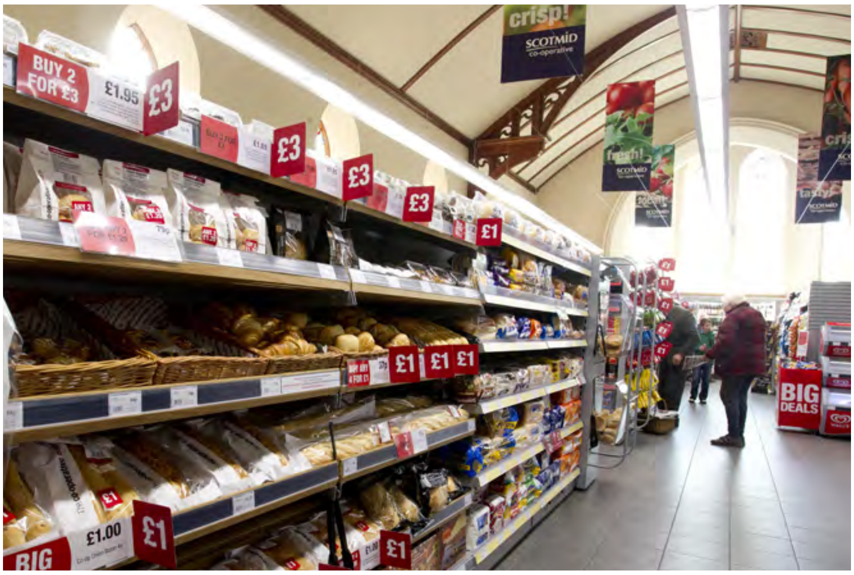
SCOTTISH MIDLAND CO-OPERATIVE SOCIETY LIMITED

Annual Report & Financial Accounts
for the year ended 28 January 2012

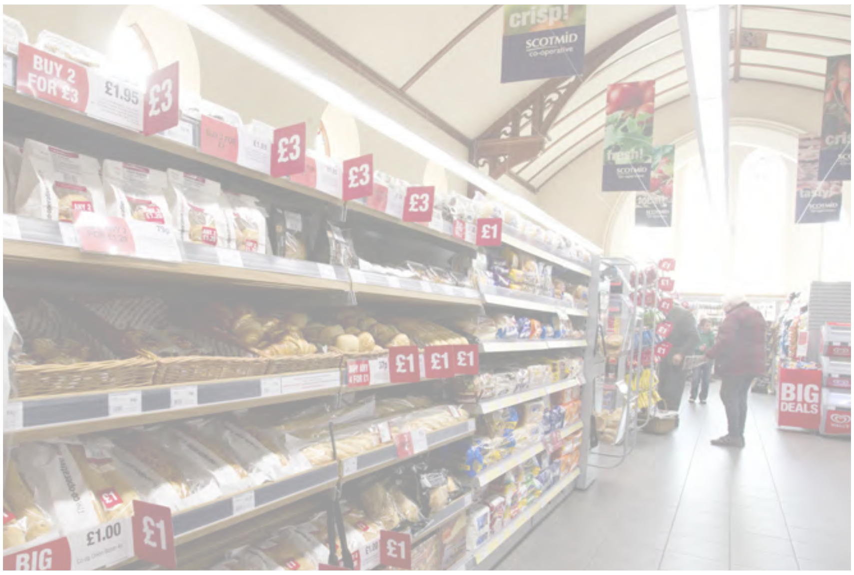





2012 UNITED NATIONS INTERNATIONAL YEAR OF CO-OPERATIVES
We build a better world

SCOTMID co-operative


LIVE FOR IT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SCOTMID


semichem

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Above: Society staff at South Queensferry mark the launch of the United Nations International Year of Co-operatives 2012.

DIRECTORS

President

Mr H Smallman

Vice President

Mr H Cairney

Mr J Anderson

Mr I Bailey

Mr P Devenney

Mr J Gilchrist

Mr D Jamieson

Mr J Miller

Mr T McKnight

Mrs G Smallman

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

Head Of Human Resources

Steve McDonald

Chief Operating Officer

Colin McLean

ADVISORS AND REGISTERED OFFICE

Independent Auditors

Deloitte LLP

Bankers

The Royal Bank of Scotland plc

Solicitors

Anderson Strathern WS

Registered Office

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

Overview

Above left: The Membership and Community Development Team at the Edinburgh Fairtrade City Brunch. **Above right:** Best selling Scottish author Iain Banks opens the converted Botterills store at Inverkeithing in Fife.

The Directors are pleased to present their report for the year ended 28 January 2012. The year saw a solid performance from the Society in difficult market and economic conditions. It has been a particularly challenging period as the economic uncertainty has hit consumers hard in our core trading areas – Scotland, Northern Ireland and the North of England.

The Society's operating surplus before exceptionals for the year was £6.5m compared to £9.1m last year. The second half of the year brought an improved performance with a number of initiatives and the milder weather helping our results over the key festive period. Total turnover grew by 13% to £427m and included the full year benefit arising from the acquisition of Botterills Convenience Stores Limited ("BCS" "Botterills"). The Society continues to enjoy a strong balance sheet with net assets of £96m despite absorbing the impact of an increased pension deficit and a reduction in the value of our investment property portfolio. Careful management of cash and capital expenditure reduced net debt by £3m.

The market pressures on sales and margin in our retail businesses coupled with the impact of a further increase in VAT and the additional cost of national insurance and carbon tax resulted in a reduction in the Society's overall trading profit. The Food Convenience Retail business faced a challenging year as consumers cut back on food as well as non-food spending. The Semichem business started the development of new channels of trade which helped stabilise performance in the face of particularly difficult market conditions for non-food retailers. The high street stores experienced increased competition from discounters and there was no improvement in the economic conditions in Northern Ireland which continued to be harder hit by the downturn in the economy.

The successful and well planned integration of Botterills was the major achievement of the year. By the end of October, 49 stores had been converted to the Scotmid fascia, systems and range. Botterills central operations were maintained during the conversion and the phased switch over of supply chain and the warehouse rundown were managed effectively and ahead of plan. The business has integrated well and is on track to deliver long-term value to the Society.

The Society's non-retail businesses once again showed profit growth, in particular our funeral business had another good year despite increased competition in the local market.

We continued to develop the Society's membership and democratic structure with the establishment of a transitional North Regional Committee and the recruitment of members from the new Botterills stores. The review of the Scotmid Coop Party was also completed in the year with recommendations to the UK Coop Party on a new structure for Scotland.

As noted last year, Scotmid finds itself in a 'new era' where the impact of reduced consumer spending and increasing cost have proved challenging. Our future plans acknowledge that the prospects for growth next year will continue to be constrained by the ongoing uncertainty in the market and pressure on costs. We remain cautious, but continue to invest for the future of the Society with strategic initiatives for the food convenience business and a multi-channel approach for Semichem bringing benefits to the business during these challenging times. The current market will offer new opportunities and continuous improvement remains at the heart of our approach as we manage through this extended period of economic uncertainty to deliver our long term aspirations.

Food Retail

Above: The openings of the converted Botterills stores were often carried out by local dignitaries, the appearance of Robert the Bruce at the Renton store relaunch was a particular highlight! **Opposite:** The launch of one of our most unique stores at Torphins in a converted Presbyterian Free Church. The Society worked closely with Historic Scotland and Aberdeenshire Council Planning Department to ensure that the conversion was carried out sympathetically. Many key features of the building have been retained, such as the stained glass windows. Several "green" initiatives are also being trialled here e.g. fridge doors to retain cold air and save energy.

In the last 12 months the Food Convenience Retail business faced two major challenges, the marked downturn in the consumer economy in Scotland and the integration of the Botterills acquisition. To set the economic situation in context, the Scottish Retail Consortium reported a like for like fall in food turnover in 8 of the 12 months, indicating the worst trading conditions for many years. The Scotmid Convenience stores were not immune from the effects of the economy and the first quarter of the year was particularly challenging, exacerbated by the slow recovery of the Coop supply chain in Scotland after the severe weather in the winter of 2010.

With consumer confidence low and household incomes squeezed, competition for customers intensified resulting in a value driven and price sensitive market. The competition increased further in the final quarter of the year with very aggressive discount and media activity.

Scotmid responded to these pressures by introducing £1 deals on key necessity lines such as bread and milk. This has been well received by customers who have welcomed the day to day value available in their local convenience store. Further work was done to improve availability in-store and this was supported by the successful move of our supply chain to the new national Co-operative Distribution Centre at Newhouse, near Glasgow. The improvements in the supply chain and the milder winter this year ensured we did not suffer the same supply issues as in 2010.

The integration of Botterills Convenience Stores into the Scotmid estate was a major success, significantly increasing the Society's presence in the West and South West of Scotland. The programme of store conversions which started in February was completed in October, with 49 stores converted to the Scotmid fascia and supply chain. The programme was very well managed with Retail led cross-functional teams working together to convert the stores, transfer back office functions and phase out supply from the Botterills Blantyre warehouse. Whilst store development activity concentrated on successfully converting the Botterills stores, we also opened a further three stores in the period at Rattray, Torphins and Stevenston and refitted our stores in Bearsden and Prestonpans. During the year we also implemented the latest Scottish Government changes to alcohol legislation ensuring staff are fully trained in the new requirements.

As a community retailer we continue to uphold the high standards of responsible retailing we have become known for. We were delighted that Health Minister Nicola Sturgeon MSP launched our defibrillator campaign which will be rolled out to nearly 40 Society stores over the next year.

Longer term plans were also progressed during the year with work on the latest phase of our convenience business model. Part of these plans includes a focus on fresh products and it was particularly pleasing to see improvement in all fresh categories during the second half of the year, reflecting the drive to enhance product availability. Another area for focus will be the re-inforcement of our true Scottish credentials as a retailer who has been trading in Scotland for over 150 years.


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Semichem & The Fragrance House

Above: The Fragrance House has continued to grow with the opening of new stores such as Falkirk.

The strategy for the Semichem group of businesses, serviced from our Livingston distribution centre, is focused on the development of different channels to market. In 2011/12, this multi-channel approach helped to stabilise performance despite the tough economic conditions for non-food retailers. Our on-line and direct businesses saw strong volume growth while the high street stores successfully focused on controlling margin and costs. Regional differences were again apparent with no sign of economic growth in Northern Ireland and increased competition from discounters, however most of the stores in the North East of England continued to improve.

The retail business responded strongly to the significant impact on gross margin from a further increase in the rate of VAT and the challenge of externally imposed cost increases such as national insurance and carbon tax. A disciplined approach to the control of cost and a value–led offer with targeted promotions helped to mitigate this cost and price inflation.

During the year, Semichem completed an extensive customer research project that deepened our understanding of who our customers are, what they want to buy and when they want to buy it. This research has helped to improve store segmentation, with two main formats – "Beauty" and "Local". Work is ongoing to develop the offer in both of these formats. Ten stores were converted to the new "Beauty" format and the results over the important Christmas trading period have been encouraging. This trial format will continue to evolve to ensure customers enjoy a really strong beauty offer complemented by great deals on other categories. An enhanced food range was introduced into our "Local" format stores to strengthen Semichem's high street convenience offer, resulting in an increase in sales in this category and improved customer footfall.

The semichem.co.uk business is performing well with sales growing strongly. The website, attracting customers from throughout the United Kingdom and Europe, is well placed to continue to grow in 2012 thanks to further investment in systems, infrastructure and great product lines.

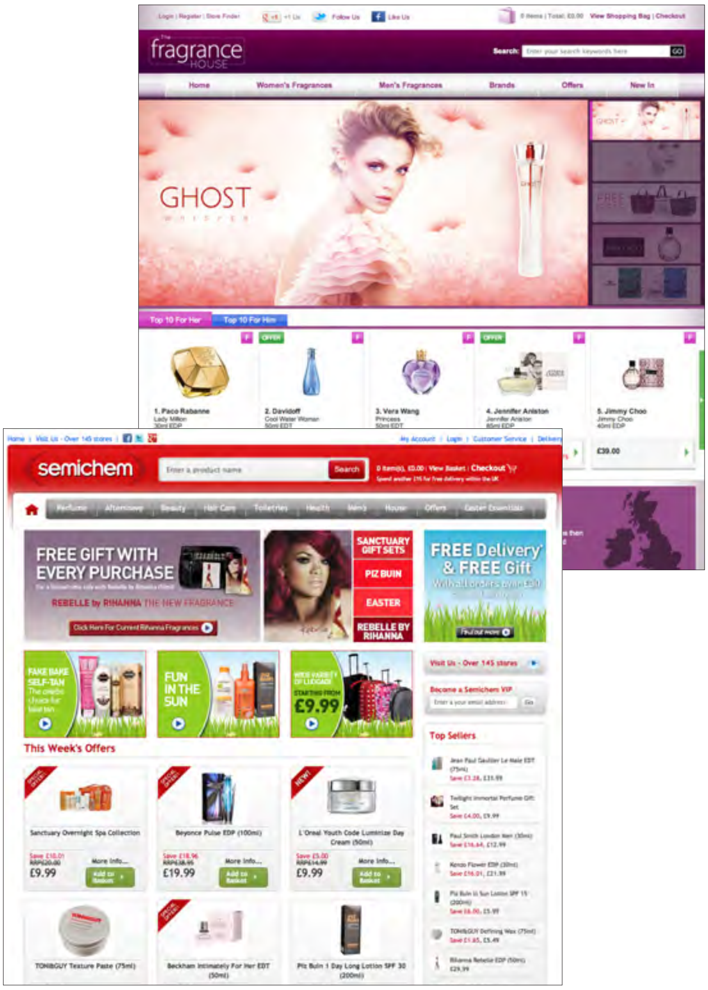
THE FRAGRANCE HOUSE

The Fragrance House, our fine fragrance specialist retail and on-line business enjoyed strong like for like sales growth. This underlying growth was supplemented by the addition of two new stores at the Howgate Centre in Falkirk and Braehead Shopping Centre in Glasgow. The Fragrance House business now comprises seven stores in Scotland.

Our relationship with suppliers has continued to grow and strengthen, bringing us the benefits of further promotional opportunities, sales lines and a greater range of Christmas offers. Popular brands such as Paco Rabanne, Jean Paul Gaultier and Marc Jacobs have sold well throughout the year together with the successful launch of Jimmy Choo.

Further work continues to develop the business, building on lessons from customer research and identifying opportunities to open further Fragrance House stores in the right location.

Above left: Calum Best attended a special signing at our Livingston store. **Above right:** The new "beauty" format. **Below left:** Both the Semichem and Fragrance House e-commerce websites are gaining momentum. **Below right:** The new Fragrance House in Falkirk.



Property & Funerals

Above: A new investment unit created from vacant shop space at St Margaret's in Edinburgh.

PROPERTY

Despite continuing difficult market conditions in the sector, Scotmid's Property business benefited from a solid performance from its investment property portfolio driven by growth in rental income from our domestic properties. This income is supported by strong demand for the Society's flats in Edinburgh and void levels in our domestic estate remaining at historically low levels.

However, the outlook in the short to medium term remains uncertain for both the residential and commercial property sectors, with the general property markets continuing to be constrained by reduced bank lending. Whilst the capital value of our commercial and domestic property reduced during the year, reflecting the general uncertainty, our portfolio has fared better than the market in the past few years benefiting from active management.

We continue with the short term strategy of limited but focused investment in property developments. Planning permission has been secured for the conversion of a retail upper floor to three flats at Gorgie Road in Edinburgh and this project should be completed during 2012. In addition, a planning application has been lodged for nine flats to the rear of our Gorgie Road food store.

It is also pleasing to report that further progress has been made in the period with the letting of space carved out from freehold trading stores. Several of these units have been let throughout Edinburgh. Just after the year end further space was let in Rosewell House, our office development in Newbridge. The building is now two thirds occupied.

FUNERAL

The Funeral business achieved strong results again this year with an increased number of funerals carried out against the background of a declining death rate and increasing competition. Core to this business is a continuous drive to provide the best care and attention to customers in their time of need.

The Society's aim is to grow the funeral business by focusing on excellent service supported by capital investment in the funeral homes and the vehicle fleet. In 2011/12 further refurbishment was carried out on the interior and exterior of the funeral homes. New Mercedes vehicles, including two limousines and a hearse, were added to the vehicle fleet.

During the year we decided not to renew our lease at our funeral home in Armadale and this closed in August. However, new sites continue to be researched and this resulted in the opening of our new Leith funeral home in February 2012. The funeral team also continue to actively engage with local communities, participating in community events and supporting the Society's nominated charities.

Above: Our new fleet of Mercedes funeral cars.
Below: Continued emphasis on customer service and interior decor has seen major improvements within the funeral business.

Corporate Matters and Central Services

Above: The HR and Training Teams were involved in delivering over ten thousand hours of training during the Botterills conversion process.

The changes to the Society's democratic process introduced by the Constitutional Review in 2010 included the direct election of Board Directors by Members instead of appointment by the Area Committees. Subsequently, the Society held its first contested election of directors at the Edinburgh Ordinary General Meeting held on 3 October 2011. This resulted in Members electing John Miller and Grace Smallman as new board directors to replace Joe Hill and David Paterson. Joe Hill retired having served the Society for 16 years, 12 of which as a Director. The final step of the Constitutional Review was the extension of the Society's regional democracy into the North of Scotland which is covered in the Membership section of this report.

The review of the Society's relationship with the Scotmid Co-operative Party was completed in the year. This was conducted by a committee of board directors and included consultation with a range of stakeholders including representatives from the Party Council, Scotmid branches, the Scottish Coop Party and the Cooperative Party. The outcome was a recommendation to the Cooperative Party for a new unified structure in Scotland.

In 2011 the Society made preparations for The United Nations International Year of Co-operatives 2012 celebrations. The Scottish launch of the year of events to celebrate and acknowledge the worldwide contribution of co-operatives started with a cross party event at the Scottish Parliament.

The Society's final salary scheme was closed to new entrants in February 2011 but is still accruing benefits for existing members. Despite the Society's special contribution of £1.8m last year, the pension scheme deficit at the end of January 2012 increased by £1.3m to £11.4m using the FRS17 accounting basis. The deficit has not reduced as much as would have been expected because of a significant increase in estimated pension liabilities resulting from a fall in long term interest rates in the year. The Society and Pension Scheme Trustees are currently considering alternative funding strategies to help manage the deficit and agree a new recovery plan. The Pension Trustees also completed a "buy-in" of existing pensioner liabilities with a £25m investment in an insurance policy with Legal & General to help reduce the risk of the scheme. Planning and preparatory work has commenced for the pension auto-enrolment requirements coming into effect for the Society in April 2013.

All the central support services have been heavily involved in the integration of Botterills and this was the main priority in the year. Support for the integration process included training and support for Botterills staff, installation of Scotmid IT and security systems and management of the Botterills head office and warehouse migration. Over ten thousand hours of training were delivered to support the integration including welcome days, store training and attendance at Academy courses. The integration was a major success for the Society with the programme of 49 store conversions completed to a good standard, on time and in a cost effective manner. Acceleration of the supply chain and warehouse migration was achieved without disruption to supply and resulted in additional cost savings.

Membership Development

Above: The new North Regional Committee. **Below:** Our new website and facebook pages which launched in late 2011.

In line with our Membership Strategy, a new Regional Committee has been established in the North of Scotland, formed from an Active Members Group. This was an historic moment for the Society and has extended our democratic reach into many northern communities. Five Members from the North region who expressed a willingness to participate in the democratic organisation of the Society have been co-opted onto a new transitional Committee to serve alongside the three existing elected representatives. The Board will review the progress of the new Committee during its transitional phase and, if operating as planned, a fully democratically elected committee will be in place after the 2013 AGM.

A large part of the Membership and Community team's activity this year focused on our new employees and a significant number of new members from the Botterills integration. Former Botterills employees have been fully briefed on membership and our co-operative difference. Two more issues of Jigsaw, our members' magazine, were distributed throughout the year.

In December, the Society launched a new and improved, more interactive website and through Twitter and our new Facebook page allows members to enter into two way communication. Work has also started to roll out a membership card and a pilot scheme to test the viability of extending member offers.

Community & Charity Activity

Above: Chief Executive, John Brodie meets volunteers at the launch of our charity partnership with the Prince's Trust.

The Scotmid Community Grant Fund is now well established and is bringing benefits to the communities we serve. Through our Regional Committees the Community Grant Fund distributed over £70,000 of grants to local organisations in our trading area.

Alongside the Community Grant Fund, the Society also works in partnership with external agencies to help communities. For instance, Scotmid worked in association with Edinburgh International Science Festival and Diabetes UK Scotland on the "Live for It!" diabetes prevention project targeted at P2-P6 school children in Scotland. In October, a partnership with the Scottish Ambulance Service began with the sponsorship of their staff recognition awards and a pilot scheme to introduce public access defibrillators in Scotmid and Semichem stores.

A wide range of community events were also sponsored by Scotmid including the community stage at the Tall Ships Race in Greenock, Dundee Relay for Life, Leith Festival and Gala Day, Feis Lannraig a' Tuath in Motherwell, the Scottish Green List Awards, Lomond Folk Festival and Pedal for Scotland.

Scotmid continues to support Fairtrade in our stores and once again sponsored the Edinburgh Fairtrade City Group's activities and a college and university Fairtrade Conference at Queen Margaret University.

Our association with the RNLI as our Charity of the Year ended in July 2011. However, we still have an ongoing relationship with them as a sponsor of their AGM. During the year the Society's staff, customers and members raised a record total of over £200,000 for the RNLI.

In August 2011, the Prince's Trust became our new charity partner and since then the Society has raised over £75,000 with the funds going to help disadvantaged youths with employment, education or training. A unique feature of this latest charity partnership is the ability for the Society's staff to volunteer their time to help with Prince's Trust projects.

POLITICAL DONATIONS

A donation of £17,000 was made to the Scottish Midland Co-operative Party Council.

APPRECIATION

The Directors extend a warm welcome and a thank you to the new Members, customers and staff who have contributed so much to a successful integration of the Botterills business. The Board wishes to thank all Members, customers and staff for their continued support during these difficult economic times.

Signed on behalf of the Directors

Hollis Smallman – **President**

Harry Cairney – **Vice President**

28 March 2012

Top Left: Membership and Community Development Manager Patricia Edington is joined by Bryan Finlay of the Scottish Ambulance Service to promote a project to install defribrillators at 40 of our Food, Semichem and Fragrance House stores. **Above Left:** Society Director, Sandra Williamson visits the Community Garden at Rimbleton Primary School in Fife, a project supported by the Society's community grant. **Above right:** The Society are a sponsor of Team Muirhead Ladies Curling Team, who hope to represent Team GB at the 2014 Winter Olympics. **Below left:** The Society has sponsored Greenock Mortons Boys Club through the community grant scheme. **Below right:** Scotmid sponsored a major bowling tournament run by West Lothian Bowling Association. Pictured, from left, are President of the West Lothian Bowling Association Ewan Shearer, Association Team Manager Colin Stein, President of the British Isles Bowling Council Gordon Logan, President of Scotmid Hollis Smallman and Chief Executive of World Bowls Gary Smith.

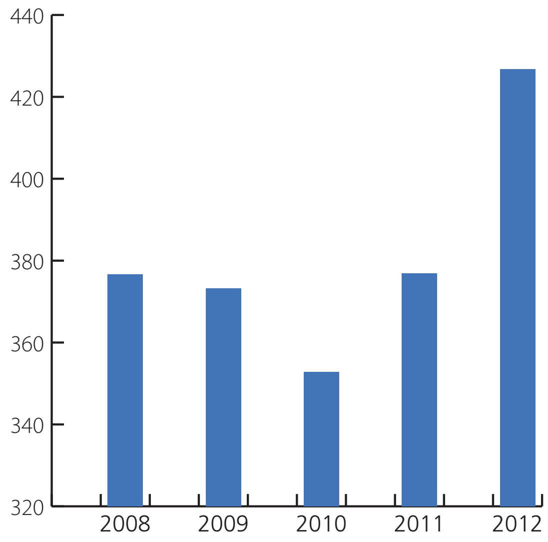
Bottom left: Scotmid were a major sponsor of the "Cook for It" workshops designed to educate children about the benefits of healthy eating. The workshops were part of the "Live for It" campaign led by Diabetes UK and the Edinburgh International Science Festival. **Bottom middle:** The launch of a healthy eating campaign supported by Scotmid at our Gracemount store in Edinburgh. **Bottom right:** Society staff took part in a daring "firewalk" at Hillwood House as part of our fundraising activities for the RNLI which culminated in £200,000 being raised for the charity.

	2011-12 52 weeks	2010-11 52 weeks	2009-10 52 weeks	2008-09 53 weeks	2007-08 52 weeks
number of members	244,481	241,818	239,749	238,791	237,176
	£000	**£000**	**£000**	**£000**	**£000**
turnover (prior years restated)	426,733	376,891	352,857	373,232	376,602
operating surplus before exceptionals	6,529	9,093	10,236	9,235	6,698
operating surplus after exceptionals	4,338	13,346	7,504	11,924	6,219
surplus before tax	2,030	11,166	5,561	9,085	3,016
retained surplus	1,308	9,582	4,284	6,501	1,047
depreciation	9,282	8,713	7,846	7,333	7,246
net finance costs	1,610	1,516	1,333	2,231	2,720
purchase of fixed assets	7,861	14,034	13,712	14,854	7,793

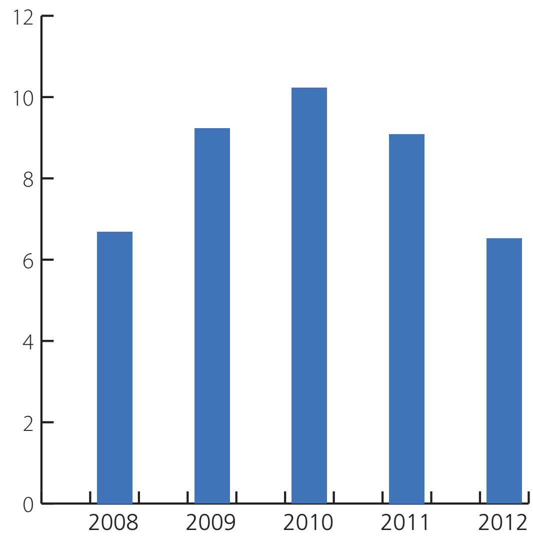
Certain commissions receivable have been reallocated from Turnover to Other Income. Consequently the reported prior year Turnover figures have reduced by £1,298,000, £1,077,000, £1,072,000 and £1,135,000 respectively. This amended disclosure has been adopted as it better reflects the underlying trading activities of the Society acting as agent, rather than as principal.

	2011-12	2010-11	2009-10	2008-09	2007-08
fixed assets	154,989	163,252	141,191	136,622	142,367
net current assets/(liabilities)	1,464	(2,321)	(10,725)	(17,787)	(2,593)
total assets less current liabilities	156,453	160,931	130,466	118,835	139,774
less long term liabilities	48,851	50,121	28,456	19,723	33,230
less provision for liabilities and charges	-	378	416	862	1,826
less pension liability	11,358	10,026	11,509	8,140	8,775
net assets	96,244	100,406	90,085	90,110	95,943
share capital	5,249	5,162	5,094	5,021	5,015
revenue reserves	64,375	64,865	54,470	54,420	48,163
revaluation reserve	26,620	30,379	30,521	30,669	42,765
net assets	96,244	100,406	90,085	90,110	95,943

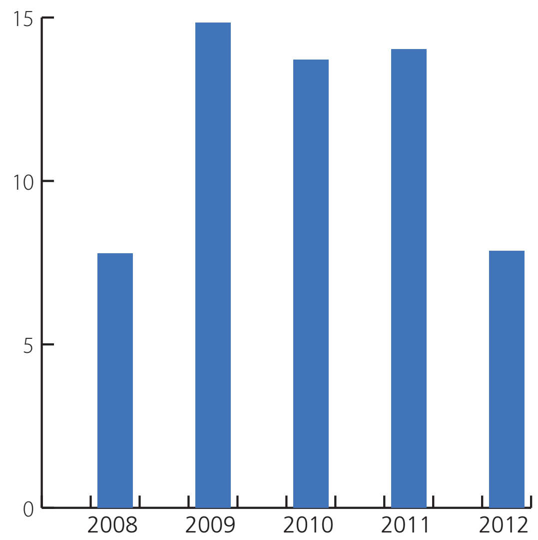
TURNOVER (£ MILLIONS)



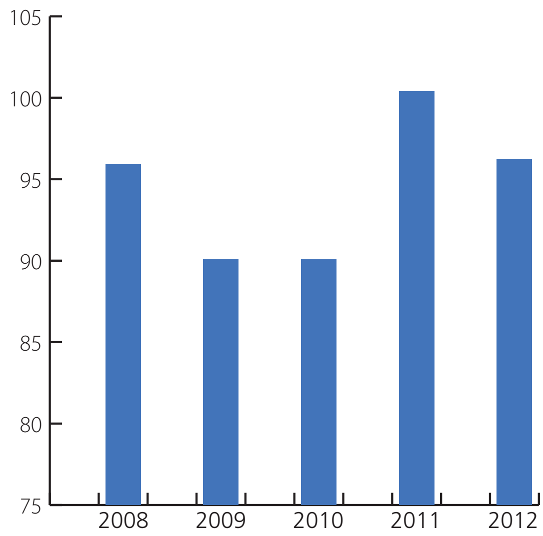
OPERATING SURPLUS BEFORE EXCEPTIONALS (£ MILLIONS)



PURCHASE OF FIXED ASSETS (£ MILLIONS)



NET ASSETS (£ MILLIONS)



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 subject to any material departures disclosed and explained in the financial statements; and
- 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

GOING CONCERN

The Society's business activities, together with the factors likely to affect the future development, performance and position of the Society, are set out in the Directors' Report on pages 3 to 13. The Board remains satisfied with the Society's funding and liquidity position. The Society meets its funding requirements through a combination of term loans and an overdraft facility (renewable annually). The Board has undertaken a thorough review of the Society's financial forecasts and associated risks. These forecasts extend for a period beyond one year from the date of the approval of these financial statements and show that the Society will continue to operate within the terms and financial covenants of its bank facilities.

The Directors consider that the Society has the flexibility to react to changing market conditions and the Society is well placed to manage its business risks successfully despite the uncertain economic outlook. Therefore, after reviewing projections and sensitivities and 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.

GOVERNANCE REPORT

CODE OF BEST PRACTICE

The Society substantially complies with the Co-operatives UK Code of Best Practice, the scope of which is wide ranging. Co-operatives UK have recognised that as co-operative societies differ in scale, size and resources, it is inevitable that levels of compliance may differ for acceptable reasons. The Society undertook its annual review of compliance with the Code in April 2011. The approach taken to assessing compliance is that societies should review their rules, practices and policies, in the context of what is appropriate for their circumstances, and provide explanations where these do not comply strictly with the code. The following explanations for non-compliance with the Code are therefore provided:

1) Age rule: Directors retire at age 72 rather than the Code of Best Practice recommended age of 68. The Society believes that with advances in healthcare and individuals living longer, fuller lives, it is appropriate to adopt a higher age limit.
2) Percentage of Employee Directors on the Board: a maximum of 25% of the total membership of the Board may be employee directors compared with the Code of Best Practice recommended limit of 33%. The Society believes that this more restrictive limit provides enhanced protection for the Society.
3) Interim Accounts: the Society produces a summary report on unaudited interim results rather than full interim accounts, this report is published but not audited. This approach is consistent with the changes implemented by the Legislative Reform Order in January 2012.
4) Publicising the AGM: the Board considers the current notification periods and methods to be the most appropriate for our Members. The date of the next

AGM/OGM is provided on the Notice of Meeting posted in store and on the Society's website thereby giving a notice period of approximately 5 months. The Notice of Meeting is posted in Scotmid stores 8 clear days before a General meeting.

In each case the Board has satisfied itself that the Society is better served by these specific rules and that they comply with the spirit of the Code.

MEMBERSHIP MATTERS

As a member owned democratic organisation, the Board recognise the importance of encouraging members to play their part in the governance of the Society and to improve membership participation. The Search Committee of the Board is responsible for membership matters including membership strategy and development and they are supported by a Membership team who promote recruitment, organise membership events and communicate with Members.

Details of the membership activities undertaken during the year are contained within the Membership and Community report on pages 11 and 12.

REGIONAL DEMOCRACY

Members' meetings are advertised in our stores, on our website and in the local press. In line with the Board's plans to further develop membership democracy, a 'Meet the Society' information day was held for those Members living in the North Region who indicated their wish to become more involved in the democratic organisation of the Society. As a result of the interest expressed, the Board formed a transitional North Regional Committee and co-opted five members to serve on the new committee alongside the three existing elected members. The Board will review the progress of the new committee during its transitional phase and providing it operates as planned, the co-opted members' term of office shall run until the 2013 AGM at which time the Board shall recommend to members the establishment of the full committee and elections shall take place.

Regional Committee members who meet the qualifying criteria are elected by the membership at the Members' Regional Meetings. Regional Committee members are elected to serve on the committee for a period not exceeding three years after which they may stand for re-nomination and election held at the Annual General Meeting in their region. Regional Committees are also responsible for the nomination of Directors from within the Regional Committee, to represent the Members for that region.

BOARD'S ROLE

The role of the Board and the details of the Directors' roles and responsibilities are contained within the Society's Rules which are available to all members on the Society's website or on request. The Board consists of 12 Directors representing Members in the Society's core trading area. Regional Committee members nominate Directors but the Members exercise their democratic right to directly elect Directors onto the Board. One recently retired employee serves on the Board, four retired employees are Board members and no Board member is employed by 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 requires Directors to review the effectiveness of the Society's system of internal controls. The review covers all material controls including financial, operational, compliance and risk management systems in compliance with the Turnbull guidance. Key elements in the Society's adopted internal control framework are detailed as follows. These are considered to be appropriate to the current size and complexity of the Society.

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. There are clear lines of responsibility, delegations of authority and reporting requirements.

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, three of which have terms of reference as recommended in the Code: Audit, Remuneration and Search. Following the election of two new Board members, the Board agreed that a full review of the composition of the Board Committees will be undertaken in 2012.

The General Purposes Committee is responsible for addressing general matters not specified in the terms of reference of the above committees.

In 2010, the Board established a Review Committee to examine the Society's relationship with the Scotmid Co-operative Party and the level of support provided to it. Progress updates have been provided at Members' meetings and the review was completed in 2011. The Society will work with The Co-operative Party during 2012 to discuss and agree how the recommendations arising from the review will be implemented.

AUDIT

The Audit Committee is responsible for monitoring both internal controls and risk management. It is chaired by a director who is not the President, it consists of four directors and it met three times in 2011/12.

The Society has an Internal Audit Department reporting directly to the Chief Executive. An annual report for 2011/12 has been produced and audit plan for 2012/13 has been agreed with the Audit Committee. Any control weaknesses identified are highlighted to management and the Audit Committee which monitors Internal Audit activity and ensures that appropriate actions are taken.

The terms of reference agreed by the Board 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 Board and Management Executive are responsible for the identification and evaluation of key risks applicable to the Society. These risks may be associated with a variety of internal or external sources, including control breakdowns, credit and liquidity risks, disruption of information systems, competition, natural catastrophes and regulatory requirements. Risk registers are maintained which highlight the likelihood and impact of risks occurring. These registers are updated at least twice a year and actions necessary to mitigate those risks are considered. This process enables resource to be focussed on key risk areas, helping to prioritise activities. The Audit Committee reviews the risks facing the Society twice a year to determine if adequate controls are in place.

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

In line with the Code of Best Practice, the Audit Committee has established a policy of rotating the audit partner every five years. A new audit partner was appointed in 2011 to replace the previous audit partner who retired having completed his five year rotation. The external audit contract was last put out to tender in 2006.

REMUNERATION

The Remuneration Committee consists of four directors, none of whom were employees, recently retired employees or the President of the Society. The Committee makes recommendations annually to the Board on executive remuneration. External advice is provided to the Remuneration Committee by an independent advisor "mflhr" to ensure that the remuneration is appropriate to the scale and scope of the business. The Remuneration Committee is also responsible for making recommendations to the Board for the level of directors' remuneration and expenses. Details of the remuneration of Directors and Management Executive can be found in Note 2 to the financial statements. The salary bands in Note 2 provide appropriate disclosure of Board and Management Executive remuneration for the Society, although not in the format recommended by Co-operatives UK.

The Profit Related Pay scheme ensures that there is a link between performance and reward and that the interests of management and staff are aligned with those of the Society and Members. All employees are included in the scheme. The importance of attracting, retaining and motivating senior management of appropriate calibre was considered when the scheme was designed.

During the year the Committee undertook a review of the design principles of the scheme with the assistance of the independent advisor "mflhr". It was concluded that the scheme is well designed and that the link between Society performance and reward is robust. A small change was made to the scheme in respect of front line staff to improve the link between store performance and reward; there were no changes to the Executive 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 2011/12 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)

The Society operates an LTIP 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. Each year the Committee reviews actual performance compared to target for the latest three-year scheme maturing and sets targets for the next three-year period. 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.

The Remuneration Committee has started to consider the implications of the Pension Auto-enrolment requirements and the formulation of a recommended solution will be a key part of the Committee's work in the next financial year.

SEARCH

The Search Committee consists of five directors. It is responsible for establishing a process to evaluate the balance of skills and effectiveness of the Board, to consider director succession planning and the composition of Board committees. It is also responsible for membership matters including membership strategy and development.

The ongoing development of the national membership strategy featured strongly in the work of the Search Committee during the year. One of the Society's final objectives resulting from the Constitutional Review conducted in 2009/10 was the creation of a Regional Committee to serve members in the North. During the year the Search Committee developed a framework to establish the working practices of the new North Regional Committee, taking into consideration the transitional arrangements set out by the Constitutional Review. A 'Meet the Society' information day was held in January 2012 for members who had expressed an interest in joining the new Committee, following which the Board approved the creation of a transitional North Regional Committee and co-opted five members to serve alongside the three existing elected members serving the North. The Board will review the progress of the new Committee in late 2012 and, if operating as planned, will recommend to Members that a fully democratically elected committee is established and elections held in 2013.

The Society launched its new website in December 2011, developed its use of new social media platforms and reviewed the format of the Members' magazine – Jigsaw. A pilot for a new membership card scheme has been developed and will be rolled out in 2012.

Attendance at Members' meetings has increased and, in general, the new format of the meetings has been well received. In response to feedback suggesting improvements to the entry process for attending meetings, the Search Committee reviewed the process to ensure compliance with health and safety regulations and enable the Society to provide facilities sufficiently large enough for all Members who wish to attend. Members are now required to apply for an admission ticket in advance of each meeting. This change will improve the efficiency of the registration process.

Following the Members' appointment of two new Directors at the OGM 2011, tailored induction programmes for the new Directors were undertaken. The Search Committee recommended and the Board subsequently approved the appointment of the new Directors to specific Board Committees and it was agreed that a review of the composition of the Board Committees would be undertaken in 2012.

The Board undertook its own evaluation of its skills and performance during the year taking into consideration the results of the Board skills assessment conducted by Glasgow Caledonian University and reported to the Board in 2011.

As part of the ongoing four year rolling training programme to enhance the skills and knowledge of elected representatives, the Search Committee approved the creation and delivery of three new training sessions during the year.

For and on behalf of the Board

Hollis Smallman - **President**

John Brodie - **Chief Executive Officer**

John Dalley - **Secretary**

Scotmid strives to place social responsibility at its core, in keeping with its Co-operative values and principles. The Society uses the ten Key Social and Co-operative Performance Indicators recommended by Co-operatives UK to assess its performance in this area. Scotmid has a diverse range of operations so these measures are not always readily available or the most relevant for all our individual businesses. To overcome this, estimates are used where appropriate or we use sample data from our food convenience business, our most significant trading division.

Botterills Convenience Stores Ltd (Botterills) was acquired by the Society in November 2010 and the 49 stores have been integrated into the Scotmid trading portfolio during 2011. Comments are provided on the effect of Botterills data where relevant.

MEMBER ECONOMIC INVOLVEMENT

An independent agency (George Street Research) conducted an exit survey in nine stores to determine an estimate of our member economic involvement. Based on the sample selected, member involvement as a percentage of sales has increased to 13% (2010/11 – 10%). A successful membership drive has been conducted in the Botterills branches as part of the conversion to the Scotmid brand and the extended membership team have continued to promote membership across the food business.

MEMBER DEMOCRATIC PARTICIPATION

130 (2010/11 - 108) members attended the Annual General Meetings on 27 April 2011, 173 (2010/11 - 103) members attended the Ordinary General Meeting on 3 October 2011. At that meeting, the Society held its first contested election for directors to serve members in the East region. John Miller and Grace Smallman were elected to serve to replace David Paterson who was up for re-election and Joe Hill who retired from the service of the Society having reached 72 years of age, the upper age limit for an elected representative to serve.

STAFF AND MEMBER TRAINING

This year around 31,000 hours (2010/11 - 32,000) of formal staff training took place, an average of 6.2 hours per employee (2010/11 - 7.6). These hours included 9,600 of e-learning activity (2010/11 - 7,000) however they do not include the significant amount of less formal "on the job" training which has been key to the successful integration of Botterills into the Scotmid portfolio via "buddy manager" support.

Members actively participated in a total of 333 hours of training (2010/11 - 285). The increase in training hours resulted from the high level of support from elected representatives for the newly developed training sessions. The number of training hours per "active" member (where active membership for training purposes has been defined as the number of members attending the AGM) reduced slightly to 2.56 hours (2010/11 – 2.64 hours) as a result of increased attendance at Members meetings.

STAFF INJURY AND ABSENTEE RATES

Staff are encouraged to report all accidents, no matter how minor, and these are recorded to ensure that safety standards are maintained and improved. This year we had 22 (2010/11 - 17) reportable accidents equating to 0.4% (2010/11 - 0.4%) of the average total workforce. There were also 157 minor injuries (2010/11 - 154), which equates to 3.1% of the average total workforce. This gives a combined total of 3.5% (2010/11 - 4.1%). This information is reported to the business each period and appropriate action is taken.

An increase is reported in absence at 28,851 days lost compared to 22,877 last year. This amounts to an average of 5.7 days per employee (2010/11 - 5.4). The inclusion of Botterills stores has had an impact on the statistics; however we are still in a favourable position compared to the average of 7.1 days per employee for private sector services (CIPD June 2011). The trend also falls below the retail average of 6.2 days per employee from the same source. Underlying absence issues in the acquired Botterills stores are being addressed.

STAFF PROFILE

Scotmid had an average of 5,004 employees in 2011/12 (2010/11 – 4,211 excluding Botterills). The current year figures have increased due to the Botterills acquisition. The staff profile by gender at the year-end was 75% (2010/11 - 73%) female and 25% male (2010/11 - 27%) which has been influenced by a different gender balance in the acquired business.

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. This data does not include Botterills staff.

Ethnic Origin	% of workforce
Asian	2.9
Black	0.5
Other	0.1
White	96.5
Total	100

This data is estimated and will be reviewed in detail in the coming year as part of the exercise to incorporate statistics for the Botterills business.

The most up to date census information available is still based on 2001 and reports 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 customer satisfaction comparisons are not directly comparable this year as the survey included a few additional criteria. The results are showing a lower degree of customer satisfaction overall with only 69% of customers recorded as being very satisfied compared to 87% last year, however 87% overall are classed as satisfied (2010/11 - 94%). The area attracting the lowest scores is availability and given the survey was conducted by Harris International Marketing in the first quarter of 2011 this appears to be attributable to the after-effects of the Coop Supply chain availability issues caused by the poor winter weather. We have fallen behind the overall convenience market on this score however this further points towards the weather issues as Scotland was more heavily affected than the south. The outcome of this survey underlines the importance of the current business drive to ensure availability is prioritised at all times for our customers and the benefits of the new Coop distribution centre that became fully operational in Autumn 2011.

ETHICAL PROCUREMENT

The majority of the Society's 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, health and ecological sustainability.

INVESTMENT IN COMMUNITY & CO-OPERATIVE INITIATIVES

A total of £262,000 (2010/11 - £235,000) was spent on investment in both community and co-operative initiatives, amounting to 4.0% of our operating surplus before exceptional items (2010/11 - 2.6%). The Regional Committees have responsibility for community grants and donations. Around £25,000 was once again invested in co-operative initiatives, with the Co-operative Education Trust Scotland being the main beneficiary.

The Royal National Lifeboat Institute received an additional £90,000 during 2011 concluding a very successful partnership with a total of £200,000 raised. £75,000 has been raised to date for charity partner, The Prince's Trust, following the launch in August 2011. The relationship with this charity differs in that in addition to fundraising, support will be provided through volunteering and through work placements in our stores.

THE ENVIRONMENT

Scotmid aims to reduce net greenhouse gas emissions by 20% by 2020 (using 2008 levels as a base). The Carbon Reduction Commitment Performance league table, published in November 2011, ranked Scotmid in the top 6% of businesses which were legally obliged to submit their energy consumption.

As last year we are again reporting on direct Greenhouse Gas (GHG) emissions in two ways: net emissions (that treat electricity from renewables as zero carbon emissions) and gross emissions (that treat electricity from renewables in the same way as 'brown' electricity). GHG includes CO_2, CH_4 (methane) and N_2O (nitrous oxide). Carbon Dioxide (CO_2) emissions are produced as a direct result of burning fossil fuels.

The Society produced an estimated 3,054 tonnes of GHG (net) from on-site operations compared to 2,754 last year. The gross emissions, which include electricity from a renewable source, are 28,855 tonnes (2010/11 - 25,325 tonnes). This equates to 0.61 tonnes of GHG per employee (2010/11 - 0.65 tonnes of GHG). The totals have increased due to the 49 additional food stores included following the Botterills acquisition, however, the reduction in amount per employee shows the continuing benefit from energy management initiatives including smart meters and more efficient lighting and refrigeration.

PROPORTION OF WASTE RECYCLED/REUSED

Our waste to landfill amounted to an estimated 1,950 tonnes (2010/11 – 2,101) giving a reduction of 7%. CRTG vehicles collect cardboard and plastic from our Food outlets for recycling and have provided an estimated percentage of the total amount of recycled waste attributable to Scotmid. Semichem outlets backload cardboard to our distribution warehouse for recycling. Our Head Office and Funeral offices recycle cardboard, paper and plastic through our waste uplift provider. As a result we estimate that we have recycled 1,922 tonnes of cardboard and 140 tonnes of plastic/paper. These figures indicate that the proportion of waste recycled is in the region of 51% (2010/11 was 45%). The combination of a greater degree of recycling and a shift away from excess packaging by manufacturers has aided overall reduction of waste to landfill. Various initiatives are being trialled currently with the intention of further reducing our waste to landfill significantly during 2012.

We have audited the financial statements of Scottish Midland Co-operative Society Limited for the year ended 28 January 2012 which comprise the Group Revenue Account, Group Statement of Total Recognised Gains and Losses, Group Note of Historical Cost Profits and Losses, Group Balance Sheet, Group Cash Flow Statement and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Society's members, 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's members those matters we are required to state to them in an auditor's 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 and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND AUDITORS

As explained more fully in the Director's Responsibilities Statement, the Directors are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Society's affairs as at 28 January 2012 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts, 1965 to 2002.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts, 1965 to 2002 requires us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the Society has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations we need for our audit.

Deloitte LLP

Chartered Accountants and Statutory Auditors

Glasgow, United Kingdom

29 March 2012

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. The Society's business activities, together with the factors likely to affect its future prospects, are discussed in the Directors' Report on pages 3 to 13. After making enquiries, the Directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

ACCOUNTING DATE

The accounts are prepared for the 52 weeks to 28 January 2012 (2011 - 52 weeks to 29 January 2011).

TURNOVER

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

PRIOR YEAR RESTATEMENT

Commissions receivable have been reallocated to other income rather than turnover and net expenses. Consequently the prior year turnover and net expenses figures have been amended to show the comparative impact of this reallocation. Distribution costs have been reallocated to cost of sales rather than net expenses. Consequently the prior year net expenses have reduced and cost of sales increased to show the comparative impact of this reallocation.

These reallocations have been adopted as they better reflect the underlying trading nature of the commission income received by the Society acting as agent, rather than as principal. The amended distribution costs disclosure better reflects the underlying direct nature of these costs incurred from third parties. Notes 1 and 22 provide further detail of the impact of these changes on the prior year results. These restatements have no impact on the operating surplus in the prior year

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 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, vehicles and fixtures - between 3 and 10 years.

Investment properties are revalued annually and the aggregate surplus or deficit is transferred to the revaluation reserve except that a deficit which is expected to be permanent or the reversal of such a deficit, is charged (or credited) to the revenue account. On disposal of investment properties, any related balance remaining in the revaluation reserve is transferred to the revenue reserve. Depreciation is not provided in respect of investment properties. The Directors consider that this accounting policy, which represents a departure from the statutory accounting rules, is necessary to provide a true and fair view as required under SSAP 19 "Accounting for investment properties". The financial effect of this departure is shown in the note of historical cost profit and loss.

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 capital element of future lease obligations is recorded within liabilities, while 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.

DERIVATIVES

The Society holds derivative financial instruments to reduce exposure to interest rate movements. The Society does not hold or issue derivative financial instruments for speculative purposes.

Derivatives entered into include interest rate swaps, caps and floors. The fair value of interest rate derivatives is the estimated amount that the Society would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current credit worthiness of the swap counterparties.

Interest payments or receipts arising from interest rate swaps are recognised within net finance charges in the period in which the interest is incurred or earned.

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.

EXCEPTIONAL ITEMS

Exceptional items include significant exceptional transactions and material one-off items. The Society considers such items are material to the Revenue Account and their separate disclosure is necessary for an appropriate understanding of the Society's financial performance.

	notes	2011-12 £000	2010-11 restated £000
turnover		426,733	376,891
value added tax		(50,474)	(39,532)
sales	22	376,259	337,359
cost of sales		(272,402)	(240,410)
gross profit		103,857	96,949
other income		5,230	3,754
net expenses	1	(105,140)	(92,830)
operating surplus	22	3,947	7,873
operating surplus excluding exceptional expenses		6,529	9,093
exceptional operating expenses	3	(2,582)	(1,220)
operating surplus		3,947	7,873
share of joint venture operating loss	3	-	(23)
surplus on disposal of fixed assets	3	391	5,496
surplus before finance charges		4,338	13,346
net finance charges	4	(1,610)	(1,516)
surplus for year before distributions		2,728	11,830
distributions			
share interest		(70)	(94)
grants and donations	5	(628)	(570)
surplus for the year before taxation		2,030	11,166
taxation	6	(722)	(1,584)
surplus for the year	16	1,308	9,582

The results shown above relate entirely to continuing operations.

	2011-12 £000	2010-11 £000
group statement of total recognised gains and losses		
surplus for year	1,308	9,582
actuarial (loss)/gain relating to the pension scheme (net of tax) (note 18)	(1,969)	740
unrealised loss on investment properties revaluation	(3,588)	(69)
total gains and losses recognised since last annual report	(4,249)	10,253

	2011-12 £000	2010-11 £000
group note of historical cost profits and losses		
surplus for year before taxation	2,030	11,166
realisation of property revaluation gains of earlier years	171	73
historical cost surplus for year before taxation	2,201	11,239
historical cost surplus for year after taxation	1,479	9,655

	notes	£000	2011-12 £000	£000	2010-11 £000
fixed assets					
intangible assets	7		31,503		32,665
tangible assets	8		122,177		129,278
investments	9		1,309		1,309
			154,989		163,252
current assets					
stocks - goods for resale		29,747		29,517	
debtors and prepayments	10	8,944		8,947	
cash at bank and in hand		7,116		3,910	
		45,807		42,374	
current liabilities					
amounts falling due within one year					
bank overdraft (secured)		-		(47)	
creditors	11	(44,343)		(44,648)	
		(44,343)		(44,695)	
net current assets/(liabilities)			1,464		(2,321)
total assets less net current assets/(liabilities)			156,453		160,931
long term liabilities					
amounts falling due after more than one year					
creditors	12		(48,851)		(50,121)
provisions for liabilities					
deferred taxation	14		-		(378)
net assets excluding pension liability			107,602		110,432
pension liability	18		(11,358)		(10,026)
net assets	22		96,244		100,406
financed by					
share capital	15		5,249		5,162
reserves	16		90,995		95,244
shareholders' funds	17		96,244		100,406

The financial statements of Scottish Midland Co-operative Society Limited were approved by the Board of Directors and authorised for issue on 28 March 2012. They were signed on its behalf by:

Hollis Smallman **President**
Harry Cairney **Vice President**
John Dalley **Secretary**

	notes	£000	2011-12 £000	£000	2010-11 £000
net cash inflow from operating activities	19		12,710		11,794
joint ventures and associates					
share of joint venture operating loss			-		(23)
returns on investment and servicing of finance					
interest received		87		156	
interest paid		(1,394)		(1,188)	
share interest, grants and donations		(698)		(664)	
net cash outflow from returns on investment and servicing of finance			(2,005)		(1,696)
taxation					
corporation tax paid			(805)		(1,509)
capital expenditure and financial investment					
receipts from sales of tangible fixed assets		2,148		10,820	
payments to acquire tangible fixed assets		(7,593)		(11,951)	
			(5,445)		(1,131)
acquisitions and disposals					
acquisition of subsidiary		-		(14,221)	
deferred acquisition consideration		(900)		-	
other acquisitions		(20)		(915)	
			(920)		(15,136)
net cash inflow/(outflow) before financing			3,535		(7,701)
financing					
bank loans advanced		1,500		26,500	
repayment of bank loans		(1,500)		(14,500)	
members share capital issued and interest net of withdrawals		87		68	
repayment of finance leases		(369)		(441)	
repayment of interest in joint venture		-		22	
net cash inflow from financing			(282)		11,649
increase in cash	20		3,253		3,948

1. net expenses		2011-12 £000	2010-11 restated £000
personnel costs		52,984	46,851
occupancy costs (excluding depreciation)		21,132	18,441
depreciation of owned assets		8,541	7,824
depreciation of assets held under finance leases		741	889
amortisation of goodwill		1,119	875
operating lease rentals - equipment and vehicles		460	383
fees - directors and committee members		153	121
expenses and delegations - directors and committee members		46	42
auditors' remuneration		95	91
other expenses		17,287	16,093
		102,558	91,610
exceptional items - impairment of goodwill	note 3	43	145
exceptional items - other costs	note 3	2,539	1,075
		105,140	92,830

Included within expenses is £8,240,000 relating to operating lease rentals for land and buildings (2010-11 - £7,041,000).

Certain commissions receivable have been reallocated from net expenses to other income. In addition third party distribution costs have been reallocated from net expenses to cost of sales. Consequently the reported prior year net expenses charge includes a net reduction of £8,601,000 due to commissions receivable totalling £2,559,000 having been reallocated to other income and distribution costs of £11,160,000 having been reallocated to cost of sales. This amended disclosure has been adopted as it better reflects the underlying trading activities of the Society.

auditors' remuneration - other services	2011-12 £000	2010-11 £000
tax services	48	83
corporate finance services	-	267
pension scheme audit	4	4
other services	-	1
	52	355

2. employees	2011-12 number	2010-11 number
the average number employed was		
full time	1,480	1,355
part time	3,524	3,323
	5,004	4,678

the costs incurred in respect of these employees were	£000	£000
wages and salaries	48,972	43,127
social security costs	2,888	2,722
other pension costs	1,124	1,002
	52,984	46,851

2. employees - continued	**2011-12**	**2010-11**
	£000	**£000**
directors' emoluments		
the total remuneration of the directors for their board duties was		
fees and delegations	145	111

Total directors' emoluments includes a loyalty bonus payable to a director upon his retirement in accordance with the long service loyality bonus scheme approved by the members.

	number	**number**
the number of directors whose emoluments fell into each £2,500 bracket was		
£2,501 - £5,000	2	1
£7,501 - £10,000	9	9
£12,501 - £15,000	1	1
£15,001 - £17,500	1	-
£17,501 - £20,000	-	1
£27,501 - £30,000	1	-
	14	12

management executive emoluments	**£000**	**£000**
the total remuneration of the management executive was		
wages & salaries	1,070	1,013
taxable benefits	80	80
pension and pension allowance costs	198	193
profit-related pay and long-term incentive scheme	5	115
	1,353	1,401

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

	number	**number**
£80,001 - £90,000	1	-
£90,001 - £100,000	-	2
£100,001 - £110,000	2	-
£110,001 - £120,000	-	1
£170,001 - £180,000	1	-
£180,001 - £190,000	-	1
£230,001 - £240,000	1	1
£370,001 - £380,000	1	-
£390,001 - £400,000	-	1
	6	6

3. exceptional items	2011-12 £000	2010-11 £000
goodwill impairment	(43)	(145)
fixtures & fittings impairment	(335)	-
business integration costs	(2,204)	(1,075)
	(2,582)	(1,220)
share of joint venture operating loss	-	(23)
gain on sale of fixed assets	391	5,496
	(2,191)	4,253

Business integration costs primarily relate to the acquisition of Botterills Convenience Stores Limited (Botterills).

4. net finance charges	£000	2011-12 £000	£000	2010-11 £000
interest payable				
bank overdraft and loan	1,240		1,080	
finance leases	95		38	
other interest	59		70	
joint venture	-		-	
interest cost on pension scheme liabilities	3,001		2,778	
		4,395		3,966
less - interest receivable and investment income				
expected return on pension scheme assets	2,698		2,294	
unlisted investments	75		75	
other interest	12		80	
joint venture	-		1	
		2,785		2,450
		1,610		1,516

5. grants and donations	2011-12 £000	2010-11 £000
member relation activities & grants	560	481
donations	68	89
	628	570

6. taxation	2011-12 £000	2010-11 £000
current taxation		
UK corporation tax charge for the year	1,107	1,877
adjustment in respect of prior years	(219)	(649)
total current taxation	888	1,228
deferred taxation		
origination and reversal of timing differences	(26)	416
adjustment in respect of acquisition	-	(86)
adjustment in respect of prior years	(454)	(97)
adjustment due to change of tax rate to 25%	314	123
total deferred taxation	(166)	356
total taxation charge	722	1,584

factors affecting tax charge for the year

surplus before tax	2,030	11,166
tax on surplus at standard rate of corporation tax in the UK of 26.3% (2010-11 28%)	534	3,126
factors affecting charge for the year		
expenses not deductible for tax	505	528
depreciation in excess of capital allowances	446	479
movement in short term timing differences	(461)	(254)
income not taxable for tax purposes	(19)	(2,095)
chargeable gains	108	93
adjustments to tax in respect of prior years	(219)	(649)
effects of other tax rates	(6)	-
current tax charge for the year	888	1,228

No provision has been made for deferred tax on revaluing investment 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	
29 January 2011	52,082
28 January 2012	52,082
amortisation	
29 January 2011	19,417
provided for the year	1,119
impairment	43
28 January 2012	20,579
balance at 28 January 2012	31,503
balance at 29 January 2011	32,665

The impairment charge for the year relates to the goodwill attached to a small number of stores. Following a review of their trading performance and residual value of goodwill, a decision was taken to fully write-off the remaining goodwill.

8. tangible fixed assets

	land & buildings £000	investment properties £000	plant vehicles & fixtures £000	total £000
cost or valuation				
29 January 2011	29,441	66,032	98,183	206,050
additions	796	289	6,776	7,861
disposals	(1,202)	(153)	(2,993)	(4,348)
revaluation	-	(3,588)	-	(3,588)
28 January 2012	29,035	62,580	114,360	205,975
depreciation				
29 January 2011	9,199	-	55,179	76,772
provided for the year	686	-	8,596	9,282
disposals	(87)	-	(2,504)	(2,591)
impairment	14	-	321	335
28 January 2012	9,812	-	73,986	83,798
balance sheet value at 28 January 2012	19,223	62,580	40,374	122,177
balance sheet value at 29 January 2011	20,242	66,032	43,004	129,278

The net book value of the Society's fixed assets includes £1,982,000 (2010-11 - £2,714,000) in respect of assets held under finance leases.

All assets under finance leases are held within plant, vehicles and fixtures.

The impairment charge in the year relates to the carrying value of tangible fixed assets within a small number of stores. Following a review of their trading performance it was determined that the remaining net book value should be written-off.

Investment properties were independently valued by D M Hall Chartered Surveyors as at 28 January 2012 at open market value on the basis of existing use, in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors. The valuation was arrived at on the basis of an inspection and survey of a sample of the Society's investment properties.

9. fixed asset - investments

	2011-12 £000	2010-11 £000
unlisted shares		
C W S Ltd	1,252	1,252
other I & P Societies	1	1
others	18	18
joint ventures	30	30
	1,301	1,301
listed shares		
others	8	8
	1,309	1,309

The market value of the listed investments at 28 January 2012 was £24,000 (2010-11 - £23,000).

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)		Scotmid - Bett (Fountainbridge)	
	2011-12 £000	2010-11 £000	2011-12 £000	2010-11 £000
gross assets	29	29	42	42
gross liabilities	(34)	(34)	(7)	(7)
net assets	(5)	(5)	35	35
net investment	(5)	(5)	35	35

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. On the basis that the property development within this joint venture has completed, no such liabilities are expected to arise.

10. debtors and prepayments due within one year

	2011-12 £000	2010-11 £000
trade debtors	426	490
prepayments and other debtors	8,151	8,457
deferred tax (see note 14)	367	-
	8,944	8,947

11. creditors falling due within one year	**2011-12 £000**	**2010-11 £000**
trade creditors	20,295	18,741
holiday pay	821	592
VAT	1,928	2,217
other sundry creditors	4,733	3,748
accrued charges	12,511	14,786
PAYE and social security	736	1,537
bank loan (see note 12)	1,500	1,500
deferred consideration	1,050	900
obligations under finance leases (see note 12)	401	342
corporation tax	368	285
	44,343	44,648

12. creditors falling due after more than one year

bank loans	39,375	39,375
deferred consideration	7,350	8,400
obligations under finance leases	1,152	1,316
other creditors	974	1,030
	48,851	50,121
borrowings are repayable as follows:		
bank loans		
between one and two years	2,500	1,500
between two and five years	29,500	29,000
after five years	7,375	8,875
	39,375	39,375
on demand or within one year	1,500	1,500
	40,875	40,875
finance leases		
between one and two years	388	367
between two and five years	764	949
	1,152	1,316
on demand or within one year	401	342
	1,553	1,658
deferred consideration		
between one and two years	1,950	1,050
between two and five years	5,400	7,350
	7,350	8,400
on demand or within one year	1,050	900
	8,400	9,300
total bank loans, deferred consideration, and finance leases excluding bank overdraft		
between one and two years	4,838	2,917
between two and five years	35,664	37,299
after five years	7,375	8,875
	47,877	49,091
on demand or within one year	2,951	2,742
	50,828	51,833

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

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

13. derivatives

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

derivative financial instruments held to manage interest rates	book value 2011-12 £000	book value 2010-11 £000	fair value 2011-12 £000	fair value 2010-11 £000
interest rate derivatives	-	-	(446)	(147)

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 derivatives for speculative purposes.

14. deferred taxation

	£000
balance at 29 January 2011	378
revenue account credit	(745)
balance at 28 January 2012	(367)

During the year the deferred tax balance has become an asset. Consequently, the balance is now disclosed in note 10.

the provision for deferred tax consists of the following amounts	2011-12 £000	2010-11 £000
capital allowances in excess of depreciation	(144)	591
other timing differences	(223)	(213)
	(367)	378

During the year, a change in the UK corporation tax rate from 27% to 25% was substantively enacted and the reduced rate was intended to be effective from 1 April 2012. The relevant deferred tax balances have been re-measured accordingly.

Further reductions to the UK corporation tax rate have been announced which will reduce the UK corporation tax rate by 1% per annum until this reaches 22% by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements.

15. share capital

	2011-12 £000	2010-11 £000
at beginning of year	5,162	5,094
interest	70	94
contributions	147	150
	5,379	5,338
withdrawals	(130)	(176)
at end of year	5,249	5,162

(i) share capital comprises 5,249,000 shares (2010-11 - 5,162,000) of £1 attracting interest at 1.5%.

(ii) shares are withdrawable on periods of notice in accordance with Rule 13, however, the directors retain the right to refuse redemption.

(iii) each member is entitled to one vote.

16. movement on reserves	**revenue reserve £000**	**revaluation reserve £000**	**total £000**
at 29 January 2011	64,865	30,379	95,244
surplus for year	1,308	-	1,308
transfer of realised revaluation arising on disposal of properties	171	(171)	-
loss on revaluation of properties	-	(3,588)	(3,588)
actuarial loss relating to the pension fund (net of tax)	(1,969)	-	(1,969)
at 28 January 2012	64,375	26,620	90,995

17. reconciliation of movements in shareholders' funds	**2011-12 £000**	**2010-11 £000**
surplus after taxation	1,308	9,582
other recognised losses relating to year	(3,588)	(69)
contributions and interest less withdrawals of members' capital during year	87	68
actuarial (loss)/gain relating to the pension fund	(1,969)	740
net movement in shareholders' funds	(4,162)	10,321
opening shareholders' funds	100,406	90,085
closing shareholders' funds	96,244	100,406

18. 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 £58,000 (2010-11 - £121,000) 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 plan is closed to new entrants. The most recent full actuarial valuation was carried out at 29 January 2011, this valuation has not been finalised by the Trustees and consequently the valuation remains preliminary. The Trustees and the Society do not anticipate any significant changes to the preliminary valuation report. The valuation remains preliminary due to the associated Deficit Recovery Plan revision not being finalised. The Trustees and the Society anticipate finalising the Deficit Recovery Plan in advance of the 30th April 2012 deadline. The disclosures below incorporate the preliminary 29 January 2011 full actuarial valuation. 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 6.8% pre retirement and 4.9% post retirement per annum, that the rate of salary growth would be 4.35% per annum, and the rate of pension increase for service between 05/04/97 and 05/04/05 would be 3.35% per annum, and from 06/04/05 would be capped at 2.5% per annum.

At the date of review, the market value of the funds' assets was £39,330,000 and the actuarial value of the assets represented 77.8% 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 £2,610,000 (2010-11 - £2,598,000) which includes a special contribution of £1,800,000 (2010-11 - £1,800,000) in line with the agreed Schedule of Contributions from the 26 January 2008 valuation. Employer contributions for 2012-13 are currently estimated to be £2,475,000.

During the year the annual rate of increase of deferred pensions began utilising CPI capped at 2.5%, rather than RPI capped at 2.5%.

This valuation has been updated by the actuary to 28 January 2012 in order to comply with FRS 17.

18. accounting for pension costs - continued

the major assumptions used by the actuary were			at 28 Jan 2012	at 29 Jan 2011	at 30 Jan 2010
rate of increases in salaries			4.40%	4.90%	4.70%
rate of increases in pensions accrued post 05/04/97		LPI 5% (RPI)	2.90%	3.30%	3.20%
		LPI 2.5% (RPI)	2.30%	2.40%	2.50%
rate of increase in deferred pensions		LPI 2.5% (RPI)	n/a	2.50%	2.50%
		LPI 2.5% (CPI)	2.20%	n/a	n/a
discount rate			4.85%	5.60%	5.50%
inflation assumption			2.90%	3.40%	3.20%
expected return on the scheme assets			6.88%	6.65%	7.48%
life expectancy	male		85.4 years	85.4 years	85.2 years
	female		89.5 years	88.5 years	88.3 years

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

	2011-12		2010-11		2009-10	
	expected long term rate of return %	fair value £000	expected long term rate of return %	fair value £000	expected long term rate of return %	fair value £000
equities	6.50%	18,922	8.10%	19,817	8.00%	16,058
bonds	4.70%	25,971	5.60%	19,708	5.50%	19,103
other	1.50%	(52)	1.50%	(195)	1.50%	(63)
total market value of assets	5.50%	44,841	6.86%	39,330	6.65%	35,098
present value of scheme liabilities		(59,985)		(53,064)		(51,083)
deficit in scheme		(15,144)		(13,734)		(15,985)
related deferred tax asset		3,786		3,708		4,476
net pension liability		(11,358)		(10,026)		(11,509)

In setting the expected return on the assets as at 28 January 2012, we have taken into account the yields on government bonds and quality corporate bonds and the views of JLT in-house investment consultancy practice.

analysis of the movement in the scheme deficit in the year	2011-12 £000	2010-11 £000
opening deficit in the scheme	(13,734)	(15,985)
current service cost	(1,092)	(891)
contributions	2,610	2,598
net financing charge	(303)	(484)
actuarial (loss)/gain	(2,625)	1,028
closing deficit	(15,144)	(13,734)

18. accounting for pension costs - continued

amounts included within operating surplus	**2011-12 £000**	**2010-11 £000**
current service cost	1,092	891

amounts included in other finance costs	**£000**	**£000**
expected return on pension scheme assets	(2,698)	(2,294)
interest cost on pension scheme liabilities	3,001	2,778
net finance cost	303	484

reconciliation of present value of scheme liabilities	**£000**	**£000**
opening defined benefit obligation	53,064	51,083
service cost	1,092	891
interest cost	3,001	2,778
contributions by employees	504	477
actuarial losses	4,815	356
benefits paid	(2,491)	(2,521)
closing defined benefit obligation	59,985	53,064

reconciliation of present value of scheme assets	**£000**	**£000**
opening fair value of the scheme assets	39,330	35,098
expected return	2,698	2,294
actuarial gains	2,190	1,384
contributions by employer	2,610	2,598
contributions by employees	504	477
benefits paid	(2,491)	(2,521)
closing fair value of the scheme assets	44,841	39,330
actual return on scheme assets	4,888	3,678

18. accounting for pension costs - continued

history of experience gains and losses

	2011-12 %	2011-12 £000	2010-11 %	2010-11 £000	2009-10 %	2009-10 £000	2008-09 %	2008-09 £000	2007-08 %	2007-08 £000
defined benefit obligation		(59,985)		(53,064)		(51,083)		(38,495)		(45,907)
scheme assets		44,841		39,330		35,098		27,190		33,719
deficit		(15,144)		(13,734)		(15,985)		(11,305)		(12,188)
actual return less expected return on pension scheme assets	4.9%	2,190	3.5%	1,384	16.1%	5,655	31.0%	(8,431)	13.8%	(4,662)
experience losses and gains arising on the scheme liabilities	2.1%	1,270	0.7%	(348)	0.4%	202	11.6%	4,484	0.9%	(424)
changes in assumptions underlying the value of scheme liabilities	10.1%	(6,085)	0.0%	(8)	23.1%	(11,801)	10.3%	3,962	8.0%	3,687
actuarial (loss)/gain before tax	4.4%	(2,625)	1.9%	1,028	11.6%	(5,944)	0.0%	15	3.0%	(1,399)

amounts taken to the statement of total recognised gains and losses

	2011-12 £000	2010-11 £000
actual return less expected return on pension scheme assets	2,190	1,384
experience gains/(losses) arising on the scheme liabilities	1,270	(348)
changes in assumptions underlying the value of scheme liabilities	(6,085)	(8)
actuarial (loss)/gain before tax	(2,625)	1,028
net cumulative actuarial losses since 25 January 2003	(14,443)	(11,818)

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

	2011-12 £000	2010-11 £000
operating surplus	3,947	7,873
depreciation charges	9,282	8,713
impairment of fixed assets	335	-
amortisation of goodwill	1,119	875
impairment of goodwill	43	145
(increase)/decrease in stocks	(212)	725
decrease/(increase) in debtors	367	(631)
decrease in creditors	(653)	(4,199)
movement in pension liability	(1,518)	(1,707)
net cash inflow from operating activities	12,710	11,794

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

	£000	£000
increase in cash for year	3,253	3,948
cash outflow/(inflow) from decrease/(increase) in debt and lease financing	369	(11,559)
change in net debt resulting from cash flows	3,622	(7,611)
new finance leases	(265)	(1,799)
movement in net debt for the year	3,357	(9,410)
opening net debt	(38,670)	(29,260)
closing net debt	(35,313)	(38,670)

21. cash flow statement : analysis of net debt

	at 29 Jan 2011 £000	cash flow £000	other non cash changes £000	at 28 Jan 2012 £000
cash at bank and in hand	3,910	3,206	-	7,116
bank overdraft	(47)	47	-	-
	3,863	3,253	-	7,116
debt due after 1 year	(39,375)	(1,500)	1,500	(39,375)
debt due within 1 year	(1,500)	1,500	(1,500)	(1,500)
finance leases	(1,658)	369	(265)	(1,553)
	(42,533)	369	(265)	(42,428)
total	(38,670)	3,622	(265)	(35,312)

22. segmental reporting

	sales		operating surplus		net assets	
	2011-12	2010-11 restated	2011-12	2010-11	2011-12	2010-11
	£000	£000	£000	£000	£000	£000
class of business						
retail / wholesale	371,613	332,740	2,265	6,201	33,664	34,374
property	4,646	4,619	1,682	1,672	62,580	66,032
continuing	376,259	337,359	3,947	7,873	96,244	100,406

Certain commissions receivable have been reallocated from sales to other income. Consequently the reported prior year sales figure has reduced by £1,196,000. This amended disclosure has been adopted as it better reflects the underlying trading activities of the Society acting as agent, rather than as principal.

23. operating lease commitments

At 28 January 2012 the commitment to make payments during the next year in respect of operating leases was as follows

	land & buildings	plant vehicles & fixtures	land & buildings	plant vehicles & fixtures
	2011-12	2011-12	2010-11	2010-11
	£000	£000	£000	£000
leases which expire				
within one year	610	35	394	155
within two to five years	2,215	441	2,274	395
after five years	5,870	-	5,659	-
	8,695	476	8,327	550

Notice is hereby given that an Annual General Meeting of the Society will be held on Monday, 30 April 2012 at 7.00 p.m. at the following places, The Hilton Edinburgh Grosvenor Hotel, Grosvenor Street, Edinburgh EH12 5EF and the Kaim Park Hotel, Bathgate, EH48 1EP.

AGENDA OF BUSINESS

1. Synopsis of Minutes of Ordinary General Meetings held on 3 October 2011
2. Obituary References
3. Appointment of Tellers
4. Directors' Report/Annual Accounts
5. Elections for Regional Committees:
   East Region 4 Members to serve for 3 years and 1 Member for 1 year;
   North Region 2 Members to serve for 3 years;
   West Region 4 Members to serve for 3 years
6. Synopses of Minutes of Board Meetings
7. Consideration of remuneration and other fees/payments for Office Bearers and Directors:
   Present remuneration (per annum):
   Central Board President £10,245; Vice President £7,305; Directors £5,040;
   Regional Committees Chair £2,985; Vice Chair £2,470; Treasurer £2,320;
   Minute Secretary £2,165; Committee Members £2,060; Tellers £5
   Consideration of scale of Directors' Delegations and Attendance payments:
   Present Scale Day Payment £105; Part Day Payment £65; Attendance Payment £35
8. Society Co-operative Party Council Report
9. Society Co-operative Party Review Update
10. Consideration of proposed rule changes to:
    enable the Society to invest in any partnership, Scottish limited partnership or any corporate body; amend Rule 27 to clarify motions not competent for a Special Meeting; amend the appeal process for membership termination consistent with best practice; delete obsolete transitional rules; and amend the administration arrangements for adjourned meetings
11. Membership & Community Development Report
12. General business

ADMISSION TO GENERAL MEETING

Important changes have been introduced to the entry system for attending Members meetings. Members will be required to register to attend the meeting by completing and returning the application form which can be found on the Society's website or by telephoning a member of the Community & Membership Team on 0131 335 4433. Members will be required to present their registration ticket and Share Book showing they have held at least £1 in their share capital account for at least 6 months prior to the date of the meeting in order to gain entry to the meeting. Only Members whose principal residential address lies within the geographic boundaries of that region will be entitled to vote for individuals to represent that region unless approval is granted by the Secretary in advance of the meeting.

The next General Meeting (Ordinary General Meeting) will be held on Monday 1 October 2012 at Edinburgh and at a location within the West Region. Under the transitional arrangements for the North Regional Committee, a meeting for Members living in the North Region will be held after the OGM at which the OGM presentations will be given.

Board Directors	Board	General Purposes	Audit	Remuneration	Search
Mr H Smallman (P)	13	4 (C)			4(C)
Mr H Cairney (VP)	12	4		4(C)	
Mr J Anderson	12		2		
Mr I Bailey	13		3		4
Mr P Devenney	13				4
Mr J Gilchrist	12			4	
Mr J Hill (R 3/10/11)	9				2
Mr D Jamieson	12				4
Mr T McKnight	11	4	3		
Mr J Miller (A 3/10/11)	4			1	
Mr D Paterson (R 3/10/11)	9			3	
Mrs G Smallman (A 3/10/11)	4				1
Mr J Watson	13		2 (C)		
Miss A Williamson	13	4		4	
Total meetings held	13	4	3	4	4

KEY

P = President VP = Vice President MS = Minute Secretary T = Treasurer C = Committee Chair VC = Vice Committee Chair A = Appointed R = Resigned

DIRECTORS

At the OGM held on 3 October 2011, Mr Miller and Mrs Smallman were elected by the members to serve as Directors to replace David Paterson and Joe Hill. Mr Hill retired from the Board and East Regional Committee having served the Society for 16 years. Mr Miller was appointed to the Remuneration Committee and Mrs Smallman appointed to the Search Committee on 21 November 2011. Mr Smallman and Mr McKnight were re-elected to serve for a further 3 year term of office and Mr Jamieson was re-elected to serve for a further 1 year.

Mr Anderson is a Director of Co-operatives UK. Mr Smallman, Mr Cairney, Mr Jamieson and Mr Paterson are Directors of Scotmid Pension Trustee Limited, the sole trustee of the Scottish Midland Co-operative Society Limited Pension Plan.

East & North Regional Committee	
Miss A Williamson (C)	12
Mr H Cairney (VC A 3/11/11)	10
Mr J Hill (VC R 3/10/11)	7
Mr J Anderson (MS) *	11
Mr D Jamieson (T)	11
Mrs A Anderson	11
Mr K Kelly	10
Mr J Mackenzie	9
Mr J Miller *	10
Mr D Paterson	11
Mr D Reid *	12
Mrs J Reid	12
Mrs G Smallman *	11
Mr H Smallman *	11
Mrs M Smith *	8
Total meetings held	12

West Regional Committee	
Mr T McKnight (C)	11
Mr J Watson (VC)	12
Mr J Gilchrist (T)	12
Mr M Ross (MS) *	10
Mr I Bailey	11
Mr P Devenney	12
Mr I Gilchrist *	12
Mrs M Kane (A 28/4/11)	9
Mr R Kelt	10
Mr D Muirhead *	11
Mr A Simm	11
Total meetings held	12

REGIONAL COMMITTEE MEMBERS

* Regional Committee Members due to retire by rotation in April 2012 and were nominated for re-election at the OGM 2011.

SCOTMID
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