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**To: Secretaries of Full Member Clubs, Associate Member Clubs
Secretaries of Associate Bodies
Members of Scottish Rugby Board and Scottish Rugby Council
Past Presidents**

8 August 2007

Dear Sir

ANNUAL REPORT AND FINANCIAL STATEMENTS 2007

In advance of our Financial General Meeting on 25 August 2007, Scottish Rugby has today issued its 2006-07 Annual Report to member clubs and other interested stakeholders. We would encourage you and your members to read the Report, which is also available online at www.scottishrugby.org

The Report clearly illustrates that good progress is being made in many areas and we believe it may be helpful at this stage to highlight a few of the key achievements :-

Finance : Transition Well Underway

At the heart of all we are trying to achieve is the pressing need to restore the financial platform underlying Scottish Rugby. At the Union's 2006 Financial General Meeting we outlined the core steps being taken to effect change and this process is now well underway. Here are some of the highlights :

- We have achieved our financial targets for the year;
- We have introduced new, simplified and more modern financial systems;
- Our bank debt at the end of the financial year was down £3.6m on last year, with the average during the course of the year down by £1.6m This resulted in a lower interest charge and encouraged our bankers to reduce their lending margin;
- We have achieved a small financial surplus, albeit excluding exceptional items.

The exceptional item within the accounts – which is in respect of the closure of the Border Reivers - will no doubt result in much debate, and at £1.76m rightly so. This relates to the potential costs of the 15 years remaining of the 20 year rental agreement for Netherdale, together with termination, redundancy and other associated costs. Whilst the number is high it is, of course, a one-off event and less than the cost of running the Border Reivers for a single year. It is also possible that a significant part of the cost will never be called upon, as we work with Gala RFC to minimise the proportion of the provision relating to 15 years of maintenance costs for the Netherdale high performance pitch. Accounting convention requires full provision at this time – time will tell if the full provision is actually needed.

Looking forward, we are projecting a small surplus in 2007-08, which is in marked contrast to the last time a Rugby World Cup disrupted our normal pattern of Autumn Internationals, which results in fewer matches at Murrayfield every four years. Overall, our finances are now well under control – allowing us to move forward with confidence.

Business and Commercial : Partnerships Old and New

On the commercial front, whilst we were disappointed to learn that The Famous Grouse had chosen to withdraw from the Scotland team sponsorship we were pleased that they have chosen to remain within the family of Scottish Rugby sponsors as our 'spirit partner'. We thank them for their wonderful contribution to Scottish Rugby since 1990. We were also pleased to welcome a range of new quality brands to Scottish Rugby this year including : Scottish Hydro Electric, Baxters, Emirates Airlines. Martin Currie and John Lewis. We look forward to working with them and our existing partners over the coming years.

We also welcomed the support of the Scottish Ministers over two key matters :-

- In March 2007 the Scottish Ministers announced their support for the Flood Prevention Scheme proposed for the Murrayfield area by Scottish Rugby. This should in future ensure that our national stadium is protected from floods such as those which occurred in 2000, 1990 and 1984, and also enable us to take forward our development aspirations;
- Following the election in May 2007 the new Scottish Government proposed a relaxation of the existing legislation which prevented the sale of alcohol at Murrayfield internationals. In return we have undertaken to work with the appropriate authorities to ensure that this change is implemented in a controlled and positive manner.

These factors, combined with the growing sense that Scottish Rugby is moving in a new direction have given an added impetus to our commercial programme, which will further aid our financial recovery over the coming year.

Community Rugby : A Year of Growth

A core objective of our strategy for Scottish Rugby has been to grow the game. The health of our game depends on growing the numbers of those playing, coaching and refereeing, together with the associated volunteers who, by their considerable efforts, tie all of the various strands together to make our club system work. Consequently, the past year has seen :-

- A welcome increase in the number of member clubs, up almost 5% year on year - with new clubs in locations up and down the country such as Alford, Atholl, Arrochar and Buckie;
- An impressive increase of 19% of youngsters playing the game and a 7% increase in adult players;
- A record number of entries in the Schools Cup at both Under 15 and Under 18 levels, and in the national Schools Sevens competition.

This significant growth in our game is a tribute to the burgeoning relationship between you the clubs and our Community team led by Colin Thomson. We now have in place 41 community partnerships involving some 60 clubs, providing structured rugby development throughout the country. In line with our growth targets, we plan to continue the roll out of this programme in the new season, providing more important support for the grassroots of our game.

Performance Development : Strength for the Future

Hand in hand with our strategy to grow the grassroots of our game there is a new, structured approach to looking after those young players with the potential to go on and represent Scotland. It is clear that Scotland continues to produce talented rugby players – perhaps more talented youngsters than ever before. This season our Under 18 international team beat Wales for the first time in a decade, and beat French Schools for the first time in 33 years. Our Under 17s defeated France, England and Wales.

In many respects our challenge has been to capitalise on the talent available. Today's age grade players will form the core of the Scotland team going into the 2011 and 2015 Rugby World Cups. For this reason, a new National Academy has now been put in place to nurture their talents and help their

transition into professional rugby and the full Scotland team in due course. We expect a bright future for these young men.

Professional Rugby : Step Change Required

There can be no hiding from the fact that the 2006-07 season was one of disappointment for our professional teams and there are challenges ahead to achieve greater progress this coming season in the Magners League and Heineken Cup. This has been a recurrent theme over recent years and action was required and taken.

Looking at professional rugby, it is clear that our competitors are better resourced, have greater strength in depth and can better withstand the demands being placed upon them by both professional and international rugby. In order to compete, Scottish teams must be brought nearer to financial parity with their opponents and, in the absence of significant new funding, this effectively requires us to concentrate available funds. The inescapable conclusion, agreed unanimously by both your Board and Council, was that one of the existing teams would have to close. This was an extremely difficult decision to take – but one required for the future of our game.

The decision to close the Border Reivers proved to be something of watershed in our relationship with Edinburgh Rugby. As our President, George Jack, explained in his recent letter, considerable efforts have been made to assist Edinburgh to manage the challenges of professional rugby and it is regrettable that these efforts have not been successful. We remain committed to the principle of there being at least two strong Scottish professional teams and this will be an area for focus next season.

Scotland : Challenges and Opportunities

Disrupted by injuries, the national team struggled to build upon the promise of the previous season. However, a new generation of talented young players has begun to emerge and has broken through into the team for the first time. The experience they have gained can only assist them for the future.

Looking forward we are about to compete in two key Bank of Scotland Corporate August Tests (Ireland on 11 August and South Africa on 25 August) prior to entering the 2007 Rugby World Cup in September. After a full summer of training under Frank Hadden and his coaches, the squad is in excellent heart and by all accounts better conditioned than any previous Scottish team.

We enter the new season with hope – and a growing sense of expectation – and would urge you and all of your members to get behind the players and the sport for the forthcoming season.

We look forward to seeing your delegates at Murrayfield for the Financial General Meeting on 25 August 2007

Yours faithfully

Allan Munro
Chairman

Gordon McKie
Chief Executive