Food store was completed in the summer, creating a new High Street convenience store and a number of investment properties, anchored by a successful pre-let to New Look. Despite the challenging conditions in the commercial property market, the success of investments, portfolio management and the resilience of the domestic property market in Edinburgh resulted in a £4.2m underlying increase in the market value of our investment portfolio.

Our Joint Venture development at the Society's former Head Office in Fountainbridge, Edinburgh was successfully completed at the end of October. This resulted in exceptional income for the Society of £1.0m. The letting progress at the development is going well with further income from the Joint Venture expected early in the next financial year.

Funerals

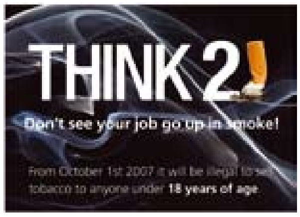
This has been an encouraging year for the Funeral Division despite the much-publicised falling death rate, with sales up on the previous year. After a disappointing performance last year, operating profit moved ahead significantly. Funeral bond sales continue to do well, aided by local advertising and the generic Co-operative Group activity. The Division intends to build on this encouraging year by strengthening local links to maintain its position at the heart of the communities in which it operates.

Service Departments and Corporate Matters

All the Central Support teams have played an integral part in delivering the improved Society performance. Following the successful trial scheme last year, the Remuneration Committee's new Profit Related Pay scheme was implemented for all Society employees. This is considered to be a significant driver of the Society's improved performance. Cross-functional teams have supported a number of process and systems developments in the Food stores, and have improved management information. The programme of e-learning continues to be rolled out to all parts of the business including key modules such as Think 21, Health and Safety and Sale of Restricted Products.

The Society's final salary pension scheme continues to be impacted by short term turbulence of market factors affecting investments and liabilities and the longer-term trend of improving mortality rates. The acknowledgement of reducing mortality was the underlying reason for the £1.3m increase in the FRS 17 pension deficit. The Society continued to contribute an additional £0.5m per annum to reduce the deficit and this position will be reviewed following completion of the pension scheme's actuarial valuation at 26 January 2008.

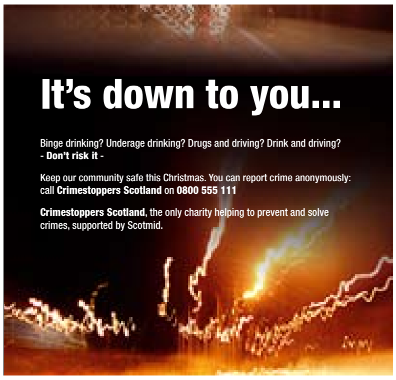
Hollis Smallman (Society President), John Brodie (Chief Executive), Fraser Purvis & Tricia Edington at the launch of new Society Membership Strategy



'Think 21' and 'No ID No Sale' are key elements in the campaign to prevent underage drinking and smoking

Planting the Field of Hope at Head Office


Helen Anderson of our Leith store attending the Edinburgh Fairtrade Breakfast



The Crimestoppers Christmas campaign

Member Relations and Community Development

The Society launched a new Membership Strategy in 12 pilot Food stores. The outcome has been promising, adding over 1500 new members. Phase Two has also been rolled out into a further 14 stores and is already showing positive signs. Active communication with members is now taking place, initially via a newly launched membership magazine. The first edition entitled "Jigsaw" was distributed on a trial basis to a sample of 20,000 current members. Feedback from the first edition was positive and a second issue is planned for the summer.

Community activity continues to be a key area for the Society. Scotmid will sponsor the high profile Edinburgh Fairtrade Breakfast for the next three years and has also won an award at the annual Fairtrade Awards for long-standing achievements in promoting Fairtrade products. The Society continues to be actively involved with Crimestoppers and supported the organisation with community-based campaigns over the festive period.

Marie Curie was the Society's chosen Charity of the Year and a total of £75,000 was raised from a number of successful sponsored and community activities and the planting of a daffodil "Field of Hope" adjacent to the Scotmid Head Office.

Political Donations

Donations to the Co-operative Party amounted to £11,061. A donation of £20,000 was made to the Scottish Midland Co-operative Party Council.

Appreciation

The Directors would like to thank our members, customers and staff for their contribution to the significant progress made by the Society in the year.

Signed on behalf of the Directors

Hollis Smallman President
David Moon Vice President

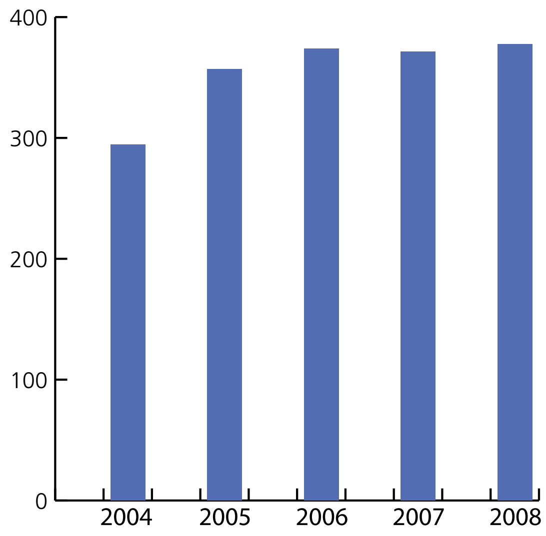
Group five year summary

	2008 52 weeks	2007 52 weeks	2006 52 weeks	2005 52 weeks restated*	2004 53 weeks
number of members	237,176	235,819	235,739	234,885	234,757
	£000	£000	£000	£000	£000
turnover	377,737	371,199	373,960	356,727	294,666
operating surplus before exceptionals	6,698	3,513	1,078	6,966	8,052
operating surplus/(loss) after exceptionals	6,105	2,325	(19,874)	2,767	7,081
surplus/(loss) before tax	3,016	114	(22,751)	3,178	6,301
retained surplus/(loss)	1,047	(1,640)	(19,080)	2,383	4,381
depreciation	7,246	7,482	7,397	6,351	5,375
net finance costs	2,720	3,160	3,559	3,080	1,103
purchase of fixed assets	7,793	3,753	15,659	12,540	11,625
fixed assets	142,367	143,366	152,274	152,354	111,307
net current (liabilities)/assets	(2,593)	(2,680)	(17,639)	(2,049)	7,369
total assets less current liabilities	139,774	140,686	134,635	150,305	118,676
less long term liabilities	33,230	38,630	38,314	43,140	20,932
less provision for liabilities and charges	1,826	2,638	3,101	3,391	3,831
less pension liability	8,775	7,514	9,774	6,653	-
net assets	95,943	91,904	83,446	97,121	93,913
share capital	5,015	4,952	4,874	4,753	4,541
revenue reserves	48,163	44,861	35,024	55,640	53,030
revaluation reserve	42,765	42,091	43,548	36,728	36,342
net worth	95,943	91,904	83,446	97,121	93,913

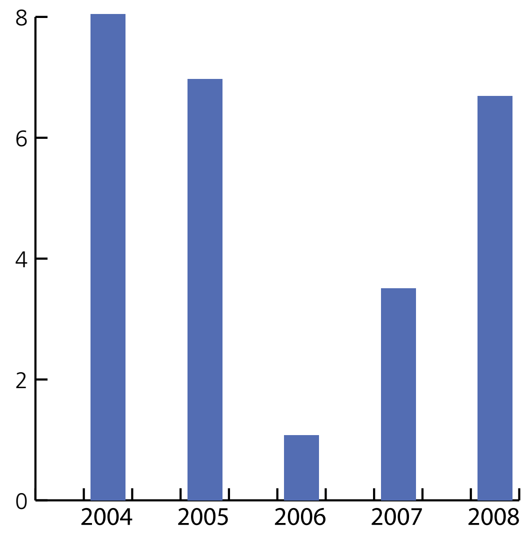
*The group revenue account for the year ended 29 January 2005 has been restated to reflect the adoption of FRS17 "Retirement Benefits"

Group five year summary continued

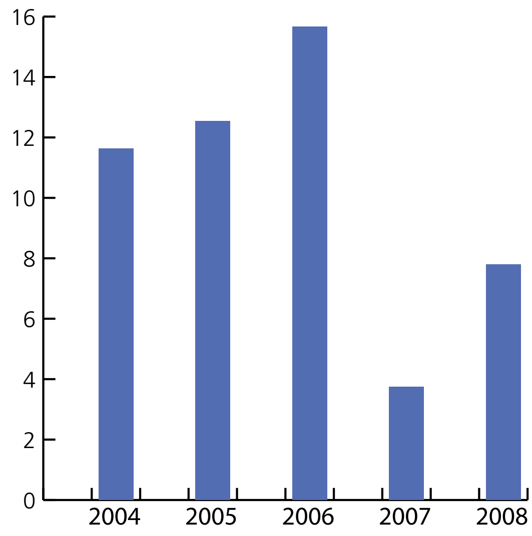
Turnover (millions)



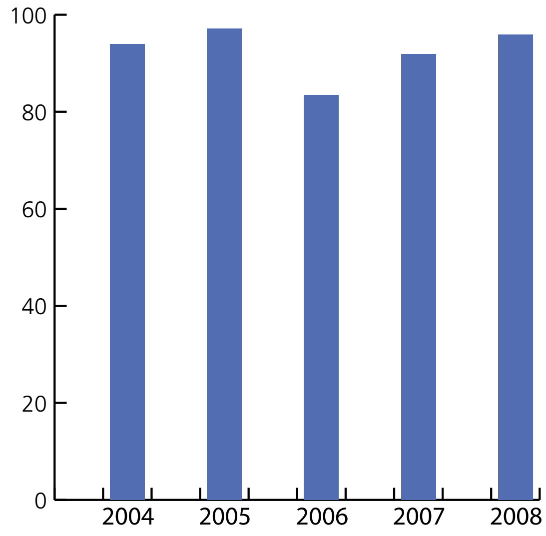
Operating surplus before exceptionals (millions)



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.

Directors' responsibilities on corporate governance continued

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 last year. An update on progress made so far on implementation of the Strategy is provided in the Directors' report. The Member Relations Committee report provides details of activities during the financial year to January 2008 and other member related information is provided in the section on Corporate Social Responsibility.

Members' meetings
Members' meetings are advertised on our website and in the local press 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 one to three 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 pages 36 and 37 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 2007/08 and an audit plan for 2008/09 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 the President of the Society. The Committee is scheduled to meet at least biannually.

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; and
- 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. The external audit contract was last put out to tender in 2006.

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 Management Executive 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, biannually, the risks facing the Society to determine if adequate controls are in place. The committee reports annually to the Audit Committee on the high level risks facing the Society.

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 determines 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. The salary information in the bandings in Note 2 provides appropriate disclosure of Board and Management Executive remuneration for Scotmid Society although not in the format recommended in Co-operative UK's best practice.

In 2006 the Remuneration Committee introduced a trial Performance Related Pay (PRP) scheme for store managers. Following a positive evaluation of this initial trial the Committee recommended the introduction of performance-related bonuses for all eligible Society employees in 2007/08. The Committee used the experience of other co-operative societies that have already implemented PRP to design and benchmark the new incentive scheme. With independent advice from "mflhr", the Committee tailored the best practice template of a PRP scheme from another consumer co-operative to suit the specific needs of our Society. The PRP scheme was introduced to ensure that there was a link between performance and reward and to ensure that the interests of management and staff are aligned with those of the Society and members. The Committee also took into account the importance of attracting, retaining and motivating senior management of appropriate calibre when designing the scheme.

In respect of the Management Executive a summary of the performance-related bonus schemes is provided below:

1) Annual Incentive Scheme

All members of the Management Executive are eligible to participate in an annual performance-related bonus scheme. The committee reviews bonus targets and levels of eligibility annually. There is a maximum bonus potential of 50% of base salary for exceeding targets determined by the Board. For Management Executive members with trading unit responsibilities, a significant proportion of the annual incentive is derived from trading unit performance. Targets in the bonus year 2007/08 related to financial performance measured by Society profit and divisional trading profit, as appropriate to the individual's area of responsibility. A discretionary element, based on personal objectives, is also included within the annual bonus scheme, and is part of the maximum bonus potential.

2) Long-Term Incentive Plan (LTIP)

An LTIP was also introduced in 2007/08 for the Management Executive in order to align these executives with the Society's longer-term interests. The scheme sets cumulative targets across a three-year period. Performance against these targets will be reviewed each year by the committee and targets for subsequent three-year periods will then be set. The maximum payment level under the scheme is 35% of base salary for outperforming targets. Base salary is taken as the salary at year one of the three-year period. The performance measure selected by the committee is average return on capital employed, derived from the Society's three-year business plan.

Search

The Search Committee is responsible for establishing a process to review Board skills, the balance and effectiveness of the Board and Director succession planning. The committee of five directors is also responsible for membership development.

During the year the committee implemented a review of Board skills through a process of externally facilitated self-assessment. Output from the evaluation was then used to amend and revise the Board and Area Committee training programme for 2007/08. The main additional features of the new training programme are 1) Improved accessibility by providing courses midweek as well as at the weekend 2) Heriot Watt University appointed as lead training provider, supplemented by specialist trainers as required 3) Enhanced feedback and assessment, and 4) Shorter, more focussed courses. With the reduction in course length and the temporary suspension of training while the new approach was agreed, there have been less hours of training in 2007/08 compared to last year.

Following on from the Board Skills process the Committee has also instigated a similar self-assessment process for the Area Committees. The results from this process will be reviewed and actioned next year. In addition, the Committee has commenced a review of Secretarial support for the Society and Board.

The Committee continues to monitor progress of the new Membership Strategy and supported the appointment of a new Membership Officer to help drive this forward. Initial results from membership trial stores have been encouraging and a report on progress so far is included in the Directors' Report.

For and on behalf of the Board

Hollis Smallman	President
John Brodie	Chief Executive Officer
John Dalley	Secretary

Corporate social responsibility

As a socially-responsible co-operative we report on our performance against the 10 Key Social and Co-operative Performance Indicators recommended by Co-operatives UK. Given the diverse nature of the Society's operations, these measures are not always readily available or the most relevant measures 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 nine stores to determine an estimate of our member economic involvement. The survey was conducted by an independent agency (Harris International). Based on the sample selected member involvement as a percentage of sales was 6% (2006/07 6%). Despite this unchanged level of member sales, the survey did indicate an overall 1% increase in the number of member customers, driven by significant increases in two of our membership trial stores.

Member democratic participation

127 (2006/07 - 105) members attended the Annual General Meeting on 7 May 2007 and 105 (2006/07 - 85) attended the Ordinary General Meeting on 1 October 2007. There were no contested elections during the year ended 26 January 2008.

Staff and member training

This year around 28,300 hours (2006/07 - 26,700) of formal staff training took place, an average of 7.1 hours per employee (2006/07 - 6.6). During the year we increased the proportion of in-store e-learning and the total above includes an estimate of 9,600 hours delivered by this method.

Training courses for members were temporarily suspended during the year pending the outcome of a training needs review by the Search Committee. As a result there was a significant reduction in member training hours in 2007/08. Members actively participated in a total of 170 hours of training compared to last year's total of 840. This equates to 1.3 hours (2006/07- 8.0 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 16 (2006/07 - 22) reportable accidents equating to 0.4% of the average total workforce. There were also 103 minor injuries (2006/07 - 155), which equates to 2.6% of the average total workforce. This gives a combined total of 3% (2006/07 - 4.2%).

This year 22,820 days were lost through absenteeism (2006/07 - 22,959), an average of 5.7 days per employee. This compares to a Scotmid average of 5.5 days last year and a Scottish national average of 6.0 days (CBI/AXA absence and labour turnover survey 2007).

Staff profile

Scotmid had an average of 4,005 employees in 2007/08 compared to 4,178 in 2006/07. The staff profile by gender at the year-end was 71% female (2006/07 - 71%) and 29% male (2006/07 - 29%). Our staff profile by ethnicity is based on a sample of the workforce that responded to a 2006 survey adjusted for subsequent starters and leavers in 2007/08.

Ethnic Origin	% of Workforce
Asian	3.0
Black	0.3
Mixed	0.2
Other	0.4
White	96.1
Total	100.0

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.

Corporate social responsibility continued

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 450 shopper interviews in a sample of 50 of our stores across our trading area. The survey was conducted between February and April 2007. The proportion of shoppers classified as "very satisfied" was 86% (2006/07- 73%), and as "satisfied" was 92% (2006/07-85%). Both of these figures exceeded the overall average in the Harris International Convenience Tracking Programme 2007.

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 our construction contract documentation was standardised to ensure that, where possible, materials are sourced from renewable resources.

Investment in community & co-operative initiatives

A total of £185,000 (2006/07 - £119,000) was spent on investment in both community and co-operative initiatives, amounting to 6% of our pre-tax profit. Examples of projects benefiting from our investment in the community are provided in the Directors' report.

The nominated charity of the year was Marie Curie. Several fund raising events by Scotmid's staff and members helped raise a total of over £75,000 for the cancer care charity.

The environment

Carbon Dioxide (CO2) emissions are produced as a direct result of burning fossil fuels. For the year ended 26 January 2008 the Society produced an estimated 3,450 tonnes of CO2 from on-site operations (2006/07 - estimated 3,600 tonnes of CO2). The estimate includes the CO2 generated from internal transport for the first time and equates to 0.86 tonnes of CO2 per employee (2006/07 - 0.86 tonnes).

Our carbon footprint for electricity is neutral as all electricity is sourced from pure green renewable energy sources. In the year we continued to focus on energy reduction as part of store refurbishment programme and we completed the rollout of electrical smart meters to improve measurement and management of electricity usage. We have also started a programme to fit water meters in higher usage sites.

Proportion of waste recycled/reused

Our waste uplift amounted to 2,865 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 1,800 tonnes of cardboard and plastic. These figures indicate that the proportion of waste recycled is in the region of 39%.

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 26 January 2008 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 26. 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 26 January 2008 and of its surplus 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

27 March 2008

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 26 January 2008 (2007 - 52 weeks to 27 January 2007).

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 triennially 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 26 January 2008

	notes	2008 (52 weeks) before exceptionals £000	exceptional £000	total £000	2007 (52 weeks) total £000
turnover		377,737	0	377,737	371,199
value added tax		(40,069)	0	(40,069)	(39,473)
sales	24	337,668	0	337,668	331,726
cost of sales		(240,580)	0	(240,580)	(240,065)
gross profit		97,088	0	97,088	91,661
expenses	1	(90,390)	(1,593)	(91,983)	(89,336)
operating surplus - continuing	24	6,698	(1,593)	5,105	2,325
share of joint venture operating surplus		0	1,000	1,000	0
operating surplus including joint venture		6,698	(593)	6,105	2,325
surplus on disposal of tangible fixed assets		0	114	114	1,329
surplus before finance charges		6,698	(479)	6,219	3,654
net finance charges	4			(2,720)	(3,160)
surplus for year before distributions				3,499	494
distributions					
share interest				(184)	(181)
grants/donations	5			(299)	(199)
surplus for year before taxation				3,016	114
taxation	6			(1,969)	(1,754)
transfer to reserves	17			1,047	(1,640)

Group statement of total recognised gains and losses and group note of historical cost profits and losses for the year ended 26 January 2008

	2008 (52 weeks) £000	2007 (52 weeks) £000
group statement of total recognised gains and losses		
surplus/(loss) for year	1,047	(1,640)
actuarial (loss)/gain relating to the pension scheme (net of deferred tax)	(1,223)	2,494
unrealised gain on investment properties	4,152	7,526
total gains recognised since last report	3,976	8,380

	2008 (52 weeks) £000	2007 (52 weeks) £000
group note of historical cost profits and losses		
surplus for year before taxation	3,016	114
realisation of property revaluation gains of earlier years	3,478	8,983
historical cost surplus for year before taxation	6,494	9,097
historical cost surplus for year after taxation	4,525	7,343

Group balance sheet as at 26 January 2008

	notes	£000	2008 £000	£000	2007 £000
fixed assets					
intangible assets	7		13,366		14,122
tangible assets	8		127,694		127,841
investments	9		1,307		1,403
			142,367		143,366
current assets					
stocks - goods for resale		24,577		24,505	
debtors and prepayments	10	14,716		13,138	
cash at bank and in hand		6,198		5,623	
		45,491		43,266	
current liabilities					
amounts falling due within one year creditors	11	(48,084)		(45,946)	
net current liabilities			(2,593)		(2,680)
total assets less current liabilities			139,774		140,686
long term liabilities					
amounts falling due after more than one year creditors - loan	12	(30,375)		(33,775)	
sundry	13	(2,855)		(4,855)	
			(33,230)		(38,630)
provisions for liabilities and charges					
deferred taxation	15	(1,334)		(1,714)	
other provisions	3	(492)		(924)	
			(1,826)		(2,638)
net assets excluding pension liability			104,718		99,418
pension liability	20		(8,775)		(7,514)
net assets	24		95,943		91,904
financed by					
share capital	16		5,015		4,952
reserves	17		90,928		86,952
shareholders’ funds	18		95,943		91,904

On behalf of the board of directors

Hollis Smallman President
David Moon Vice President
John Dalley Secretary

27 March 2008

Group cash flow statement
for the year ended 26 January 2008

	notes	2008 £000	2008 (52 weeks) £000	2007 £000	2007 (52 weeks) £000
net cash inflow from operating activities	21		15,258		11,363
dividends from joint ventures and associates					
dividends from joint venture			700		0
returns on investment and servicing of finance					
interest and dividends received		101		149	
interest paid		(2,656)		(3,195)	
share interest paid, grants and donations		(483)		(380)	
net cash outflow from returns on investment and servicing of finance			(3,038)		(3,426)
taxation					
corporation tax (paid)/received			(1,796)		541
capital expenditure and financial investment					
sale of fixed asset investments		2		7	
receipts from sales of tangible fixed assets		5,210		13,514	
payments to acquire tangible fixed assets		(7,793)		(3,753)	
			(2,581)		9,768
acquisitions and disposals					
(purchase)/repayment of interest in joint venture		(681)		279	
acquisitions		(474)		(621)	
			(1,155)		(342)
net cash inflow before financing			7,388		17,904
financing					
bank loans advanced		500		38,406	
repayment of bank loans		(4,846)		(43,711)	
members share capital issued net of withdrawals		63		78	
repayment of finance leases		(2,530)		(3,042)	
net cash outflow from financing			(6,813)		(8,269)
increase in cash	22		575		9,635

Notes to the group accounts for the year ended 26 January 2008

1. expenses	2008 £000	2007 £000
personnel costs	42,199	40,512
occupancy costs (excluding depreciation)	15,745	15,518
depreciation of owned assets	5,267	4,970
depreciation of assets held under finance leases	1,979	2,512
amortisation of goodwill	836	818
operating lease rentals - equipment and vehicles	788	923
fees - directors and committee members	150	128
expenses and delegations - directors and committee members	75	91
auditors' remuneration	75	70
other expenses	23,276	22,606
	90,390	88,148
exceptional items - impairment of goodwill	190	0
exceptional items - other costs (see note 3)	1,403	1,188
	91,983	89,336

Included within expenses is £6,055,000 relating to operating lease rentals for land and buildings (2007 - £5,975,000).

auditors' remuneration - other services

Fees paid to the auditors in respect of non-audit services were £15,000 (2007 - £34,000).

2. employees	number	number
the average number employed was		
full time	1,306	1,324
part time	2,699	2,854
	4,005	4,178
	£000	£000
the costs incurred in respect of these employees were		
wages and salaries	38,519	36,663
social security costs	2,652	2,490
other pension costs	1,028	1,359
	42,199	40,512

directors' emoluments	£000	£000
the total remuneration of the directors for their board duties was		
fees and delegations	119	118

	number	number
the average number of directors whose emoluments fell into each £2,500 bracket was		
£5,001 - £7,500	11	12
£7,501 - £10,000	2	1
£10,001 - £12,500	1	0
£12,501 - £15,000	1	2
	15	15

2. employees - continued

	2008 £000	2007 £000
management executive emoluments		
The total remuneration of the management executive was		
wages & salaries	885	847
taxable benefits	75	60
pension costs	154	154
profit-related pay	256	0
	1,370	1,061

The number of management executives whose emoluments, excluding pension, benefits, and long-term incentives fell into each £10,000 bracket was

	2008 number	2007 number
£ 70,001 - £ 80,000	0	2
£ 90,001 - £100,000	1	1
£100,001 - £110,000	1	0
£110,001 - £120,000	1	0
£130,001 - £140,000	0	1
£160,001 - £170,000	1	0
£190,001 - £200,000	0	1
£260,001 - £270,000	1	0
£270,001 - £280,000	0	1
£390,001 - £400,000	1	0

3. exceptional items

	£000	£000
gain on sale of fixed assets	114	1,329
share of joint venture operating surplus	1,000	0
exceptional costs		
goodwill impairment	(190)	0
re-organisation and other costs	(1,403)	(1,188)
	(1,593)	(1,188)
total exceptional items	(479)	141

The share of joint venture operating surplus relates to the exceptional profit on completion of the new office block development at our former Head Office at Fountainbridge.

Exceptional costs include asset writedowns in respect of the closure of retail stores and the costs of early termination of a trading contract. £492,000 of reorganisation costs incurred in the year ended 28 January 2006 are included as 'other provisions' in the balance sheet (2007 - £924,000). The majority of these costs are expected to be incurred in the next financial year.

4. net finance charges

	£000	2008 £000	£000	2007 £000
interest payable				
bank overdraft and loan	2,352		2,681	
finance leases	273		433	
other interest	31		81	
expected return on pension scheme assets	(2,344)		(2,195)	
interest cost on pension scheme liabilities	2,509		2,309	
		2,821		3,309
less - interest receivable and investment income				
listed investments	1		1	
unlisted investments	97		88	
other interest	3		60	
		101		149
		2,720		3,160

Notes to the group accounts
for the year ended 26 January 2008

5. grants / donations

	2008 £000	2007 £000
member relation activities & education grants	235	98
donations	64	101
	299	199

6. taxation

	£000	£000
current taxation		
UK corporation tax charge for the year	2,206	1,283
adjustment in respect of prior years	(141)	148
joint venture	300	65
total current taxation	2,365	1,496
deferred taxation		
origination and reversal of timing differences	(347)	408
timing differences FRS17	(16)	(101)
adjustment in respect of prior years	57	(49)
adjustment due to change of tax rate to 28%	(90)	0
total deferred taxation	(396)	258
total taxation charge	1,969	1,754

factors affecting tax charge for the year

surplus before tax	3,016	114
tax on surplus at standard rate of corporation tax in the UK of 30% (2007 30%)	905	34
factors affecting charge for the year		
expenses not deductible for tax	426	510
depreciation in excess of capital allowances	428	138
movement in short term timing differences	51	(574)
deferred tax on pension schemes	0	101
chargeable gains	696	1,502
profit on sale of non-qualifying fixed assets	0	(426)
adjustments to tax in respect of prior years	(141)	211
current tax charge for the year	2,365	1,496

No provision has been made for deferred tax on revaluing property to its market value. The tax on the gains arising from the revaluation 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.

7. intangible assets

goodwill	£000
cost	
27 January 2007	30,429
additions	270
26 January 2008	30,699
amortisation	
27 January 2007	16,307
provided for the year	836
impairment	190
26 January 2008	17,333
balance sheet value at 26 January 2008	13,366
balance sheet value at 27 January 2007	14,122

Additions in the year relate to the difference between the consideration paid and the fair value (which is assessed by the Directors as being open market value on the basis of existing use) of assets acquired.

8. tangible fixed assets

	land & buildings	investment properties	plant, transport & fixtures	total
	£000	£000	£000	£000
cost or valuation				
27 January 2007	35,353	71,934	83,535	190,822
additions	1,114	1,519	5,335	7,968
disposals	(8)	(4,220)	(2,993)	(7,221)
reclassification	(124)	86	0	(38)
revaluation	0	4,152	0	4,152
26 January 2008	36,335	73,471	85,877	195,683
depreciation				
27 January 2007	9,557	0	53,424	62,981
provided for the year	817	0	6,429	7,246
disposals	(5)	0	(2,195)	(2,200)
reclassification	(38)	0	0	(38)
26 January 2008	10,331	0	57,658	67,989
balance sheet value at 26 January 2008	26,004	73,471	28,219	127,694
balance sheet value at 27 January 2007	25,796	71,934	30,111	127,841

The net book value of the Society's fixed assets includes £5.5m (2007 - £8.1m) 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 26 January 2008 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.

9. fixed asset - investments

	2008 shares £000	2008 loans £000	2007 shares £000	2007 loans £000
unlisted				
C W S Ltd	1,252	0	1,252	0
other I & P Societies	1	0	76	0
others	6	5	7	7
joint ventures	35	0	54	0
	1,294	5	1,389	7
listed				
others	8	0	7	0
	1,302	5	1,396	7
loans	5		7	
	1,307		1,403	

The market value of the listed investments at 26 January 2008 was £30,000 (2007 - £30,000).

During the year £2,000 was received in relation to the repayment of loans (2007 - £9,000).

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 now a dormant company. 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) 2008 £000	Scotmid - Miller (Great Junction Street) 2007 £000	Scotmid - Bett (Fountainbridge) 2008 £000	Scotmid - Bett (Fountainbridge) 2007 £000
gross assets	28	98	255	5,684
gross liabilities	(17)	(65)	(242)	(5,684)
net assets	11	33	13	0
Society loan to joint venture	0	0	11	21
net investment	11	33	24	21

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 26 January 2008

10. debtors and prepayments due within one year	2008 £000	2007 £000
trade debtors	7,105	6,925
sundry debtors	7,611	6,213
	14,716	13,138

11. creditors falling due within one year	£000	£000
trade creditors	21,522	20,898
holiday pay	1,023	974
VAT	1,847	1,898
other sundry creditors	3,540	3,478
accrued charges	13,498	10,715
PAYE and social security	708	673
bank loan (see note 12)	1,625	2,571
deferred consideration	1,500	2,000
obligations under finance leases	2,044	2,531
corporation tax	777	208
	48,084	45,946

The deferred consideration of £1,500,000 (2007 - £2,000,000) 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 £1,500,000 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	30,375	33,775
loan amounts falling due within		
one year (included in note 11 above)	1,625	2,571
between one and two years	14,000	16,400
between two and five years	4,500	4,500
after five years	11,875	12,875
	32,000	36,346

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	1,562	3,605
other	1,293	1,250
	2,855	4,855

The finance lease obligation due in 1 - 2 years is £1,262,000 (2007 - £2,045,000).

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

Notes to the group accounts
for the year ended 26 January 2008

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	
	2008 £000	2007 £000	2008 £000	2007 £000
derivative financial instruments held to manage interest rates				
interest rate derivatives	0	0	(14)	192

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 27 January 2007		1,714
revenue account charge	(note 6)	(380)
balance at 26 January 2008		1,334

the provision for deferred tax consists of the following amounts

	2008 £000	2007 £000
capital allowances in excess of depreciation	1,412	1,761
rolled over gains	228	160
lease premium	68	78
other timing differences	(374)	(285)
	1,334	1,714

16. share capital

	£000	£000
at beginning of year	4,952	4,874
interest	179	175
contributions	161	182
	5,292	5,231
withdrawals	277	279
at end of year	5,015	4,952

(i) share capital comprises 5,015,000 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

17. movement on reserves

	revenue reserve £000	revaluation reserve £000	total £000
at 27 January 2007	44,861	42,091	86,952
surplus for year	1,047	0	1,047
transfer of realised revaluation arising on disposal of properties	3,478	(3,478)	0
surplus on revaluation of properties	0	4,152	4,152
actuarial loss relating to the pension fund (net of deferred tax)	(1,223)	0	(1,223)
at 26 January 2008	48,163	42,765	90,928

18. reconciliation of movements in shareholders' funds

	2008 £000	2007 £000
profit/(loss) after taxation	1,047	(1,640)
other recognised gains relating to year	4,152	7,526
contributions and interest less withdrawals during year	63	78
actuarial (loss)/gain relating to the pension fund (net of deferred tax)	(1,223)	2,494
	4,039	8,458
opening shareholders' funds	91,904	83,446
closing shareholders' funds	95,943	91,904

19. financial commitments

	2008 £000	2007 £000
future capital expenditure contracted for but not provided for	926	654

20. 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 £132,000 (2007 - £178,000) 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 £984,000 (2007 - £970,000) which includes a special contribution of £486,000 (2007 - £450,000).

This valuation has been updated by the actuary to 26 January 2008 in order to comply with FRS 17.

20. accounting for pension costs - continued

the major assumptions used by the actuary were	at 26 January 2008	at 27 January 2007	at 28 January 2006
rate of increases in salaries	4.60%	4.25%	4.00%
rate of increases in pensions accrued post 05/04/97	3.10%	2.75%	2.50%
rate of increase in deferred pensions	3.10%	2.75%	2.50%
discount rate	6.30%	5.30%	4.66%
inflation assumption	3.10%	2.75%	2.50%

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

	2008		2007		2006	
	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%	17,164	7.50%	18,664	7.00%	23,013
bonds	6.30%	16,760	5.30%	18,201	4.75%	12,751
other	4.50%	(205)	4.50%	429	4.50%	217
total market value of assets		33,719		37,294		35,981
present value of scheme liabilities		(45,907)		(48,029)		(49,944)
deficit in scheme		(12,188)		(10,735)		(13,963)
related deferred tax asset		3,413		3,221		4,189
net pension liability		(8,775)		(7,514)		(9,774)

analysis of the movement in the scheme deficit in the year	2008 £000	2007 £000
opening deficit in the scheme	(10,735)	(13,963)
current service cost	(873)	(1,191)
contributions	984	970
net financing charge	(165)	(114)
actuarial (loss)/gain	(1,399)	3,563
closing deficit	(12,188)	(10,735)

amounts included within operating surplus	£000	£000
current service cost	873	1,191

amounts included in other finance costs	£000	£000
expected return on pension scheme assets	2,344	2,195
interest cost on pension scheme liabilities	(2,509)	(2,309)
net finance cost	(165)	(114)

20. accounting for pension costs - continued

history of experience gains and losses

	2008		2007		2006		2005		2004	
	%	£000	%	£000	%	£000	%	£000	%	£000
actual return less expected return on pension scheme assets	13.8%	(4,662)	0.3%	129	10.9%	3,935	3.7%	1,141	10.5%	3,179
experience gains and losses arising on the scheme liabilities	0.9%	(424)	1.5%	729	2.3%	(1,132)	0.6%	(233)	0.9%	(374)
changes in assumptions underlying the value of scheme liabilities	8.0%	3,687	5.6%	2,705	14.2%	(7,065)	1.9%	(781)	0.0%	8
actuarial (loss)/gain before tax	3.0%	(1,399)	7.4%	3,563	8.5%	(4,262)	0.3%	127	7.1%	2,813

amounts taken to the statement of total recognised gains and losses

	2008 £000	2007 £000
actual return less expected return on pension scheme assets	(4,662)	129
experience gains and losses arising on the scheme liabilities	(424)	729
changes in assumptions underlying the value of scheme liabilities	3,687	2,705
actuarial (loss)/gain before tax	(1,399)	3,563

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.

Notes to the group accounts
for the year ended 26 January 2008

21. cash flow statement : reconciliation of surplus on ordinary activities to net cash inflow from operating activities

	2008 £000	2007 £000
operating surplus including joint venture	6,105	2,325
depreciation charges	7,246	7,482
amortisation of goodwill	836	818
impairment of goodwill	190	0
(increase)/decrease in stocks	(43)	3,055
increase in debtors	(1,577)	(499)
increase(decrease) in creditors	2,612	(2,039)
movement in pension liability	(111)	221
net cash inflow from operating activities	15,258	11,363

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

	£000	£000
increase in cash for year	575	9,635
cash outflow from decrease in debt and lease financing	6,876	8,347
movement in net debt for the year	7,451	17,982
opening net debt	(36,859)	(54,841)
closing net debt	(29,408)	(36,859)

23. cash flow statement : analysis of net debt

	at 27 January 2007 £000	cash flow £000	other non-cash changes £000	at 26 January 2008 £000
cash at bank and in hand	5,623	575		6,198
debt due after 1 year	(33,775)	(500)	3,900	(30,375)
debt due within 1 year	(2,571)	4,846	(3,900)	(1,625)
finance leases	(6,136)	2,530	0	(3,606)
		6,876		
total	(36,859)	7,451	0	(29,408)

24. segmental reporting

class of business	sales		operating surplus/(loss)		net assets	
	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000	2007 £000
retail / wholesale	333,550	327,896	3,614	938	22,472	19,970
property	4,118	3,830	1,491	1,387	73,471	71,934
	337,668	331,726	5,105	2,325	95,943	91,904

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

25. operating lease commitments

At 26 January 2008 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	2008 £000	2008 £000	2007 £000	2007 £000
within one year	198	174	334	77
within two to five years	1,727	742	1,453	785
after five years	3,735	0	4,088	0
	5,660	916	5,875	862

26. post balance sheet event

Subsequent to the balance sheet date, the Society has become entitled to a further sum of around £2m from its share of the profits of the Scotmid - Bett (Fountainbridge) Limited joint venture. This amount will be received early in the 2008/09 year.

Notice of meeting and agenda of business

Notice is hereby given that an Annual General Meeting of the Society will be held on Monday, 5 May 2008 at 7pm at the following places.

The Hilton Edinburgh Grosvenor Hotel, Grosvenor Street, Edinburgh and Cairn Hotel, Blackburn Road, Bathgate

Agenda of business

1. Synopsis of Minutes of Ordinary General Meetings held on 1 October 2007
2. Obituary References
3. Directors' Report/Annual Accounts
4. Appointment of Tellers
5. Elections for Area Committees

   East Area 5 Members to serve for 3 years

   West Area 5 Members to serve for 3 years
6. Elections for Member Relations Committee

   East Area 2 Members to serve for 3 years

   West Area 2 Members to serve for 3 years
7. Nomination and Election of Members' Delegates to Scottish Co-operative Party Conference 2008
8. Synopses of Minutes of Board Meetings
9. Consideration of remuneration for Office Bearers and Directors

   Present remuneration (per annum)

   Central Board President £9,230; Vice President £6,533; Minute Secretary £5,289; Directors £4,563

   Area Committees Chairman £2,281; Vice Chairman £1,867; Treasurer £1,763; Minute Secretary £1,659; Committee Members £1,555

   Member Relations Committee Chairman £1,244; Committee Member £1,037

   Tellers £5
10. Consideration of scale of fees for Directors' Delegations

    Present Scale Day Fee £100; Part Day Fee £60
11. Consideration of Remuneration for Auditors
12. Member Relations Committee & Community Development Report (see Summary Annual Report pages 10-11)
13. Society Co-operative Party Council Report
14. 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 26 January 2008.

The next General Meeting (Ordinary General Meeting) will be held on Monday, 6 October 2008 at Edinburgh and Bathgate.

Special meeting

Notice is hereby given that, at the conclusion of the Ordinary General Meeting of Members, a Special Meeting of Members will be held to consider and, if thought fit, adopt an amendment to the Society's Rules to provide the Society the power to appoint external non-elected Directors.

Board Directors/Committees

The tables below 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).

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

Board Directors	Board Meetings 13 meetings held	A 3 held	G 5 held	Re 2 held	R 2 held	S 4 held
Mr H Smallman (President)	12		5		1	4
Mr D Moon (Vice President)	13	3	5	2		
Mr J Anderson (Minute Secretary)	11	2				
Mr I Bailey	10					4
Mr R Brown	12					4
Mr H Cairney	11			2		
Mr J Gilchrist	13			2		
Mr J Hill	11				2	
Mrs M Hume	12				2	
Mr D Jamieson	10				2	
Mrs C Kerr	11		5			2
Mr J Middleton	12			2		
Mr D Paterson	12					3
Mr J Watson	13	3	5			
Miss A Williamson	13	3	5			

Area Committees

East Area	13 meetings held	**West Area**	13 meetings held
* Miss A Williamson (Chairperson)	12	Mr D Moon (Chairperson)	11
Mrs C Kerr (Vice Chairperson)	13	Mr J Watson (Vice Chairperson)	13
Mr J Anderson (Minute Secretary)	11	Mr T McKnight (Minute Secretary)	12
* Mr D Jamieson (Treasurer)	11	* Mr J Gilchrist (Treasurer)	13
Mrs A Anderson	10	* Mr I Bailey	12
Mr R Brown	11	* Mr P Devenney	13
* Mr H Cairney	8	* Mrs M Hume	12
Mrs G Dow	11	Mr R Kelt	13
Mr J Hill	11	* Mrs T McEleney	12
* Mr S Kerr	12	Mr D McGrouther	13
Mr J Miller	10	Mr J Middleton	10
Mr F Murphy	12	Ms A Milne	12
Mr D Paterson	12	Mr D Muirhead	11
* Mrs J Reid	13	Mrs M Ross	10
Mrs G Smallman	13	Mr M Ross	12
Mr H Smallman	13		
Mrs M Smith	10		

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

Member Relations Committee

Member Relations Committee	12 meetings held
Mrs H Anderson	7
Mr R Carse (elected May 2007)	7
Mr D Hop	11
Mr K Kelly (co-opted Jan 2008)	1
Mr J MacKenzie	8
Mrs M Moon (resigned Oct 2007)	0
Mr D Reid	12
Mrs M Scott	7
* Mrs B Swift	10
# Mrs I Dickson	3
Co-opted Observers	
Mr D McGrouther (co-opted May 2007)	7
Miss A Williamson (co-opted May 2007)	7
Mr J Middleton (term ended May 2007)	3
Mr S Kerr (term ended May 2007)	4
Mrs J Reid (term ended May 2007)	4

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

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

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