



Developing co-operation in farming,
food and rural Scotland

Annual Report 2016



Working together to shape
the future of farming and food





CONTENTS

STATEMENTS

Chairman's Statement	2
Chief Executive's Statement	3

REPORTS

SAOS' Purpose and Beliefs, Values, and SAOS' Role	4
Strategic Objectives	5
Activity Overview 2015	6 - 8
Scotland Food & Drink View	9
Breakdown of Activity in 2015	10
Meet the staff	11

ACCOUNTS

Accounts	12 - 19
Agricultural co-op statistics	20
SAOS Members	21



Chairman's Statement

George Lawrie

"A big part of collaboration must be between farming and our partners in the supply chain, ultimately to deliver a fairer return to all, whether producing the product or selling it."

I have almost completed my first year as chairman of SAOS, and it has probably been the most challenging the agriculture industry has had to endure for a very long time. Commodity prices at well below costs of production, and changes to the CAP, have resulted in cash flow problems, not only for farmers, but all other rural industries providing services to agriculture.

It's at times like this that co-operation is required to help everyone make it through the recession. Co-ops are set up to help reduce costs and market our produce better. We only have to look at machinery rings, which came into existence as a consequence of the disastrous harvest of 1985: they are now part of everyday farming and, through working together, they reduce members' farm costs.

A promising development is the pace at which new technology and agri-data has become readily available to our industry. These provide us with opportunities to address productivity and help drive up profitability, not only in farming, but also in food and drink manufacturing, offering potential gains from greater collaboration across the supply chain. We must also find ways to work together more within sectors and also cross-sector, bringing cattle and sheep from the west to fatten in the east where there is barley and straw, and where organic matter from animal waste is required. With new satellite guidance on tractors, we should be making them work 24 hours a day, increasing the area that each tractor works and the efficiency of resource utilisation. All we need to do is work together to secure these and many other advantages.

Back in April 2015, the Scottish Government launched its discussion on a vision for agriculture in 2025. We explored this theme at our Council meeting in May and it was encouraging to see how progressive our members were when looking forward. At the Cabinet Secretary's launch of the discussion at the Royal Highland Show, recurring themes through the document were co-operation and collaboration. I am certain that this is the right way to approach the future and SAOS is well placed to help achieve it. A big part of collaboration must be between farming and our partners in the supply chain, ultimately to deliver a fairer return to all, whether producing the product or selling it.

Finally, I would like to thank James and all his staff for their hard work over the last year. They have helped many co-ops and other food and drink businesses to become more efficient and take forward new ideas. This is all to the benefit of the agricultural and rural industries.



Chief Executive's Statement

James Graham

Tough years drive change and that was certainly the case in 2015. Our work across all fronts accelerated because co-operation and collaboration deliver efficiency and productivity gains that boost competitiveness and financial performance, while reducing environmental impact.

This was evident in the strong demand for assistance via the Market Driven Supply Chain programme that we manage for Scottish Enterprise and the Scottish Government, and delivers a key component of Scotland Food & Drink's industry strategy. The 25 projects supported will generate additional business in UK and export markets to a value far exceeding the targets set when the programme commenced. The pipeline of new projects remains strong. While some improvements are achieved through analysis of value chain processes and improvements, others, such as craft brewers and craft distillers, have created new collaborations. Several more 'common interest groups' are in development. Equivalent progress is evident amongst local food producers receiving support from the Think Local programme that we deliver with SRUC, funded by the Scottish Government. They are evidence of a new wave of collaboration in food and drink supply chains. We were pleased to assist a Scotland Food & Drink Working Group convened to consider 'deeper collaboration' opportunities.

The momentum of change is equally urgent in the primary sector, with SAOS and our member co-ops providing the conduit for co-operation amongst farmers and with supply chain partners, focussed on meeting customer needs competitively and releasing value for farmers. Some exciting innovations are in development as co-ops develop and implement new strategies to serve their members. Our work with the Milk Suppliers' Association passed a significant milestone when the members voted in favour of seeking recognition as Scotland's first EU Dairy Producer Organisation. SAOS also joined the Beef 2020 implementation group and is building systems related to the Beef Efficiency Scheme. We continue to manage the development of ScotEID as it expands in scope, in partnership with the Scottish Government and industry.

We contributed to the Scottish Government's discussion document envisioning agriculture in 2025. Our co-ops committed themselves to evolving their services to help farmers adapt to new technologies and markets, and to the changing demands on the industry. In turn, we sought input from a range of stakeholders to a review of SAOS' role and refreshed our strategic objectives. As a specialist knowledge organisation, our priority is to identify and nurture the knowledge and skills that will meet our members' and the industry's needs as their futures are increasingly shaped through co-operation and collaboration.

"Our co-ops committed to evolving their services to help farmers adapt to new technology and markets"

SAOS' Purpose and Beliefs, Values, and SAOS' Role

Purpose and Beliefs

The purpose of SAOS is to ensure that Scotland's farming, food and drink businesses benefit from the commercial advantages that are achieved through co-operation and collaboration, enabling them to contribute to the success of Scotland's food and drink industry and its rural economy.

We believe that Scotland's farmers and food businesses can preserve their independence and grow by co-operating to secure gains that are not available when acting independently of each other. Collaboration within food and drink supply chains generates additional value for all participants by developing transparency and trust and reducing uncertainty and risk.

Values

SAOS' values are co-operative values of self-help, self-responsibility, democracy, equitability, transparency, openness, learning and concern for community. SAOS works for the benefit of farmers, the food and drink industry and rural Scotland, and strives to be a source of innovation for them. All of our resources are applied to delivering our purpose. SAOS is prohibited by its Rules from distributing any profits to members.

SAOS engages and harnesses the uniqueness, talents, beliefs, capabilities and ways of working of the people who work for our organisation. We provide a culture where people are valued and respected, and contribute their best work. We recognise and respect that every one of our staff and our associates are exceptional with individual differences and talents that enhance the unique values of SAOS.

Towards 2025

Towards 2025, the opportunities for increasing the output and value of our farming, food and drink industry are substantial. Leading edge knowledge and technologies are more affordable and available than ever, and accessing markets and consumers who value the special provenance and integrity of Scotland's products is feasible, wherever they may be. Consequently, Scotland has adopted ambitious targets in response to growing global demand for quality food and drink.

The opportunities are greater than ever, but so are the challenges and demands which must be overcome or managed within an extremely competitive market. Volatility, uncertainty, complexity and ambiguity emanating from a myriad of sources feature and impact on all parts of farming, food and drink supply chains - and at an accelerating pace. This means that better management of business resources, risks and the need for greater resilience must be accommodated with the requirement for ambition, innovation, investment and entrepreneurialism.

As Scotland's farming, food and drink industry looks to co-operation and collaboration to exploit ever greater opportunities, along with the spectrum of uncertainties, the demands and expectations on SAOS increase.

SAOS' Role

SAOS' role is described by stakeholders as "helping to keep us one step ahead". To meet this expectation in tomorrow's business environment, SAOS adopts a leadership role in identifying opportunities for new co-operation and collaboration. We research and develop strategies that deliver the potential for growth in output and value, and which also take into account the complexity and risk in implementation. To enable this, we invest in our people, our key resource, so that we increase our knowledge and deepen our specialisms and skills in innovation and change management, delivered through co-operation and collaboration. We seek to achieve synergy and connection across all our areas of expertise in collaboration with many partner organisations and associates.

Strategic Objectives

1. Industry Co-operation and Collaboration

Amongst Farmers

We will enable farmer co-operation and co-ops to be pre-eminent in optimising farmers' market opportunities and access by acting as initiators of innovation in farm production and supply chains. Their effectiveness will create better connection with, and be essential in, the growth of Scotland's food and drink industry, and be a determining factor in attracting new investment in food and drink processing.

Within the Supply Chain

We will generate horizontal and vertical collaboration amongst businesses and within supply chains so that it becomes a mainstream strategy of Scotland's farming, food and drink industry. Increasing ambition and transparency will generate growth and value.

2. Resources

In-House Talents

Our team will consist of talented, motivated, committed individuals who are highly effective and highly regarded in meeting industry needs and in implementing SAOS' objectives and strategies, whilst at the same time exemplifying and practising SAOS' co-operative values.

Working With Others

We will create collaborations that enable us to deliver our projects and initiatives, and in so doing exemplify successful partnership and demonstrate good practice in relationships and participation in the industry.

Finance

We will secure the resources and roles that will enable us to deliver SAOS' strategic objectives. The financial resources generated by SAOS will be optimised by continuously strengthening our contribution towards the industry's success. We will work to generate multiple income streams including delivery of profitable SAOS services, and by securing appropriate work outside Scotland.

3. Governance of SAOS

We will enable full participation by our members in the governance of SAOS, in accordance with our Council and Board Governance Charter, and compliance with the best practice principles contained in the SAOS and Co-operatives UK Code of Governance for Agricultural Co-operatives. We will empower members to exercise their roles, responsibilities and control rights.

Activity Overview 2015

Industry Co-operation and Collaboration

Our work with farmers and co-ops, amongst food and drink companies and supply chains, and in sectoral initiatives, is all inter-complementary, contributing towards achievement of SAOS' strategic objectives and those of the Scottish Government and Scotland Food & Drink. We draw on our global knowledge networks to assist us in identifying new solutions to apply in Scotland.

A



Amongst Farmers

The livestock farming sectors were the focus of several development projects in the year. We worked with the Milk Suppliers Association in evolving its role and relationships, and in securing member support to pursue recognition as Scotland's first EU Dairy PO. We were consulted about the governance review undertaken by First Milk and provided information on alternative co-op governance structures. We were consulted on changes to First Milk's Rules to introduce the proposed new Board and Council. We participated in and supported a working group formed in Kintyre concerned with the future of the Campbeltown Creamery. We assisted the work of the Dairy Hub.

A drive to reverse a decline in the beef herd in recent years culminated in the announcement of the Beef 2020 scheme, a multi-faceted programme of support for improvement activities across the supply chain. We participated in the Beef 2020 Working Group and in the Implementation Group, and we are working on elements of the programme concerned with the supply chain and data collection. We assisted ANM Group in its research investigating additional assistance to its members to help support beef production, and to prepare proposals. We completed work on livestock system 'blueprints' for QMS and held farmer workshops. We are working with Farm Stock Scotland on supply chain development action. The Island Abattoirs project which we manage made good progress in the year. We were requested by Shetlands Livestock Marketing Group to assist it to evaluate development opportunities. We assisted Scotlean Pigs and Scottish Pig Producers in development strategies of their co-ops and inter-co-op-collaboration. We facilitated a pigs monitor farm.

Co-operation and innovation in production, harvesting, quality control and marketing of cereals, seed potatoes, vegetables, daffodil bulbs and other crops is strong, and

co-ops are continuing to expand and grow. We assisted co-ops active in all these crops with aspects of strategy development and innovation. Our work with machinery and labour rings continues to assist their expansion and diversification, alongside their established role enabling farmer members to improve resource utilisation. We continued to support Ringlink in its innovative and successful programme for interns to gain knowledge and work experience. The opportunities of precision farming developments are of interest to co-ops. We are encouraging them to evaluate the opportunity to be active providers and interpreters of data to enable their members to be most efficient, market responsive and environmentally sensitive. We facilitated the Fife arable monitor farm. In respect of farm woodlands, we continued the development of co-op Scottish Farm Carbon, which has attained an ISO accredited standard for its processes on woodland carbon certification, and will move to step up member recruitment. We continued to participate in the development of the Argyll Small Woodlands co-op.

In farm supplies, pooling the buying needs of farmers to establish favourable prices and terms is more important than ever. Scotland is fortunate in being the base of federal United Farmers, which aggregates and negotiates terms annually for more than £100 million of farm inputs, on behalf of 24 co-ops across the UK. We are working on business development strategy with United Farmers, seeking growth through further opportunities for deeper collaboration across the members. We worked to assist UF member Co-Chomunn an lochdair in South Uist in appraising its development options in this remote location. Other co-ops active and important in this activity in Scotland include ACT (Agricultural Central Trading) and the machinery rings. The Rings negotiate on a range of products from tractors, fuels and utilities, to mobile phones. Rapid change in the farm supplies business continues, driven by commodity price volatility, fluctuating currency values, new communication technologies, and consolidation of businesses.

Our Next Generation team established arrangements with SRUC, under the terms of which, SAOS provides lectures to students on campus about farmer co-operation and co-operatives, as well as access to co-op managers, visits and potential work experience and career openings. In parallel, we have encouraged and assisted some SAOS members to establish next generation programmes amongst their members. Our Next Generation team assisted the Scottish Association of Young Farmers Clubs by facilitating a future visioning workshop at their member conference.

B

In the Supply Chain

We manage delivery of the Market Driven Supply Chain project for Scottish Enterprise. Clients have covered a wide range of sectors: beef, lamb, dairy products, poultry, seafood, shellfish, bakers, brewers, distillers, herbs, berries, and others. By the end of 2015, 25 projects had been supported and assisted either targeting whole chains from primary producer to end market; or focussing on one particular link or relationship in the chain; or developing new collaborations amongst groups of companies to share costs or achieve scale advantages in the market. Demand for support under MDSC is strong and there is potential for as much as £50-60 million value gain by the project conclusion in 2017. MDSC unlocks some of the biggest and most lucrative market opportunities for the Scottish food and drink sector, and has developed 12 collaborative groups. Through a transformational and collaborative approach, it supports and encourages the development of effective supply chains that work seamlessly in delivering what the market wants and adding value throughout the chain.

We continued as delivery partner in the Scottish Government's Think Local project partnership. More than 300 businesses each year benefit in some way from assistance provided by Think Local, and 250 have received grants from the linked Community Food Fund. Micro businesses, food trails, new networks and new collaborative groups, farm shops, protected food names and food events have all been assisted. When the project concluded in March 2016, the Scottish Government was preparing to tender for a successor project. We also deliver Sourcing for Growth for the Scottish Government, which concentrates on business to business opportunities in Scottish supply chains and amongst Scottish food and drink manufacturers. This project complements both MDSC and Think Local and, on its conclusion, we expect that it will be accommodated within a Think Local successor project. Fifty companies have established new trading relationships and nine new collaborations amongst food companies are operating.

Through a transformational and collaborative approach, it supports and encourages the development of effective supply chains that work seamlessly in delivering what the market wants and adding value throughout the chain.

Our role in delivering the Food and Health Innovation Service was to provide an interface between food and drink manufacturers and Scotland's globally respected research institutes. The project concluded in December having engaged with 500 companies, and having produced 35 case studies of successful research driven innovation. Scottish Enterprise is planning a successor project.

Scotland Food & Drink



Scotland Food & Drink is our key strategic partner in supply chain work, and all our activities are aligned with the industry's strategic priorities and targets. We participated in the Executive Group, shared a common Board director, and contributed to various sector working groups and initiatives. We provided support to a working group convened in response to an invitation from the Cabinet Secretary to identify a range of options for 'Deeper Collaboration' to accelerate industry growth.

C

Sectoral Initiatives

We delivered or participated in several strategic development initiatives in 2015. The most significant were: ScotEID (see below), Beef 2020, SF&D Deeper Collaboration, the Dairy Growth Board, the Dairy Hub, Dairy Centre of Excellence research, Facing the Future – the Land Based Sector in the North East, Access to Credit for Farming KTP Research, Argyll and Bute Agricultural Forum.

ScotEID

On behalf of a joint Scottish Government/Industry Working Group, SAOS continued to co-ordinate research and the development of data systems that record movements and tracing of sheep, pigs and cattle through supply chains, including the feasibility of electronic identification (EID). ScotEID's Huntly office acts as a point of contact for users of the ScotEID database, containing livestock records. The database has various user interfaces and links to other databases. Importantly, control of the data is held in common by those providing the data and by users requiring access to the data.

As the research continued through the year, extending to cattle and horses, the potential for applications for data to realise wider benefits is beginning to emerge. Bovine Viral Diarrhoea (BVD), Porcine Epidemic Diarrhoea (PED) and integrity validating for QMS are all early examples. Exploring and realising such potential will require further technical work but also attention to protocols for the sharing, control, processing and protection of data. Dialogue with all stakeholders, to agree legitimate uses of data, will continue to develop as Phase 5 of the research proceeds.

Activity Overview 2015

Membership and Governance

Governance of SAOS

A report on the governance of SAOS is presented in the accounts pages.

Knowledge Transfer and Communications

Improving awareness and understanding of co-operation and collaboration helps to stimulate new developments and growth. We published quarterly Update newsletters disseminating learning from our work and news of significant co-op developments, and we published information and news inserts in the NFUS Farming Leader. We maintained a strong presence on social media and added to the SAOS Co-op Shorts video library of co-op case studies and interviews. Our annual conference dealt with the topic of co-operation "shaping future agriculture". In 2016, we are researching levels of farmer participation in co-operation and collaboration, updating the findings of a 2009 survey.

Training in Governance Best Practice and Co-op Knowledge

We continued to deliver knowledge transfer and learning designed for Directors, Managers, Co-op Secretaries, and Future Leaders. We also facilitated forums of Chairmen, Chief Executives, and Future Leaders in co-op businesses, to assist them to understand the distinct features of co-op business and related best practices.

The following training events were held in the year:

- Co-op Secretaries briefing and workshop
- Director Development: People Management
- Director Development: Collaborative Supply Chains
- Director Development: Co-op Finance
- Co-op Management in Practice

Governance Standards

We promoted and provided advice regarding governance enquiries stimulated by the UK Governance Code for Agricultural Co-operatives which we published in partnership with Co-operatives UK. We are inviting co-ops to make a public statement of commitment to the code. Compliance with the code will provide assurance to current and prospective members, directors, managers and other stakeholders that sound governance is operating. We responded to requests for advice on dealing with practical issues encountered by farmer directors as they discharged their responsibilities.

SCOTLAND

OF FOOD & DRINK

Scotland's food and drink story has been one of growth and success over the last few years. The Scotland Food & Drink industry strategy has laid the foundation for our efforts since 2007. It was developed and driven by our partners across the industry and public sector, with SAOS playing a central and critical role. However, with work under way on a new strategy - forging a path to 2030 - it is time to reflect on success, but also on the ongoing challenges.

Perhaps nowhere has the challenge been more stark in the last year than in our farming communities. Farming, and counterparts in the fishing sector, are the foundation of so much of the £14 billion Scottish food and drink industry. Yet so many sectors of agriculture are under huge economic pressure. Celebrating unprecedented growth in the value of our food and drink industry means little to many farmers who feel disconnected from this success.

Collaboration has been one of Scotland's defining characteristics over the last few years. Our country is now recognised internationally for how different sectors of food and drink work together, how industry and government can work jointly and how a national identity for food and drink can be forged. Can we make the next ten years a story of supply chain collaboration? From farm to fork, sea to supermarket shelf, can we create a new generation of collaborative, profitable and trusting supply chains?

The Scotland Food & Drink Partnership is well established, bringing together industry bodies including SAOS and NFUS. It is time to ask searching questions of ourselves. Manufacturers, retailers and catering companies in the UK will need to consider how they engage with their suppliers. But so too farming must challenge itself and it must change. The same models will deliver the same results, so we need to think about new means of co-operation and collaboration with a crisp focus on what the market wants, not what we want to supply it. SAOS' role will be integral to success, with an expertise in collaborative supply chain development and co-operation at the farmgate that has never been more important.



"SAOS' role will be integral to success"

Primary production, whether on the land or around our shores, is central to Scotland's reputation as a Land of Food and Drink and our provenance story. I am unapologetic about being optimistic and ambitious for the opportunities ahead, both in domestic and international markets. Never have we had a stronger platform in brand and collaboration. However, it will be a development in supply chain collaboration and innovation that will determine how many of these opportunities Scotland will unlock.

James Withers

Chief Executive, Scotland Food & Drink

Breakdown of Activity in 2015

The chart provides an analysis of our team's deployment in 2015, drawing on hours devoted to specific projects and related income. As some activities could be attributed to more than one classification, the analysis should be regarded as approximate only. The chart indicates a diverse range of complementary activities consistent with SAOS' strategic objectives.



Our Commitment to Members, Partners and Clients

The SAOS team comprises specialist facilitators and project managers. We provide expert advice and assistance to agricultural co-operatives. We manage and deliver multi-partner collaboration projects for a wide range of clients. We accept a high degree of responsibility for delivering the following:

- Thought leadership and access to knowledge
- Common goals and united commitment amongst project partners or co-op members
- Ambition and leadership amongst project partners, co-op members and directors, and a sense of responsibility for the future
- Open channels of communication that engender trust, transparency and integrity
- Good practice in governance of partnership projects and co-ops, and professional management
- Active participation in decision making consistent with constitutional or contractual rights
- Successful outcomes that achieve project objectives and satisfy co-op members' needs

As an Investor in People, we are committed to supporting staff, through experiential and formal learning, to acquire the skills that enable them to realise their full potential.

Meet the staff

Head Office



James Graham – Chief Executive
T: 0131 472 4100
E: james.graham@saos.coop



Jennifer Grant – Communications and PR Manager
T: 0131 472 4104
E: jennifer.grant@saos.coop



Graeme Johnston – Finance Manager
T: 0131 472 4102
E: graeme.johnston@saos.coop



Leanne Paveling – Finance Assistant
T: 0131 472 4105
E: leanne.paveling@saos.coop

Projects Team



Bob Yuill – Deputy Chief Executive
T: 01466 700203
E: bob.yuill@saos.coop



Alan Stevenson – Supply Chain Development Director
T: 0141 563 1112
E: alan.stevenson@saos.coop



Jim Booth – Head of Co-operative Development
T: 01651 843607
E: jim.booth@saos.coop



Hamish Walls – Marketing Specialist
T: 01896 820291
E: hamish.walls@saos.coop



Douglas Watson – Project Manager
T: 07831 138626
E: douglas.watson@saos.coop



Rona Sutherland – Supply Chain Development Manager
T: 07855 790749
E: rona.sutherland@saos.coop



George Noble – Project Manager
T: 07894 414512
E: george.noble@saos.coop



Fergus Younger – Project Manager/Development Manager for the Argyll & Bute Agricultural Forum
T: 07771 966649
E: fergus.younger@saos.coop



Stephen Young – Project Manager
T: 07502 339613
E: stephen.young@saos.coop



Emma Patterson Taylor – Project Manager
T: 07502 339307
E: emma.patterson@saos.coop



Anna Robertson – Project Manager
T: 07741 314425
E: anna.robertson@saos.coop



Maximiliano Lorenzi – KTP Associate
T: 0131 472 4100
E: maximiliano.lorenzi@saos.coop

ScotEID Team



ScotEID Information Centre

T: 01466 794323
E: help@scoteid.com

From left to right: Vicky Gardiner, Karen Barclay, Hilary Gordon, Josie Forth, Pamela Parkin, Sam Winn and Margot Robertson. Missing from the photo are Karen Law, Emma Moore and Melissa Irvine.

Financial Statements

Year Ended 31st December 2015

Scottish Agricultural Organisation Society Limited

Board of Directors at 31st December 2015

Mr George Lawrie, Chairman *+	Scottish Agronomy	
Mr Mark Clark, Vice Chairman *+	Grampian Growers	
Mr Gareth Baird	Scott Country Potatoes	
Mr Andrew Peddie	Tay Forth Machinery Ring	
Mr John Hutcheson *	Grainco Scotland	
Mr David Mitchell	East of Scotland Farmers	
Mr Hugh Parker	First Milk	
Mr Alan Hardie, Senior Independent Director *	Patterson Arran	
Ms Nina Clancy, Independent Director	RSABI	co-opted to the Board - May 2015
Mr James Graham, Chief Executive +	SAOS	

* indicates membership of Audit Committee

+ indicates member of Personnel and Remuneration Committee

SAOS Council consists of the Board of Directors and the following members

Mr David Pate	Ringlink (Scotland) Ltd	
Mr Robert Yuill	SAOS	
Mr James Withers	Scotland Food & Drink	
Mr Michael Bayne	Borders Machinery Ring	
Mr Ian Watson	Farm Stock (Scotland) Ltd	
Mr Patrick Stephen	Scottish Pig Producers Ltd	
Mr 'Uel Morton	QMS	
Mr Richard McMinn	Tarff Valley Ltd	
Mr Scott Walker	NFUS	
Mr Stephen Cameron	Scottish Shellfish Marketing Group Ltd	elected to Council - May 2015 after 1 year co-option
Mr Jonathan Robinson	United Farmers	elected to Council - May 2015 after 1 year co-option
Mr Richard Butterworth	Scotlean Pigs Ltd	
Mr Angus MacFadyen	Argyll Hill Lamb	
Mrs Penny Montgomery	SAYFC	
Mr Andrew Faichney	East of Scotland Growers Ltd	co-opted to Council - May 2015
Mr Rory Christie	Milk Suppliers Association	co-opted to Council - May 2015

Council who also served during the year

Mr John Scott, MSP	retired from Council May 2015
Mr John Gordon	retired from Council May 2015

Company Secretary

Mr James Graham

Registered Office

Rural Centre
West Mains
Ingliston
Newbridge, EH28 8NZ

Bankers

Royal Bank of Scotland
Edinburgh Blenheim Place Branch
2 Blenheim Place
Edinburgh, EH7 5JH

Solicitors

Dundas & Wilson CS
Saltire Court
20 Castle Terrace
Edinburgh, EH1 2EN

Auditors

JRW
19 Buccleuch Street
Hawick
Roxburghshire, TD9 0HL

Report of the Directors

STATEMENT OF CORPORATE GOVERNANCE

SAOS is owned and governed by its members, which are agricultural and rural co-operatives and other businesses that have a co-operative or mutual purpose. The purpose of SAOS and a full list of members can be found in the pages of this Annual Report. Governance takes place via the Council and the Board of Directors. Council is the representative forum of members and other invited key stakeholders including Scotland Food & Drink, NFU Scotland, Quality Meat Scotland and the Scottish Association of Young Farmers' Clubs. The Board of Directors carries the legal responsibilities for governing SAOS, and its members carry the responsibilities in law of directors.

Governance Charter: In 2005 the Members of SAOS adopted a Board and Council Charter which updated and improved governance practices. The Charter provides information on the composition, policies and practices of the Council and the Board of Directors, and defines their respective roles and responsibilities. Council members and directors are expected to comply with the provisions of the Charter. Overseeing compliance is the responsibility of the Chairman and Company Secretary. The Charter also details the roles of the Senior Independent Director and the Chief Executive, and details the terms of reference and limits of authority of Board Committees including the Audit Committee and the Personnel and Remuneration Committee. The Charter stipulates and limits matters which are reserved to the Board. The Board and Council Charter is publically available for reference at any time on our website at <http://www.saos.coop/about-saos/history-and-governance/>.

Member Engagement: Encouraging and enabling the participation of members in the governance and work of SAOS is a priority. Reports that describe member engagement can be found throughout the activity sections of the Annual Report and in the Membership report.

Directors Attendance and Other Interests: In 2015, the Board met on six occasions. Attendance records and other directorships are detailed below.

Notes on Directors Attendance:

George Lawrie was appointed Chairman in May 2015.

Mark Clark was appointed Vice-Chairman in September 2015.

Nina Clancy was co-opted on to the Board in May 2015.

James Graham also serves as Company Secretary with the approval of the Board. Whilst the Board acknowledges that this does not conform with recommended practice, it is satisfied that the secretarial role is carried out competently with full transparency, and that this arrangement is not a constraint to effective governance processes in SAOS.

Directors Fees: were paid in 2015 at the following rates agreed by the AGM:

Chairman: £16,000 (£13,400 2014).

Vice Chairman: £6,667 (£6,600 2014).

Directors: £250 per meeting attended (except the Chief Executive, who is a full time employee).

Audit Committee

The Audit Committee was scheduled to meet in February 2015 but that meeting had to be cancelled and the business of that meeting was then incorporated into the scheduled February Board Meeting.

Strategy Review and Financial Budget: The Board receives in-depth verbal and written reports from staff members at its meetings through the year, and reviews the appropriateness of strategic objectives, current actions, and resources deployed with reference to identified development needs amongst members, in Scotland's food and drink industry, and in rural Scotland. The Board requires, and when satisfied adopts, a financial budget for each financial year against which progress is monitored through the year via monthly management accounts, audit committee meetings and reports, and in Board discussions.

Names	Meetings Attended (max 6)	Personnel and Remuneration Committee (1)	Other relevant interests and directorships
Gareth Baird	6		Scott Country Potatoes Ltd
Nina Clancy	4		Independent Director
Mark Clark (Vice Chair)	4	1	Grampian Growers Ltd
James Graham	6	1	
Alan Hardie	5		Senior Independent Director
John Hutcheson	6		Grainco Scotland
George Lawrie (Chair)	5	1	Scottish Agronomy Ltd
David Mitchell	3		East of Scotland Farmers
Hugh Parker	5		First Milk
Andrew Peddie	6		Tayforth Machinery Ring Ltd

Report of the Directors

Key Risks: The Board identifies two key risks with the potential to disrupt delivery of strategic objectives; 1) high dependence on experienced key staff, and 2) the continuing availability of public sector funding to support the development of agricultural co-operatives and growth in the food and drink industry. Plans to mitigate the impact on SAOS and its work should either risk materialise are regularly considered.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Law relevant to Co-operative and Community Benefit Societies require the directors to prepare financial statements for each financial year. The directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the society and of the income and expenditure of the society for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on a 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 are sufficient to show and explain the company's transactions and 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 Co-operative and Community Benefit Societies Act 2014. They are also responsible 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 company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The directors confirm that so far as they are aware, there is no relevant audit information of which the Society's auditors are unaware. They have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

AUDITORS

The auditors, JRW, will be proposed for re-appointment at the forthcoming Annual General Meeting.

Independent Auditors' Report to the members

We have audited the financial statements of Scottish Agricultural Organisation Society Limited for the year ended 31st December 2015 which comprise the Income & Expenditure Account, the Balance Sheet, and the related notes 1 to 14. 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 83 of the Co-operative and Community Benefit Societies Act 2014. 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 BOARD OF DIRECTORS AND AUDITORS

As explained more fully in the statement of directors' responsibilities set out on page 3, the society's directors are responsible for the preparation of financial statements and for being satisfied that they 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 (APB'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 Report of the Directors to identify material inconsistencies with the audited financial statements and to identify any information that is apparently incorrect based on or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 31st December 2015 and of its income and expenditure for the year then ended;
- have been prepared in accordance with the Co-operative and Community Benefit Societies Act 2014.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 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 require for our audit.

JRW

Chartered Accountants & Statutory Auditor.
19 Buccleuch Street,
Hawick,
Roxburghshire,
TD9 0HL.

23rd February 2016

Scottish Agricultural Organisation Society Limited

Income and Expenditure Account Year Ended 31st December 2015

		2015	2014
	NOTE	£	£
INCOME			
Scottish Executive Grant		339,727	383,000
Affiliation Fees		52,045	48,384
Consultancy & Other Grants	2	2,036,475	1,716,844
Dividends		7,070	3,496
Interest received		6,867	4,275
Sponsorship		4,000	4,000
Other income		8,950	9,555
Total Income		2,455,134	2,169,554
EXPENDITURE			
Staff	3	1,116,024	1,030,518
Operational	4	1,049,208	897,791
Board and Council	5	29,360	27,632
Representation and Communication		63,851	44,970
Property	6	26,209	21,180
Administration	6	88,707	66,662
		2,373,359	2,088,753
Special Projects	7	35,000	63,458
		2,408,359	2,152,211
NET INCOME BEFORE TAXATION		46,775	17,343
TAXATION	8	8,004	2,004
TRANSFER TO RESERVES	14	38,771	15,339

The Society had no recognised gains or losses other than the net income for the two years ended 31 December 2015.
All operations are continuing.

Balance Sheet

Year Ended 31st December 2015

	NOTE	£	2015 £	2014 £
INVESTMENTS	9		77,515	77,515
CURRENT ASSETS				
Debtors and prepayments	10	249,505		265,059
Cash at bank and in hand		1,719,199		755,192
		1,968,704		1,020,251
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR				
Creditors and accruals	11	1,540,676		630,994
NET CURRENT ASSETS			428,028	389,257
TOTAL ASSETS LESS CURRENT LIABILITIES			505,543	466,772
FINANCED AS FOLLOWS:				
Share Capital	12		1,465	1,465
Revenue Account	13		504,078	465,307
SHAREHOLDERS' FUNDS	14		505,543	466,772

Approved by the Board on 18th February 2016

George Lawrie
CHAIRMAN

Mark Clark
VICE CHAIRMAN

James Graham
SECRETARY

Notes to the Financial Statements

Year Ended 31st December 2015

1. ACCOUNTING POLICIES

Accounting Convention

The financial statements are prepared under the historical cost convention and in accordance with the Co-operative and Community Benefits Societies Act 2014 and United Kingdom Generally Accepted Accounting Practice.

Investments are valued at cost

Leases and Contract Hire

The costs of operating leases are charged to the revenue account in the period to which they relate.

Pension costs

The Society operates a group personal pension scheme, costs of which are charged to the revenue account in the period in which they are incurred.

Consultancy and Grant Income

Income from consultancy work and grants is valued in accordance with Financial Reporting Standard 5 Application Note G "Revenue Recognition". This means that income is recognised according to the stage reached in the contract by reference to the value of work done.

Work in progress, which is included in debtors, is stated at valuation plus attributable profit to the extent that this is reasonably certain after making provisions for contingencies, any losses incurred or foreseen in bringing contracts to completion, and amounts received as progress payments.

Income received in excess of the value of work carried out to date is included in creditors as prepaid income.

2. CONSULTANCY AND OTHER GRANTS

This includes £801,587 income for an EID research pilot. A substantial part of this project is being undertaken by external consultants. The recoverable expenses figure in Note 4 includes £505,878 for this project, which is mainly the cost to the Society of these consultants and related materials.

This project has been funded by an advance payment and there is prepaid income of £1,113,098 disclosed in Note 11.

2015 2014

3. STAFF COSTS

	£	£
Salaries of head office staff and project managers	1,046,940	959,764
Pensions	53,562	49,338
Group Life Cover	8,193	6,808
Training	6,996	14,608
Recruitment	333	0

1,116,024 1,030,518

The average number of employees during the year was as follows:

20 15

4. OPERATIONAL EXPENSES (Including travel and subsistence)

	£	£
Staff expenses	97,553	87,540
Recoverable expenses	595,406	558,195
Sub-contract consultancy	356,249	252,056

1,049,208 897,791

5. BOARD AND COUNCIL

	£	£
Fees to Chairman and Vice Chairman	22,666	20,000
Board Member Fees	2,900	4,537
Council	3,794	3,095

29,360 27,632

6. NET INCOME BEFORE TAXATION

The net income before taxation is stated after charging:

	£	£
Operating leases (rent of office)	13,902	12,297
Auditors remuneration	2,400	2,400
Computer Equipment including installation	33,377	0

Notes to the Financial Statements

(continued)

	2015	2014
	£	£
7. SPECIAL PROJECTS		
Grant to Scottish Farm Carbon Project	0	40,000
Feasibility Study into Credit Union	20,000	23,458
Research into Levels of Participation into Co-Operation and Co-Ops	15,000	0
	<u>35,000</u>	<u>63,458</u>

	£	£
8. TAXATION		
Corporation tax - current period	7,150	1,935
Corporation tax - prior period	854	69
	<u>8,004</u>	<u>2,004</u>

	£	£
9. INVESTMENTS		
The Scottish Agricultural & Rural Development Centre Limited 71,428 'C' ordinary shares of £1 each fully paid	71,428	71,428
In affiliated societies	6,087	6,087
	<u>77,515</u>	<u>77,515</u>

The holding in The Scottish Agricultural & Rural Development Centre Limited represents 14.28% of the issued share capital of that company.

In the opinion of the Council the shares, which are unquoted, have a market value of £1 per share.

	£	£
10. DEBTORS		
Trade debtors	57,945	23,862
Work in progress	136,995	130,384
Prepayments	11,201	12,421
Accrued Income	39,444	95,147
Other debtors	3,920	3,245
	<u>249,505</u>	<u>265,059</u>

	2015	2014
	£	£
11. CREDITORS		
Trade creditors	18,912	33,333
Accruals	181,210	172,758
Prepaid income	1,294,056	377,794
Corporation Tax	7,151	1,935
VAT	6,853	16,903
Other taxes and social security	32,494	28,271
	<u>1,540,676</u>	<u>630,994</u>

	£	£
12. SHARE CAPITAL		
Shares of £1 and £100 each		
At 1st January 2015	1,465	1,465
Additions	0	0
Cancelled	0	0
	<u>1,465</u>	<u>1,465</u>

At 31st December 2015	<u>1,465</u>	<u>1,465</u>
-----------------------	--------------	--------------

	£	£
13. REVENUE ACCOUNT		
At 1st January 2015	465,307	449,968
Net income for the year	38,771	15,339
	<u>504,078</u>	<u>465,307</u>

At 31st December 2015	<u>504,078</u>	<u>465,307</u>
-----------------------	----------------	----------------

	£	£
14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS		
Shareholders funds at 1st January 2015	466,772	451,433
Net income for the year	38,771	15,339
Shares issued / disposed in year	0	0
	<u>505,543</u>	<u>466,772</u>

At 31st December 2015	<u>505,543</u>	<u>466,772</u>
-----------------------	----------------	----------------

Agricultural Co-op Statistics

UK TOP 50 AGRICULTURAL CO-OPS

Organisation Name	Turnover	Number of Members	Organisation Name	Turnover	Number of Members
Openfield Group Limited	£744m	2693	The Green Pea Company Limited	£15m	230
Fane Valley Co-operative Society Limited	£554m	2020	Fresh Growers Ltd	£14m	
First Milk Limited	£460m		Furness and South Cumberland Supply Association Limited	£14m	843
Arla Foods UK	£454m	1562	Littleton and Badsey Growers Ltd	£14m	
United Dairy Farmers Limited	£421m	1619	North East Grains Limited	£13m	83
Anglia Farmers Limited	£247m	3031	Coastal Grains Marketing Limited	£13m	97
Berry Garden Growers Limited	£213m	59	Hampshire Grain Limited	£12m	104
Fram Farmers Limited	£185m	1126	Torridge Vale Limited	£12m	17
United Oilseed Producers Limited	£165m	2861	WFS Border Limited	£11m	10
ANM Group Limited	£150m	6957	Wiltshire Grain Limited	£10m	152
Woldmarsh Producers Limited	£121m	889	Camgrain Stores Limited	£10m	491
United Farmers Limited	£100m	21	Highland Grain Limited	£10m	89
Ballyrashane Creamery Limited	£81m	232	Wye Fruit Limited	£8m	14
Brandsby Agricultural Trading Association Limited	£78m	4234	Caithness Livestock Breeders Limited	£8m	489
G's Growers Ltd.	£78m		Hilltown Farmers Attested Sales Limited	£8m	168
Scottish Woodlands	£69m		The Asplins Producer Organisation Limited	£7m	12
Scotlean Pigs Limited	£68m	89	Orkney Fishermen's Society Limited	£7m	181
Tarff Valley Limited	£64m	1019	Birsay Farmers Limited	£7m	1002
Yorkshire Farmers Livestock Marketing Limited	£59m	267	Totals	£4.9b	49,446
Scottish Pig Producers Limited	£58m	103			
Long Clawson Dairy Limited	£54m	126			
Speciality Produce Limited	£50m	13			
Clynderwen and Cardiganshire Farmers Limited	£47m	6521			
South Caernarvon Creameries Limited	£31m	111			
South Armagh Farming Enterprises Limited	£22m	3003			
East of Scotland Farmers Limited	£20m	336			
Bedfordshire Growers Limited	£20m	37			
Aspatia Farmers Limited	£18m	818			
Hay and Brecon Farmers Limited	£18m	1122			
Society of Growers of Topfruit Limited	£18m	17			
Weald Granary Limited	£17m	190			
Scottish Shellfish Marketing Group Limited	£16m	19			
South West Lancashire Farmers Limited	£16m	581			
Kent Wool Growers Limited	£15m	3788			

SCOTLAND'S MACHINERY RINGS

Machinery ring	Membership numbers 2015	Throughput 2015 (£ millions)
BMR	915	£5.4m
Tayforth	956	£10.68m
Rural Services Scotland (Perth)	204	£2.1m
South West Machinery Ring	105	£0.65m
Caithness Machinery Ring	176	£0.44m
HBS	1090	£5.7m
Ringlink	2689	£37.4m
Lothian Machinery Ring	265	£2.4m
Orkney Business Ring	312	£1.9m
Total	6,712	£66.67m
Last year	6,682	£72.35m

SAOS Members

More details on www.saos.coop

Aberdeen Grain Storage Ltd

01651 882244
www.aberdeengrain.co.uk

Agricultural Central Trading Ltd

08000 275 276
www.actionfarm.co.uk

Angus Cereals Ltd

08456 077 012
www.anguscereals.co.uk

ANM Group Ltd

01467 623700
www.goanm.co.uk

Argyll Hill Lamb

01852 316220
www.argyllhilllamb.com

Argyll Small Woods

01583 431233

Ayrshire Country Lamb Ltd

01292 560740
www.farmstock.org.uk

Birsay Farmers Ltd

01856 874654

Borders Machinery Ring Ltd

01896 758091
www.ringleader.co.uk

Caitness Machinery Ring Ltd

01847 841310
www.caitnessmachineryring.co.uk

Caledonian Organics Ltd

01557 814656
www.caledonianorganics.co.uk

Co Chomunn An Lochdair

01870 610205
www.carnanstores.co.uk

Clydeside Trading Society Ltd

01555 894151
www.clydesidetts.com

Dalkeith Farmers Ltd

01875 820810

DWP Harvesting Ltd

01339 885335
www.dwpharvesting.co.uk

East Lothian Potatoes Ltd

01361 883488

East of Scotland Farmers Ltd

01828 627264
www.eosf.co.uk

East of Scotland Growers Ltd

01334 654047
www.eastofscotlandgrowers.co.uk

Farm Stock (Scotland) Ltd

01750 723366
www.farmstock.org.uk

First Milk

0141 887 6111
www.firstmilk.co.uk

Galloway Lamb Ltd

01899 221419
www.farmstock.org.uk

Girvan Early Growers Ltd

01465 715328

Grainco Scotland Ltd

01888 564190
www.grainco.co.uk

Grampian Growers Ltd

01674 830555
www.grampiangrowers.co.uk

HBS Ring Ltd

01463 811603
www.hbsring.co.uk

Highland Fruit Stocks Ltd

01887 829899

Highland Glen Producers Ltd

01887 820666

Highland Grain Ltd

01463 811435
www.highlandgrain.co.uk

Lewis Crofters Ltd

01851 702350
www.lewiscrofters.co.uk

Lothian Lamb Ltd

01501 823151
www.farmstock.org.uk

Lothian Machinery Ring Ltd

0131 339 8730
www.lothianmachineryring.co.uk

Milk Suppliers Association

01988 700240

Montrose Potatoes

(Growers) Ltd
01738 633571

North Highland Products Ltd

0845 838 0488
www.mey-selections.com

North Uist & Benbecula Livestock

Marketing
01876 500329

Openfield Agriculture Ltd

01476 862730
www.openfield.co.uk

Orkney Auction Mart Ltd

01856 872520
www.orkneymart.co.uk

Orkney Business Ring Ltd

01856 879080
www.orkneybusinessring.co.uk

Ringlink (Scotland) Ltd

01561 377790
www.ringlinkscotland.co.uk

Quality Pork Ltd

07469 855370

Rural Services Scotland Ltd

01738 550101
www.scotlandfarmer.co.uk

Saltire Seed Ltd

01358 742000
www.saltire-seed.co.uk

Scotlean Pigs Ltd

01228 541566
www.scotlean.co.uk

Scott Country Lamb Ltd

01835 840283
www.farmstock.org.uk

Scott Country Potatoes Ltd

01573 225125

Scottish Agronomy Ltd

01577 862759
www.scottishagronomy.co.uk

Scottish Bee Services Ltd

01828 640821

Scottish Borders Produce Ltd

01890 751663
www.scottishbordersproduce.com

Scottish Farm Carbon

0300 456 2209

Scottish Organic Milk

Producers Ltd
0131 539 9728
www.scottishorganicmilk.com

Scottish Organic Producers

Association Ltd
0131 335 6606
www.sopa.org.uk

Scottish Pig Producers Ltd

01466 792284
www.scottishpigs.coop

Scottish Shellfish Marketing

Group Ltd
01698 844221
www.scottishshellfish.co.uk

Shetland Abattoir

Co-operative Ltd
01595 696300

Shetland Livestock Marketing

Group Ltd
01595 696300
www.slmg.co.uk

South West Machinery Ring Ltd

01557 820370
www.swmr.co.uk

Tarff Valley Ltd

01557 820247
www.tarffvalley.co.uk

Tay Forth Machinery Ring Ltd

01577 830616
www.tayforth.co.uk

United Farmers Ltd

0131 334 3111
www.unitedfarmers.co.uk

United Oilseeds Marketing Ltd

01380 729200
www.unitedoilseeds.co.uk

Membership of SAOS is open to all agricultural co-operative businesses. There are three classes of membership:

Governance Plus

- Incorporates delivery of governance services into the annual membership fee
- SAOS and the member pre-schedule when governance services are delivered
- Access to all SAOS knowledge, advice, development and promotion services
- Fixed annual membership fee

Development Plus

- Scheduled twice-yearly meeting (or as agreed) to discuss co-op development needs
- Tailoring of SAOS development action to support co-op development
- Access to all SAOS knowledge, advice, development and promotion services
- Membership fee related to throughput. Project services on commissioned basis

Group Membership

- Collective membership of SAOS by a group of co-ops in special circumstances
- Requests for Group Membership subject to SAOS Board approval
- Scheduled twice-yearly meeting (or as agreed) to discuss group development issues
- Access to all SAOS knowledge, advice, development and promotion services

For full details contact james.graham@saos.coop or call 0131 472 4100

SAOS Limited

Rural Centre
West Mains

Ingliston
Newbridge EH28 8NZ

Tel: 0131 472 4100
Fax: 0131 472 4101

E-mail: saos@saos.coop
Web: www.saos.coop



Family farmers - together we grow

Find out more on **www.saos.coop**