
SCOTTISH ENTERPRISE

ANNUAL REPORT AND ACCOUNTS

31 March 2009

Enterprise and New Towns (Scotland) Act 1990

Annual Report and Accounts of Scottish Enterprise prepared pursuant to section 30(1) of the Enterprise and New Towns (Scotland) Act 1990: together with the Independent Auditors' Report to the Members of Scottish Enterprise, the Auditor General for Scotland and the Scottish Parliament.

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MANAGEMENT COMMENTARY

for the year ended 31 March 2009

BUSINESS OBJECTIVES AND STRATEGY

Scottish Enterprise was established under the Enterprise and New Towns (Scotland) Act 1990 for the purposes of furthering the development of Scotland's economy, enhancing skills and establishing self-employment, promoting Scotland's industrial efficiency and international competitiveness and furthering the improvement of the environment.

Scottish Enterprise's overall objective is to make a significant contribution to achieving the Scottish Government's purpose of increasing Scotland's sustainable economic growth.

In September 2007, the Cabinet Secretary for Finance and Sustainable Growth announced major reforms to Scottish Enterprise, following a Review of the Enterprise Networks. This included the transfer of Careers Scotland and lead responsibility for skills activities to Skills Development Scotland and the transfer of Business Gateway and local regeneration activities to local authorities. In addition, these reforms included the cessation of operational delivery through Local Enterprise Companies and a radical restructure of the organisation led to a substantial reduction in headcount and costs. These changes took place in the run up to 1 April 2008 and since then, Scottish Enterprise has operated as a single organisation, retaining local offices to ensure it remains close to its customers, and responsive to their needs.

The resulting focus for Scottish Enterprise is now on:

- Supporting high growth businesses and improving the business environment in Scotland
- Industries with the potential to thrive in the global economy
- Infrastructure activity and projects of regional or national importance

In November 2007, the approach to achieving the Scottish Government's purpose was set out in the Government Economic Strategy (GES). The Strategy is the route map for all of the public sector in Scotland to meet the challenge of increasing economic growth, through increasing productivity, participation and population, while ensuring growth is socially and regionally equitable and environmentally sustainable. To meet these challenges, the Strategy identifies five Strategic Priorities:

1. **Learning, Skills and Well-being:** Scottish Enterprise's contribution includes promoting skills utilisation, stimulating demand for skills and attracting and retaining talented individuals in Scotland's key sectors.
2. **Supportive Business Environment:** Scottish Enterprise's contribution includes supporting growth companies, including their access to risk capital, leadership skills and international markets; attracting high value inward investment; supporting business innovation in products, processes and business models and ensuring research and innovation is exploited by businesses in Scotland. This contribution will focus on the demands of Scotland's key sectors.
3. **Infrastructure Development and Place:** Scottish Enterprise's contribution includes addressing the infrastructure needs of the priority industries, in partnership with others in the public sector, and leading key national and regional projects.
4. **Effective Government:** Scottish Enterprise's contribution includes delivering year on year efficiency improvements, developing shared services and increasing leverage from the private sector while enhancing procurement processes.

5. **Equity:** Scottish Enterprise's contribution includes promoting equal opportunities and corporate social responsibility, supporting growth in rural economies, pursuing sustainable economic opportunities in, for example, renewable energy and tourism, and supporting business growth through business resource efficiency and waste minimisation.

CURRENT AND FUTURE DEVELOPMENTS

In pursuit of the Scottish Government's economic growth targets Scottish Enterprise will continue to focus on measures to help increase Scotland's productivity. The GES identifies the need to address Scotland's productivity performance by enhancing enterprise, innovation, investment and skills. Scottish Enterprise is best placed to focus on the first three of these, and the Scottish Enterprise Business Plan for 2009/12 is therefore structured around:

- **Enterprise:** responsive and focused enterprise support, helping growth companies and industries to reach their full potential.
- **Innovation:** stimulate innovation to support business growth, including exploiting new products, processes and technologies.
- **Investment:** helping to create the right conditions for growth companies and industries to have access to property, markets and finance to help them grow.

The GES identifies six key sectors which offer the opportunity to strengthen Scotland's areas of international comparative advantage, through achieving critical mass and boosting productivity: Creative Industries, Energy, Financial and Business Services, Food and Drink, Life Sciences, Tourism. Scottish Enterprise will continue to work in partnership with industry groups in these sectors to identify opportunities, address constraints and realise potential. Our business plan identifies the specific sub sectors within these industries on which we shall concentrate.

The importance of technologies that can contribute to the growth of these sectors is also identified. Scottish Enterprise will continue to work with industry to promote the development and exploitation of these technologies across the key sectors. Scotland has other important industries such as aerospace, marine & defence, chemicals, construction, forest industries and textiles. Scottish Enterprise will continue to work with these sectors where there are clear opportunities to sustain or strengthen Scotland's economic growth.

Scottish Enterprise's focus will be on productivity. Increased productivity will also result in more competitive and faster growing businesses in Scotland. These will generate the opportunities to attract and retain population, and create more and higher quality employment – which in turn stimulates the labour market to help raise participation.

Scottish Enterprise's contribution to Scotland's sustainable economic growth will be dependent on the quality of its engagement with business. Scottish Enterprise will continue to engage with business across Scotland and internationally, with a particular focus in the coming year on working with Industry Advisory Groups in the key sectors and business led Regional Advisory Boards across the country.

To complement this activity, and to achieve the aspirations set out in the GES, Scottish Enterprise will also work closely with our public sector partners - in particular local authorities, Skills Development Scotland, the NHS in Scotland, Scottish universities, the Scottish Funding Council, VisitScotland and Highlands & Islands Enterprise (HIE) - to secure the alignment of strategies and resources across the public sector. In addition, we will continue to play a leading role in the management of our joint venture with the Scottish Government and HIE – Scottish Development International.

The Scottish Enterprise Business Plan for 2009/12 can be found on the website at <http://www.scottish-enterprise.com/>

In relation to 2009/10, Scottish Enterprise will deliver a £319m programme of economic development focused on maximising Scottish Enterprise's impact on increasing Scotland's sustainable economic growth.

FINANCIAL PERFORMANCE

Financial Overview

The results for the year to 31 March 2009 are contained in the attached accounts, prepared in accordance with Section 30(1) of the Enterprise and New Towns (Scotland) Act 1990 and in the form directed by the Scottish Ministers. These accounts show the net expenditure of the Scottish Enterprise Group. The accounting policies explain the basis on which the accounts are prepared.

The main financial objective for Scottish Enterprise is to ensure that the financial outturn for the year is within the Resource Budget allocated by the Scottish Ministers.

The Resource Budget is intended to cover 'cash' costs, being accrued expenditure (capital and revenue) net of in-year income from sources such as European Union funding, and 'non-cash' costs, which include depreciation, a notional cost of capital charge, provisions and write downs.

The 'cash' budget is funded from the grant in aid provision and the application of retained cash reserves. Cash reserves can only be utilised by Scottish Enterprise where Scottish Government approval has been given and a sufficient amount of non-cash provision is available to cover any additional cash expenditure.

The approved Resource Budget for 2008/09, after in year adjustments, amounted to £293m. This comprises grant in aid provision of £257m and a non-cash allocation of £36m, from which £0.5m of cash reserves was accessed and used towards operational activities. The non-cash allocation comprises an initial allocation of £30m, which was supplemented by an additional provision of £6m from the Scottish Government during the year.

Scottish Enterprise successfully achieved its main financial objective for the year. The final net cash outturn was equal to the related Resource Budget allocation. The 'non-cash' outturn was £0.9m (2.5%) under the available allocation. A detailed analysis of the cash outturn is provided later in this section.

The Resource Budget for 2009/10 amounts to £280m, including £250m of grant in aid and a 'non-cash' budget provision of £30m. The grant in aid figure includes £30m for advanced capital expenditure brought forward from 2010/11, to help address the economic downturn.

As noted previously in this report, the Resource Budget is supplemented by income generated and applied against expenditure incurred during the year. For 2009/10 this income is forecast to amount to £69m. In total therefore the Scottish Enterprise Business Plan for 2009/10, including these resources, amounts to £349m (2008: £327m).

Summary of 'Cash' Outturn

Scottish Enterprise's net 'cash' expenditure (excluding non-cash costs) against its funding provision for the year to 31 March 2009 was as follows:

	£000	£000
Operational Delivery Costs		
Enterprise	52,793	
Innovation	76,415	
Investment	<u>90,105</u>	
		219,313
Support Costs		
Customer Facing Staff costs	52,630	
Research & Development costs	4,674	
Premises, information services and other support costs	<u>35,759</u>	
		<u>93,063</u>
		312,376
Less: Income		<u>45,597</u>
		266,779
Funded by		
Grant-in-Aid	257,738	
Utilisation of cash reserves brought forward	476	
Net utilisation of Scottish Co – Investment Funds	<u>8,565</u>	
		<u>266,779</u>
Net 'cash' over / underspend		<u><u>-</u></u>

Cash Balances

Due to the nature of its business and activities, Scottish Enterprise requires to retain cash balances. As at 31 March 2009 these amounted to £102m (2008: £156m). The higher level of cash balances for 2008 related to funds to meet severance costs in early 2009 and a higher level of trade creditors, due to activity levels reducing in 2009. The cash balances are analysed in Note 14 to the accounts.

A significant element of the cash balances, amounting to £48m (2008: £58m), relates to the activities of the Scottish Co-Investment Fund. This balance cannot be applied to fund any business activity other than that relating to the delivery and management of the Fund.

With the exception of transactions relating to the Scottish Co-Investment Fund, cash balances brought forward from one year to the next can only be utilised by Scottish Enterprise where Scottish Government approval has been given and a sufficient amount of non-cash provision is available to cover any additional expenditure.

Income from the European Union

European Union funds amounting to £3m (2008: £16m) were receivable in support of the operations of the Scottish Enterprise Group.

In addition, Scottish Enterprise continued to apply European funding support for the Scottish Co-Investment Fund.

Fixed Assets

During the year to 31 March 2009, expenditure on fixed assets and investments and proceeds from disposal were:

	<i>Expenditure</i>		<i>Disposals</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Tangible assets, including property	16	27	15	11
Investments, including loan repayments	26	21	4	11

Land and Buildings

The Scottish Enterprise Group property portfolio, which includes land, site development and buildings, including buildings under construction, was independently revalued at 31 March 2009 and is included in the accounts at £159m (2008: £207m). This reduction is due to significant revaluation deficits, which are in line with the general depressed state of the property market.

Pension Scheme

Reference is made in Note 26 to the accounts to the operation and performance of the Scottish Enterprise Pension and Life Assurance Scheme. The Remuneration Report contains specific disclosures relating to senior management.

Payment Policy

Throughout the year, Scottish Enterprise was committed to paying its suppliers within 30 days of receipt of agreed and valid invoices, or as provided for under the terms of an agreed contract. As advised by the Scottish Government, in November 2008 Scottish Enterprise implemented a revised payment policy of 10 days for all suppliers. In the year ended 31 March 2009, the Scottish Enterprise Group paid 85% (2008: 97%) of suppliers' invoices within these standards. This performance has reduced as a result of the more challenging payment policy, however, the current average number of days taken to pay valid invoices is just over 10 days.

CORPORATE GOVERNANCE

Codes of Conduct

Scottish Enterprise supports the highest standards of corporate governance and has in place Codes of Conduct both for Board Members and for Staff. In compliance with the Ethical Standards in Public Life etc. (Scotland) Act 2000, Scottish Enterprise's Code of Conduct for Board Members is published on our website, together with the Board Members' Register of Interests.

Scottish Enterprise has a Risk Management Policy which is aligned with the recommendations of the Combined Code on Corporate Governance. Scottish Enterprise also operates an internal control assessment framework to complement its risk management and internal audit arrangements. The framework requires Executive Board members to carry out an annual review of the internal controls within the business units for which they are accountable based on a detailed internal control checklist. The results of this exercise, and other internal control arrangements, are reflected in the Statement on Internal Control. Reference is also made to risk management in the Resources and Risk section of this commentary.

Board Members

The members of the Scottish Enterprise Board are appointed by the Scottish Ministers. With the exception of the Chief Executive, these members do not have contracts of service with Scottish Enterprise. The Board Members who held office during the year, and their respective committee memberships, were as follows:

		Audit	Operations (to 2 Oct 08)	Investment	Performance	Nominations	Remuneration	Urgent Approvals
Crawford Gillies	Chairman (appointed 14 February 2009)							C
Sir John Ward CBE	Chairman (retired 13 February 2009)							C
Jack Perry	Chief Executive			M	M	M	M	M
Ian Crawford	(appointed 1 December 2008)	M		M				
Pat Denzler	(retired 31 July 2008)	M	M			M	M	
Barbara Duffner OBE	(retired 30 November 2008)	M				M	M	
Fred Hallsworth		C			M			M (i)
Douglas Lamb	(retired 31 July 2008)	M				M	M	
Iain Macdonald	(appointed 1 August 2008)			M				
Donald MacRae				M	C			M
Colin McClatchie			M			C	C	
Jim McDonald	(appointed 1 August 2008)			M	M			
Charles Morrison	(retired 30 September 2008)		C					M
Sir Timothy O'Shea				M	M			
Ray Perman				C	M			M
Grahame Smith	(appointed 1 December 2008)	M				M	M	
Graeme Waddell	(appointed 1 August 2008)	M	M			M	M	

C – Chair
M – Member

(i) from 1/10/08

The Board operates a number of Committees to scrutinise certain areas of activity in greater depth and make recommendations to the Board. These include an Audit Committee; a Remuneration

Committee, which is referred to in the Remuneration Report; an Investment Committee which examines the progress of major initiatives; a Nominations Committee, which scrutinises appointments to Scottish Enterprise Boards and the appointment of senior staff; an Urgent Approvals Committee; and a Performance Committee which monitors Scottish economic performance.

An Operations Committee was in place up until 2 October 2008. This committee, which monitored financial operations and in-year performance against priority measures, was disbanded and its role is covered at Board meetings.

Executive Board

The senior management team, known as the Executive Board, is responsible for the day to day management of Scottish Enterprise's activities and operations. The Chief Executive is a member of both the Board and the Executive Board. Executive Board members who held office during the year were as follows:

Jack Perry	Chief Executive
Hugh Hall	Chief Financial Officer
Paul Lewis	MD, Industries & Policy (joined the Executive Board on 1 April 2008)
John Phillips	MD, HR & Corporate Services (left 7 November 2008)
Lena Wilson	Chief Operating Officer & CEO Scottish Development International

Following the departure of John Phillips, his functional responsibilities were reallocated across the remaining Executive Board members.

RESOURCES AND RISKS

Financial

Reference has been made to the financial resources available to Scottish Enterprise in the Financial Performance section of this Commentary.

Employees

Scottish Enterprise recognises the contribution the knowledge, skills, experience and attitudes its people make to the successful delivery of its objectives. In that context, Scottish Enterprise places great emphasis on a culture of reward based on individual and organisational performance, robust management practices and continuous development. As an Investor in People it ensures all staff are clear on their roles and how they play their part in business delivery. Performance and reward strategies ensure Scottish Enterprise motivates its people based on their contribution and these are being continually reviewed and refreshed, within the context of Government guidelines. Leadership and learning is focused on equipping staff with the skills necessary to meet the needs of Scottish Enterprise's customers and improve the performance of the organisation, its management and its leadership. Scottish Enterprise also seeks opportunities to share its learning with partners in the public and private sectors, and provide shared services to other public sector organisations.

Effective employee communications and engagement enhances productivity, reduces absence and improves customer relationships. To support improved employee engagement, Scottish Enterprise is committed to open, timely and effective employee communications. Regular cascade briefings, all staff e-mails, intranet updates, leadership 'Question and Answer' sessions and two-way feedback forums keep staff informed on business news and employee issues.

In addition, to fully understand issues concerning staff, Scottish Enterprise undertakes employee surveys and holds regular engagement forums. The results are analysed with a view to continually improving our employee relations.

Scottish Enterprise's Human Resources (HR) team manages all employee and industrial relations on behalf of management and has an employee relations (ER) framework in place, which comprises a Joint Consultation and Negotiation Committee supported by sub-groups on terms and conditions, pay and pensions. These provide an opportunity for recognised Trades Unions to negotiate and consult with HR and management representatives on a range of topics and issues affecting the organisation, including the successful consultation and negotiation of change programmes and job reductions. The HR team manage all ER issues, both formal and informal, and design and support all major change programmes within the organisation.

Through the implementation of practices which recognise the diversity of its people, and in line with its public sector duties under race, disability and gender, Scottish Enterprise aims to develop a working environment which values the creativity, talents, energies and working styles of all its present and potential people resources. The organisation values and recognises individuals' contribution regardless of age, colour, disability, ethnic origin, gender, marital status, religion or sexual orientation, and embraces a culture based on fair treatment. The organisation holds "Two Tick" and "Age Positive" standards for its employment practices and is recognised as supporting diversity.

Estate management

Scottish Enterprise acquires, invests in and manages a portfolio of property and land assets. The objective in maintaining and developing this estate is to maximise the economic development benefits for Scotland. Income derived from the holding and disposal of these assets is utilised to support Scottish Enterprise's Business Plan and the delivery of its economic development objectives.

Valuations of the estate are prepared annually by external valuers based on Market Value as defined in the Valuation Standards (6th Edition) issued by the Royal Institution of Chartered Surveyors. They reflect the existing zoning and planning consents, adjusted to reflect any realistic potential for change of use.

Driving the organisation forward

As noted previously, Scottish Enterprise has carried out a radical restructuring of its operations, which has secured significant efficiency savings of around £10m per annum and ensured that the organisation is fully focused on supporting its business customers. Scottish Enterprise continues to pursue organisational change and efficiency projects that further improve its focus and provide value for the taxpayer.

Risks

Scottish Enterprise has a standard approach to risk management which is described in more detail in the Statement on Internal Control. Risks are classified as financial, operational, reputational or external and both likelihood and impact are assessed on a consistent basis. Risk registers are maintained at project, business unit and corporate level, with the Corporate Risk Register being approved annually by the Scottish Enterprise Board.

All internal and external risks in the Corporate Risk Register are actively managed at the appropriate level in the organisation. Key corporate risks are managed by the Executive Board.

KEY PERFORMANCE INDICATORS

Scottish Enterprise plays a catalytic role in contributing to the Government's overall target of raising GDP to the UK level by 2011 alongside private and public sector partners.

The measurement of overall economic impact is complex, given both the long-term nature of what is involved and the significant contributions often made by partners and customers. Scottish Enterprise uses a variety of techniques to allow judgements to be made about the contribution it makes. They include in year measures of progress, benchmarking, evaluation, modelling, and customer surveys.

In 2008/09, we met or exceeded all but two of our performance targets. The tables below present the forecast range and actual performance for 2008/09, together with the actual performance from 2007/08 where applicable.

Enterprise			
2007/08 Actual	Measures of progress	2008/09 Forecast Range	2008/09 Actual
Objective: Help more businesses to realise their growth potential			
New measure	<p>Growth businesses supported Description: Proactively work with account managed businesses to help raise the annual sales level by at least £1m after 3 years. Commentary: Numbers of growth businesses supported by our Account Managers have continued to expand during 2008/09.</p>	1,900 – 2,100	1,908
New measure	<p>Additional turnover growth in businesses supported Description: The change in turnover of active account managed businesses between 2007/08 and 2008/09. Commentary: Wide variations in levels of both increases and decreases but overall there was an encouraging net increase in turnover levels being reported.</p>	£400m - £600m	£930m
New measure	<p>Growth businesses increasing their turnover by £1m+ in the previous 3 years Description: The number of account managed businesses which have achieved a turnover increase of £1m+ (or inflation adjusted 10% if original turnover over £20m). Commentary: This was a challenging aim particularly given the current economic conditions. However, it is encouraging to note that nearly one third of businesses have achieved at least the £1m+ increase in turnover.</p>	800 – 1,000	577
10	<p>Major high growth start-ups (including spin outs) with potential to reach a value of £5m (£2m GVA) in 3 years Description: Businesses participating in the National High Growth Start Up Unit and other major spin-out ventures generated through other projects. These businesses are forecast to be worth a combined £90m - £115m by their third year of trading (based on 18 – 23 businesses starting per year). Commentary: The increased forecast range was almost achieved but results were affected by the slowing or withdrawal of private investment mainly due to the knock on effects of the current economic climate.</p>	18 - 23	17
Objective: Accelerate internationalisation of Scottish businesses and attract foreign direct investment			
2,578	<p>Planned jobs through inward investment of a high value nature Description: Planned jobs of a high value nature secured for Scotland from inward investment. Commentary: Good performance during the year despite challenging economic circumstances ensured that the forecast range was achieved.</p>	1,800 – 2,400	1,807

Innovation			
2007/08 Actual	Measures of progress	2008/09 Forecast Range	2008/09 Actual
Objective: Support and encourage innovation in the companies which we work with, focusing in particular on account managed companies and priority industries			
New measure	<p>Investment in R&D by supported businesses</p> <p>Description: Increased investment in R&D as demonstrated by the value of projects for which a Scottish Enterprise R&D grant was offered and accepted during the year.</p> <p>Commentary: Increasing levels of innovation will help support businesses through the current economic challenges and it is encouraging to note a strong performance in this area during the year.</p>	£50m - £60m	£103m
Objective: Innovation system: more transformational industry projects based on demand and exploit the market demand for new licences and collaborative ventures			
New measure	<p>High value knowledge transfers between business and academia supported (collaborations, licences, joint ventures)</p> <p>Description: Licences, joint ventures and collaborations which involve at least a £20,000 business contribution or at least a £50,000 contribution from public and private sources.</p> <p>Commentary: With many of the financial contributions being greater than the minimum thresholds, it is encouraging to note a strong performance being maintained in this area of innovation activities.</p>	20 - 30	48

Investment			
2007/08 Actual	Measures of progress	2008/09 Forecast Range	2008/09 Actual
Objective: Increase leverage from public funds by attracting more risk capital to invest in Scotland.			
1:2.2	<p>Private sector leverage invested per deal through SE Investment Funds</p> <p>Description: Third party investment leverage ratio from investment deals completed by the Scottish Co-Investment Fund, Scottish Venture Fund and Scottish Seed Fund.</p> <p>Commentary: Continued demonstration of the effectiveness of the co-investment approach, in sharing risk with commercial investors and encouraging the development of the risk capital funding market infrastructure in Scotland. We are also responding to increased demand for risk capital investment as a result of the current economic climate.</p>	1:2 to 1:3	1:2.2
Objective: Create the best possible business infrastructure for priority industries and businesses to grow			
1:2.0	<p>Leverage from investment on site in high impact business infrastructure projects</p> <p>Description: Additional anticipated investment on high impact projects levered as a result of Scottish Enterprise investment.</p> <p>Commentary: Leverage achieved was around the top of the forecast range and we continue to seek to maximise our leverage in future years.</p>	1:2 to 1:2.5	1:2.55

EQUITY

In pursuit of sustainable economic growth, Scottish Enterprise contributes to the Scottish Government's strategic objectives for environmental sustainability, social and regional equity. Our focus is on those opportunities that promote both sustainable economic growth and equity. This work continues to be mainstreamed within our approach to enterprise, innovation and investment.

Environmental Matters

During the year, Scottish Enterprise approved a Sustainable Development policy to embed the principles of sustainable development throughout our work with businesses and stakeholders. Climate change is a major environmental issue and we are committed to promoting the growth of a "low-carbon economy" through support for resource efficiency and the development and use of cleaner technologies linked to key sectors. Workshops were held around the country to highlight the business benefits arising from resource efficiency.

This work is supported by an internal Environmental Management policy that focuses on reducing carbon emissions from our offices and staff travel. Total carbon emissions fell by 5% during 2008/09 and we are on track to meet our reduction targets set for 2009/10.

Social and Community Relations

Scottish Enterprise works in partnership in the development and delivery of its activities. We continue to contribute an economic development perspective to Community Planning and the Single Outcome Agreements between Community Planning Partnerships and the Scottish Government.

Scottish Enterprise continued its support for social enterprises. The Social Enterprise World Forum in Edinburgh was a highlight of the year that emphasised the importance to the Scottish economy of helping the sector to grow. We renewed our engagement with Social Investment Scotland at the launch of the new Scottish Investment Fund.

Scottish Enterprise is committed to an active Corporate Social Responsibility agenda aimed at our staff, the community and our stakeholders. We recognise the importance of promoting responsible business practices both internally and with our client businesses. In the current economic climate, this can be an increasingly important feature of successful business.

Equal Opportunities

Scottish Enterprise is fully committed to equal opportunities, both as an employer and service provider. The organisation goes beyond the legislative requirements for the race, disability and gender public sector duties by promoting the business case for equality and demonstrating how this can support the economy. In addition, this year we have published a new single equality scheme covering the additional streams of age, religion/belief and sexual orientation in preparation for the new Single Equality Act likely to come in to force in 2010. Our Scheme can be viewed at http://www.scottish-enterprise.com/equality_scheme.

Scottish Enterprise follows a mainstreaming strategy to realise equality outcomes. Pivotal to this is ensuring that functions, policies and projects are fully impact assessed to eliminate discrimination, and to actively promote services to under-represented groups. To date we have published 27 assessments and an action plan is in place to address the organisation's remaining activities.

AUDITORS

The accounts of Scottish Enterprise are audited by auditors appointed by the Auditor General for Scotland. The Auditor General appointed KPMG LLP as Scottish Enterprise's auditors for the years through to 2010/11. Fees chargeable for audit services provided by the appointed auditors for the year ended 31 March 2009 were £179,000 (2008: £224,000).

So far as the Accountable Officer is aware, there is no relevant information of which Scottish Enterprise's auditors are unaware. The Accountable Officer has taken all necessary steps to make him aware of any relevant audit information and to establish that Scottish Enterprise's auditors are aware of that information.

Jack Perry
Accountable Officer
26 June 2009

REMUNERATION REPORT for the year ended 31 March 2009

This report explains the remuneration policy of Scottish Enterprise for Board Members and for the senior management team, the Executive Board, and provides details of members' remuneration for the year ended 31 March 2009.

Scottish Enterprise Board

Scottish Enterprise Board Members, with the exception of the Chief Executive, are appointed by the Scottish Ministers for a fixed period, normally three years. With the exception of the Chief Executive, these members do not have contracts of service with Scottish Enterprise.

The Chairman was appointed in February 2009 for a period of three years and four months. The Scottish Government sets the level of remuneration for the Chairman and informs Scottish Enterprise on an annual basis of any increase to be awarded.

The members of the Board are appointed by the Scottish Ministers from a variety of backgrounds on the basis of their knowledge and experience gained in both the public and private sectors in industry, commerce and academic fields. Board members are paid a basic fee and their total remuneration is based on levels of responsibility taking into account the number of committees in which they participate. Board members are eligible to receive a travel allowance to attend meetings, which is taxable.

Remuneration is set by the Scottish Government and is reviewed annually. Outwith this, remuneration will be amended if the level of responsibility and time commitment changes.

Executive Board

The Executive Board is responsible for the day to day management of Scottish Enterprise's activities and operations. The Chief Executive is a member of both the Board and the Executive Board.

The Chief Executive was appointed by the Board with the approval of the Scottish Ministers in February 2004. The Chief Executive and other Executive Board members are on standard Scottish Enterprise contracts of employment. Their contracts provide for a notice period of 12 months. They also have a separate bonus scheme from the other staff members.

If an Executive Board member's employment with Scottish Enterprise is terminated on the grounds of redundancy, or in the interests of the efficiency of the organisation, severance payments will apply based on age and on length of service. This basis is identical to that applied for all other employees.

Remuneration Committee

The Remuneration Committee determines, and agrees with the Board, the framework or broad policy for the remuneration of the organisation's Executive Directors, excluding the Chief Executive (where this is undertaken by the Scottish Government), and such other members of the executive management as it is designated by the Scottish Enterprise Board to consider. This policy is set within the context of applicable Government guidelines. In consultation with the Chairman and Chairs of other Scottish Enterprise Board Committees, it agrees the performance framework and the proposed annual bonus for the Chief Executive, which is subject to approval by the Scottish Government. In consultation with the Chairman and Chief Executive it determines the total individual remuneration package of members of the Executive Board.

The members of the Remuneration Committee who served during the year to 31 March 2009 were:-

Colin McClatchie		Chairman
Barbara Duffner	(to November 2008)	Deputy Chair
Grahame Smith	(from December 2008)	Deputy Chair
Douglas Lamb	(to July 2008)	
Pat Denzler	(to July 2008)	
Graeme Waddell	(from December 2008)	

The remuneration of Executive Board members includes any amounts payable under the performance related bonus scheme.

Each Executive Board member agrees with the Chief Executive four to six personal performance objectives, together with specific measures that are required to be met and which will have a significant impact on the performance of the organisation. By definition, such objectives are over and above the requirement for the effective operation of Directorates as outlined in the Scottish Enterprise performance management system.

These targets, and the Chief Executive's appraisal of performance against them, are subject to review by the Remuneration Committee.

A bonus of up to 10% for Executive Board members and up to 12.5% for the Chief Executive can be awarded based on the assessment of the achievement of both corporate and personal performance objectives.

In recommending bonus awards, the Chief Executive is required to take a holistic view of performance considering factors such as the difficulty of targets set, the degree to which success has been achieved, the relative contribution made by each member of the Executive Board, and the overall performance of the business and its component parts. In the event of achievement of all of the published corporate upper or stretch targets, this will be recognised as part of this assessment.

Executive Board Remuneration Policy

Scottish Enterprise aims to ensure that the remuneration packages offered to Executive Board members:-

- enable Scottish Enterprise to attract, retain and motivate high calibre executives;
- remunerate individuals fairly for individual responsibility and contribution, while providing an element of performance related pay reflecting the overall performance of Scottish Enterprise; and
- take account of salary policy within the rest of Scottish Enterprise and the relationship that should exist between the remuneration of the Executive Board and that of other employees.

Elements of Remuneration of Executive Board Members

Basic salaries are reviewed annually on 1 July with the exception of the Chief Executive whose salary is reviewed on 1 April. Salary levels are established after taking into account external market levels and internal comparisons as well as individual responsibilities and performance. Annual reviews are conducted in line with the pay remit agreed with the Scottish Government. Salary payments are made every four weeks. Bonuses payable are reflected in the accounts for the performance period under review and actual payments are made in July of each year.

In addition, the Executive Board had access to the contributory Essential Car User Scheme. This scheme ceased on 21 May 2009. All previous members of the scheme, including Executive Board

Members, but with the exception of the Chief Executive, received a compensation payment for the loss of this taxable benefit. The Chief Executive continues to have access to a company contract hire car. Compensation payments to Executive Board Members were calculated on the same basis as those of all other members of the Essential Car User Scheme. Payments were made in April 2009 and the costs have been accrued in these accounts.

Executive Board members are all members of the Scottish Enterprise Pension & Life Assurance Scheme. As ordinary members, they contribute 6% of pensionable salary and Scottish Enterprise contributes 23% (20% from 1 April 2009) of the employees' pensionable salary. This is a final salary scheme that provides benefits at a normal retirement age of 60, or 65 for staff who joined on or after 1 December 2006. These benefits consist of an annual pension, based on final pensionable salary and pensionable service, and a tax-free lump sum, payable on retirement, equivalent to three times the annual pension. Pensions increase in line with the Retail Price Index.

The auditors are required to report on the information contained in the following section of this report.

Remuneration

Fees paid to the Chairman and other non executive board members who served during the year to 31 March 2009 were:-

		<i>2009</i> <i>Remuneration</i> £	<i>2008</i> <i>Remuneration</i> £
Crawford Gillies	Chairman (appointed 14 February 2009)	4,716	-
Sir John Ward	ex Chairman (retired 13 February 2009)	35,597	38,721
Ian Crawford	(appointed 1 December 2008)	4,194	-
Pat Denzler	(retired 31 July 2008)	4,374	13,121
Barbara Duffner	(retired 30 November 2008)	9,147	13,721
Fred Hallsworth		15,638	15,848
Douglas Lamb	(retired 31 July 2008)	4,194	12,581
Iain Macdonald	(appointed 1 August 2008)	8,387	-
Donald MacRae		15,638	15,638
Colin McClatchie		15,638	15,638
Jim McDonald	(appointed 1 August 2008)	8,387	-
Charles Morrison	(retired 30 September 2008)	7,819	16,896
Sir Timothy O'Shea		13,721	13,721
Ray Perman		15,638	15,638
Grahame Smith	(appointed 1 December 2008)	4,194	-
Graeme Waddell	(appointed 1 August 2008)	8,387	-

The fees noted above for Sir Timothy O'Shea were paid to the University of Edinburgh, in return for this organisation making him available to provide his services as a Scottish Enterprise Board member.

Remuneration of Executive Board members who served during the year to 31 March 2009 was:-

	2009			2008				
	Salary £000	Bonus £000	Car allowance and other benefits £000	Total £000	Salary £000	Bonus £000	Car allowance and other benefits £000	Total £000
Jack Perry (i)	203	18	10	231	191	24	10	225
Hugh Hall	143	11	24	178	141	14	4	159
Paul Lewis (from 1 April 2008)	122	6	24	152	-	-	-	-
John Phillips (to 7 November 2008) (ii)	93	-	393	486	127	9	5	141
Lena Wilson	176	14	27	217	167	17	9	193

- (i) Notification of a corrected salary increase for Jack Perry, for the year to 31 March 2008, was received from the Scottish Government in April 2009. This correction of £2,355 relates to the year to 31 March 2008, however, it is included above within the 2009 salary figure.
- (ii) As part of an ongoing drive for efficiencies, John Phillips left the employment of Scottish Enterprise on 7 November 2008 and a voluntary severance payment was made to him, which comprised £260,100 for compensation for loss of office and £130,050 for pay in lieu of notice.

Pension benefits of Executive Board members for the year to 31 March 2009 are as follows:-

	Accrued Pension at age 60 as at 31 March 2009 and related lump sum £000	Increase in pension net of inflation and related lump sum at age 60 £000	Cash Equivalent Transfer Value (ii)		
			At 31 March 2009 £000	At 31 March 2008 £000	Increase net of members' contributions £000
Jack Perry	35 - 40 plus lump sum of 115 - 120	2.5 – 5.0 plus lump sum of 10.0 – 12.5	855	779	65
Hugh Hall	0 - 5 plus lump sum of 10 - 15	0 – 2.5 plus lump sum of 5.0 – 7.5	85	49	27
Paul Lewis (i)	30 - 35 plus lump sum of 100 - 105	0 – 2.5 plus lump sum of 5.0 – 7.5	556	550	(1)
John Phillips (i)	30 – 35 plus lump sum of 95 – 100	0 – 2.5 plus lump sum of 5.0 – 7.5	564	579	(20)
Lena Wilson	45 – 50 plus lump sum of 135 - 140	5.0 – 7.5 plus lump sum of 15.0 – 17.5	736	667	58

- (i) Pension details for Paul Lewis are as at the date he became a member of the Executive Board. Pension details for John Phillips are as at the date he ceased to be a member of the Executive Board and left the employment of Scottish Enterprise.
- (ii) The cash equivalent transfer value is the actuarially assessed value of the pension scheme benefits accrued by a member at a point in time. The benefits valued are the member's

accrued benefits and include benefits related to service transferred in from previous employment. It represents a payment made by a pension scheme to secure benefits in another pension scheme or arrangement when a member leaves a scheme and chooses to transfer the benefits they have accrued in a former scheme throughout the total period of service. The increase in the cash equivalent transfer value is that funded by the employer, taking account of contributions paid by the member.

Colin McClatchie
Chairman
Remuneration Committee
26 June 2009

STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

for the year ended 31 March 2009

Under section 30(1) of the Enterprise and New Towns (Scotland) Act 1990, Scottish Enterprise is required to prepare a statement of accounts for each financial year in the form and on the basis determined by the Scottish Ministers. The accounts are prepared on an accruals basis and must show a true and fair view of the state of affairs of Scottish Enterprise at the year end and of its net expenditure and cash flows for the financial year.

In preparing the accounts, Scottish Enterprise is required to:

- observe the Accounts Direction issued by the Scottish Ministers, including the relevant accounting disclosure requirements, and apply these accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that Scottish Enterprise will continue in operation.

The Accountable Officer for The Scottish Government's Enterprise, Energy and Tourism Directorate, has designated the Chief Executive of Scottish Enterprise as its Accountable Officer. His relevant responsibilities as Accountable Officer, including his responsibility for the propriety, regularity and value for money of the public finances for which he is answerable, and for the keeping of proper records, are set out in the Scottish Enterprise Management Statement and in the Memorandum to Accountable Officers of Other Public Bodies published by the Scottish Government.

The Accountable Officer is responsible for the maintenance and integrity of the corporate and financial information included on Scottish Enterprise's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Jack Perry
Accountable Officer
26 June 2009

STATEMENT ON INTERNAL CONTROL

for the year ended 31 March 2009

Scope of Responsibility

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives, set by Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

Purpose of the System of Internal Control

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the organisation's policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the organisation's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

The process within Scottish Enterprise accords with the Scottish Public Finance Manual (SPFM) and has been in place for the year ended 31 March 2009 and up to the date of signing this Statement, and accords with guidance from Scottish Ministers.

As Accountable Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. To fulfil this responsibility, the following processes have been established for Scottish Enterprise.

Risk and Control Framework

I am aware that all bodies subject to the requirements of the SPFM must operate a risk management strategy in accordance with the relevant guidance issued by Scottish Ministers. The Scottish Enterprise risk management strategy is summarised as follows:

Risk Management

- Scottish Enterprise has an approved Risk Management Policy, setting out our attitude to risk and our approach to managing the potential barriers to the achievement of our objectives. The Policy highlights that risk management and internal control are firmly aligned with the ability to achieve the key business objectives. The Policy and associated procedural guidance are available to all staff on the Scottish Enterprise intranet.
- A Corporate Risk Register has been established to consider those risks that impact the organisation as a whole, and are likely to affect the organisation's ability to achieve its strategic goals and objectives. The register is reviewed and discussed by the Executive Board on a regular basis, including consideration of progress on agreed actions to manage the risks.
- Management teams are responsible for maintaining a system of risk management and internal control, consistent with corporate risk arrangements, and designed to enable it to deliver its business objectives in an efficient and effective manner in accordance with our values and policies.
- Ownership is assigned for each identified risk, both at a corporate and management team level, with the risk owner responsible for monitoring the risk and ensuring that any identified mitigating actions are implemented.

- The Scottish Enterprise Board is made aware of and regularly reviews the key risks for the organisation.
- The Scottish Enterprise Audit Committee is responsible for reviewing the effectiveness of the entire approach to risk management within the organisation. It receives reports on a six monthly basis, and may also consider risk management on a more frequent basis if either the Chairman of the Audit Committee or the Executive Board considers this necessary. The Board also receives regular updates from the Chairman of the Audit Committee concerning internal control.
- Business units are responsible for ensuring early and full reporting of critical business risks. Specialist functions (business continuity, health and safety and information security) are in place to manage specific types of risk, and these provide the Board and management with assurance over these areas.
- Risk assessment is also a key component of the organisation's project appraisal processes.
- Awareness and training sessions are held as required, and a risk management element has been incorporated into project management training.

In addition to the risk management strategy, Scottish Enterprise has the following processes in place to ensure that it has an effective control framework.

Internal Audit

Scottish Enterprise has in place an internal audit service. The internal audit planning approach is risk-based. The internal audit plans and activity for 2008/09 were reported regularly to the Audit Committee.

- On a regular basis, the Director of Audit provides me with a report on internal audit activity throughout the organisation. The internal audit function is also utilised in monitoring risk management processes to determine whether internal controls are effectively designed and properly implemented. A risk-based approach is applied to the implementation and monitoring of controls.
- The internal audit function supports the organisation's continuous improvement activities through the identification of action points arising from ongoing audit activity. These actions span all aspects of the organisation's operations and, together with the recommendations of external auditors, continue to identify areas where there is scope for improvements in internal controls. The implementation of recommended action points was regularly reviewed by the Audit Committee during 2008/09.

Internal Control Assessment Framework

In order to complement the organisation's risk management and internal audit arrangements, Scottish Enterprise has in place an Internal Control assessment framework. This framework requires major budget holders to carry out a review of their area's internal controls, including any subsidiary or joint venture operations for which they are accountable and responsible. The basis of this review is a detailed Internal Control Checklist which, once completed, provides the context for the sign off of a local Certificate of Assurance. This is addressed to me as the Accountable Officer and supports the sign off of the Certificate of Assurance for Scottish Enterprise.

More generally, Scottish Enterprise is committed to a process of continuous improvement: developing systems and processes in response to any relevant reviews and developments, including the identification of best practice.

Review of Effectiveness

My review of the effectiveness of the overall system of internal control is therefore informed by:

- The organisation's risk management framework;
- The work of internal audit and the SE Audit Committee which oversees this activity;
- The internal control assessment framework, including the work performed to sign off individual Certificates of Assurance and Internal Control Checklists; and
- Matters raised by external auditors in their management letter and other reports.

In summary, on the basis of the above processes, my overall review has not highlighted any significant internal control weaknesses within Scottish Enterprise.

Jack Perry
Accountable Officer
26 June 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCOTTISH ENTERPRISE, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT

We have audited the group and parent accounts of Scottish Enterprise for the year ended 31 March 2009 under the Enterprise and New Towns (Scotland) Act 1990. These comprise the group Operating Cost Statement, the group and parent Balance Sheets, the group Cash Flow Statement and group Statement of Recognised Gains and Losses and the related notes. These accounts have been prepared under the accounting policies set out within them. We have also audited the information in the Remuneration Report that is described in that report as having been audited.

This report is made solely to Scottish Enterprise and to the Auditor General for Scotland in accordance with sections 21 and 22 of the Public Finance and Accountability (Scotland) Act 2000. Our audit work has been undertaken so that we might state to those two parties those matters we are required to state to them in an auditor's report and for no other purpose. In accordance with the Code of Audit Practice approved by the Auditor General for Scotland, this report is also made to the Scottish Parliament, as a body. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Scottish Enterprise and the Auditor General for Scotland, for this report, or the opinions we have formed.

Respective responsibilities of the board of Scottish Enterprise, Chief Executive and auditors

The board and Chief Executive are responsible for preparing the Annual Report, which includes the Remuneration Report, and the accounts in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers. The Chief Executive is also responsible for ensuring the regularity of expenditure and receipts. These responsibilities are set out in the Statement of Accountable Officer's Responsibilities.

Our responsibility is to audit the accounts and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report to you our opinion as to whether the group and parent accounts give a true and fair view and whether the accounts and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers. We report to you whether, in our opinion, the information which comprises the Management Commentary included in the Annual Report, is consistent with the accounts. We also report whether in all material respects the expenditure and receipts shown in the accounts were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

In addition, we report to you if, in our opinion, the body has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

We review whether the Statement on Internal Control reflects the body's compliance with the Scottish Government's guidance, and we report if, in our opinion, it does not. We are not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the body's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises only the part of the remuneration report not audited. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCOTTISH ENTERPRISE, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT (continued)

Basis of audit opinion

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts included in the accounts and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the board and Chief Executive in the preparation of the accounts, and of whether the accounting policies are most appropriate to the body's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and receipts shown in the accounts were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts and the part of the Remuneration Report to be audited.

Opinions

Accounts

In our opinion

- the group and parent accounts give a true and fair view, in accordance with Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers, of the state of the group's and parent's affairs as at 31 March 2009 and of the group net expenditure, group recognised gains and losses and group cash flows for the year then ended;
- the accounts and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers; and
- information which comprises the Management Commentary included in the Annual Report is consistent with the accounts.

Regularity

In our opinion in all material respects the expenditure and receipts shown in the accounts were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

KPMG LLP
Chartered Accountants
Registered Auditor

191 West George Street
Glasgow
G2 2LJ

26 June 2009

GROUP OPERATING COST STATEMENT

for the year ended 31 March 2009

	Notes	2009 £000	Restated 2008 £000
Operating expenditure			
Continuing operations	1	226,506	240,930
Discontinuing operations	1	-	111,885
		<u>226,506</u>	<u>352,815</u>
Management expenditure			
Continuing operations	1	90,796	131,602
Discontinuing operations	1	-	49,491
		<u>90,796</u>	<u>181,093</u>
Total expenditure		<u>317,302</u>	<u>533,908</u>
Income			
Continuing operations	2	(39,954)	(51,404)
Discontinuing operations	2	-	(7,060)
		<u>(39,954)</u>	<u>(58,464)</u>
Excess of expenditure over income from operations	7	<u>277,348</u>	<u>475,444</u>
Share of (profits)/losses in associated undertakings and joint ventures	3	(9)	125
Income from investments	4	(282)	(449)
Interest receivable		(5,150)	(5,732)
Other finance income	5	(3,954)	(6,178)
Interest payable and similar charges	6	12,920	15,307
Net operating costs before taxation		<u>280,873</u>	<u>478,517</u>
Taxation	8	244	444
Net operating costs after taxation		<u>281,117</u>	<u>478,961</u>
Minority interests	23	(370)	837
Appropriations	11	-	554
Notional cost of capital		(1,768)	(4,153)
Net expenditure	18	<u><u>278,979</u></u>	<u><u>476,199</u></u>

All of the above results are derived from continuing operations, other than those noted as discontinuing operations. The discontinuing operations related to the transfer of Careers Scotland and skills and training activity to Skills Development Scotland.

GROUP STATEMENT OF RECOGNISED GAINS AND LOSSES
for the year ended 31 March 2009

	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>
Surpluses on revaluation	1,956	21,000
Actuarial (loss)/gain recognised in pension scheme	<u>(58,061)</u>	<u>46,548</u>
Recognised (losses)/gains for the year	<u>(56,105)</u>	<u>67,548</u>

GROUP BALANCE SHEET

at 31 March 2009

	Notes	2009 £000	Restated 2008 £000
FIXED ASSETS			
Intangible Assets	9	39	39
Tangible Assets	10	222,544	283,264
		<u>222,583</u>	<u>283,303</u>
Investments			
Investments in joint ventures			
share of net assets		1,492	1,463
share of net liabilities		-	-
		<u>1,492</u>	<u>1,463</u>
Investment in associates		1,659	1,391
Other investments	11	60,607	49,821
		<u>63,758</u>	<u>52,675</u>
TOTAL FIXED ASSETS		286,341	335,978
CURRENT ASSETS			
Stock	12	85	72
Debtors:			
amounts falling due after more than one year	13	1,704	1,954
amounts falling due within one year	13	16,564	28,288
Cash at bank and in hand	14	101,504	156,038
		<u>119,857</u>	<u>186,352</u>
CREDITORS: amounts falling due within one year	15	<u>(35,996)</u>	<u>(64,779)</u>
NET CURRENT ASSETS		<u>83,861</u>	<u>121,573</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>370,202</u>	<u>457,551</u>
CREDITORS: amounts falling due after more than one year	16	(36,134)	(45,943)
PROVISIONS FOR LIABILITIES AND CHARGES	17	(4,813)	(22,444)
		<u>(40,947)</u>	<u>(68,387)</u>
NET ASSETS BEFORE PENSION (LIABILITY)/SURPLUS AND MINORITY INTERESTS		329,255	389,164
PENSION (LIABILITY)/SURPLUS	26	(6,271)	43,519
		<u>322,984</u>	<u>432,683</u>
MINORITY INTERESTS	23	(1,571)	(1,941)
		<u>321,413</u>	<u>430,742</u>
TAXPAYERS' FUNDS			
General Fund	18	279,020	294,068
General Reserve	18	(6,500)	(12,220)
Specific Reserve	18	2,132	2,612
Revaluation Reserve	18	53,032	102,763
Pension Reserve	18	(6,271)	43,519
		<u>321,413</u>	<u>430,742</u>

Jack Perry
Accountable Officer
26 June 2009

BALANCE SHEET
at 31 March 2009

	Notes	2009 £000	Restated 2008 £000
FIXED ASSETS			
Intangible assets	9	39	40
Tangible assets	10	125,528	166,370
Investments	11	54,102	41,458
		<u>179,669</u>	<u>207,868</u>
CURRENT ASSETS			
Debtors:			
amounts falling due after more than one year	13	55,967	71,908
amounts falling due within one year	13	14,289	28,435
Cash at bank and in hand	14	84,759	131,887
		<u>155,015</u>	<u>232,230</u>
CREDITORS: amounts falling due within one year	15	<u>(31,816)</u>	<u>(59,782)</u>
NET CURRENT ASSETS		<u>123,199</u>	<u>172,448</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>302,868</u>	<u>380,316</u>
CREDITORS: amounts falling due after more than one year	16	-	(7,698)
PROVISIONS FOR LIABILITIES AND CHARGES	17	<u>(4,813)</u>	<u>(22,444)</u>
		<u>(4,813)</u>	<u>(30,142)</u>
NET ASSETS BEFORE PENSION (LIABILITY)/SURPLUS		298,055	350,174
PENSION (LIABILITY)/SURPLUS	26	<u>(6,271)</u>	<u>43,519</u>
		<u>291,784</u>	<u>393,693</u>
TAXPAYERS' FUNDS			
General Fund	18	266,712	283,252
Revaluation Reserve	18	31,343	66,922
Pension Reserve	18	(6,271)	43,519
		<u>291,784</u>	<u>393,693</u>

Jack Perry
Accountable Officer
26 June 2009

GROUP CASH FLOW STATEMENT

for the year ended 31 March 2009

	<i>Notes</i>	<i>2009</i> <i>£000</i>	<i>2008</i> <i>£000</i>
Net cash outflow from operating activities	19	(293,282)	(439,979)
Returns on investments and servicing of finance	19	5,432	6,385
Appropriations paid		(551)	(1,564)
Taxation		(640)	(62)
Capital expenditure and financial investment	19	(23,231)	(25,419)
Net cash outflow before financing		<u>(312,272)</u>	<u>(460,639)</u>
Financing	19	257,738	524,139
(Decrease)/Increase in cash in the period		<u><u>(54,534)</u></u>	<u><u>63,500</u></u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	<i>Notes</i>	<i>2009</i> <i>£000</i>	<i>Restated</i> <i>2008</i> <i>£000</i>
(Decrease)/Increase in cash in the period		(54,534)	63,500
Cash inflow from decrease in debt		-	-
Movement in net funds in the period		<u>(54,534)</u>	<u>63,500</u>
Net funds at 1 April		156,038	92,538
Net funds at 31 March	20	<u><u>101,504</u></u>	<u><u>156,038</u></u>

STATEMENT OF ACCOUNTING POLICIES

1. Basis of preparation

The accounts are prepared in a form determined by the Scottish Ministers, in accordance with Section 30(1) of the Enterprise and New Towns (Scotland) Act 1990.

The accounts are prepared under the historical cost convention modified to include the revaluation of land and buildings and investments listed on a recognised stock exchange. The accounts are drawn up to meet the requirements of the Government Financial Reporting Manual (FReM), the Companies Act 1985, Statements of Standard Accounting Practice and Financial Reporting Standards so far as these requirements are appropriate to Scottish Enterprise.

With effect from 1 April 2008, Local Enterprise Companies ceased operations and no new commitments were entered into from that date. Existing commitments in respect of operations being transferred to other entities will be assumed by those entities. Other assets, liabilities and commitments of the Local Enterprise Companies were assumed by Scottish Enterprise on 31 March 2008.

Corresponding amounts are shown in the primary statements and notes to the accounts.

FRS17 (revised) "Retirement Benefits" has been implemented for the year ended 31 March 2009 for the first time. The primary change relates to prices used in the valuation of pension assets. The impact on the comparatives is not considered to be material and therefore the comparative figures have not been restated in this respect.

FRS 25 "Financial Instruments: Presentation" and FRS 26 "Financial Instruments: Recognition and Measurement" have been implemented for the year ended 31 March 2009 for the first time. The FReM does not require a prior year adjustment to reflect this change in accounting policy and therefore the comparative figures have not been restated in this respect.

Assets transferred to other public sector organisations under the Machinery of Government regulations are accounted for using merger accounting provisions and as a consequence the balances and transactions relating to these assets have been eliminated from these financial statements and from the corresponding amounts.

2. Basis of consolidation

The Group Accounts consolidate the accounts of Scottish Enterprise and all its subsidiary undertakings drawn up to 31 March each year unless otherwise noted. No Operating Cost Statement is presented for Scottish Enterprise as permitted by s230 of the Companies Act 1985 and with the approval of the Scottish Ministers.

The acquisition method of accounting has been adopted. Under this method the results of any subsidiary undertakings acquired or disposed of during the year are included in the group operating cost statement from the date of acquisition or to the date of disposal.

Scottish Equity Partnership's financial year end is 30 September each year. Consolidation of the partnership's results for the year to 31 March 2009 is based on interim accounts.

STATEMENT OF ACCOUNTING POLICIES (continued)

Entities in which the Group holds an interest on a long term basis and are jointly controlled by the Group and one or more other parties under a contractual agreement are treated as joint ventures. In the group financial statements, joint ventures are accounted for using the gross equity method.

Companies whose business is compatible with the objectives of the Group and in which the holdings are intended to be retained as long term investments and in which the Group has active management involvement and more than 20% of the equity, or provides more than 20% of the membership in the case of guarantee companies, are treated as associated undertakings. Associates are accounted for using the equity method.

In respect of other invested companies, Scottish Enterprise considers that in general, the role of the Group is normally that of a passive investor and that holdings taken will be disposed of at the earliest opportunity and therefore although a holding may at any particular time be in excess of 20% of the equity, these companies are not accounted for as associated undertakings, in view of the absence of influence over their activities.

3. Funding

Scottish Enterprise receives Grant in Aid from the Scottish Ministers to finance its net operating costs. Grant in Aid is credited to the General Fund and the net cost of activities funded by Grant in Aid is charged to this fund.

Scottish Enterprise previously received Voted Loan monies from the Scottish Government to finance commercial investment activity. Commercial investments and loans undertaken by the Scottish Development Agency, one of the predecessor bodies to Scottish Enterprise were funded by Public Dividend Capital, National Loans Fund and European Community funds. These investments were vested in Scottish Enterprise on 1 April 1991. All commercial investment activity is now met from the annual Grant in Aid allocation.

4. Land and buildings

(a) *Investment properties and land*

Property assets held for industrial and commercial use are considered to be long term investments and are accounted for in accordance with SSAP 19. Investment properties and land held for or under development are valued annually on the basis of market value in accordance with the Appraisal and Valuation Manual issued by The Royal Institution of Chartered Surveyors. Each property is valued individually and not as part of the portfolio. No account is taken of any inter company leases or arrangements nor of any mortgages, debentures or other charges and no allowance is made for any expenses of realisation or taxation which might arise in the event of a disposal. The valuation does not reflect any element of special purchaser value following a merger of interest or sale to an owner or occupier of an adjoining property.

The valuation is prepared on the basis of information provided to the valuers relating to the title, tenure, lettings, site and floor areas, planning consents and other relevant information.

The valuers are instructed to assume that no deleterious materials or techniques have been used in the construction of any of the buildings and not to carry out structural

STATEMENT OF ACCOUNTING POLICIES (continued)

surveys. Land held for or under development is valued on a market value basis in its existing condition.

The non depreciation of investment property may be a departure from financial reporting standards concerning depreciation of fixed assets, however these properties are not held for consumption but for investment and so it is believed that systematic depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation or amortisation is only one of the many factors reflected in the annual valuation and the amount which might otherwise be shown cannot be separately identifiable or quantified.

The surplus or deficit on revaluation is transferred to the Revaluation Reserve unless a deficit, or its reversal, on an individual property is expected to be permanent, in which case it is recognised in the Operating Cost Statement for the year.

(b) *Other properties*

A policy of revaluation has been adopted in respect of property assets owned and occupied by Scottish Enterprise for its own use. These are stated in the accounts on a market value basis with the exception of Glasgow Science Centre, which due to the specialist nature of the building, is valued on the basis of depreciated replacement cost.

The surplus or deficit on revaluation is transferred to the Revaluation Reserve unless a deficit below original cost, or its reversal, on an individual property is expected to be permanent, in which case it is recognised in the Operating Cost Statement for the year.

Depreciation is charged on the revalued amount on a straight line basis over the expected useful lives of the properties over a period of up to 50 years.

5. Non property assets

Non property assets are stated at historic cost and depreciated on a straight line basis over their useful lives as follows:-

Transport Equipment	over 5 years
Plant and Equipment	over 4 years
Information Technology	over 4 years
Furniture and Fittings	over 4 years

The cost of fit out works at Scottish Enterprise's office at Atlantic Quay, Glasgow which were completed in 2002, was included within Furniture and Fittings. Depreciation was charged over the 20 year period of the original lease term. Following the decision to transfer the lease of the building to the Scottish Government, these assets have been written off by Scottish Enterprise.

6. Intangible assets

Investments in patents and other similar rights are stated at cost, less amortised amounts which reflect the uncertainty of potential income arising from these rights.

Software licences are depreciated on a straight line basis at a rate of 33% per annum. Annual software licences are charged to the Operating Cost Statement in the year in which they are incurred.

STATEMENT OF ACCOUNTING POLICIES (continued)

7. Financial Assets

Scottish Enterprise classifies its financial assets in the following categories: loans and receivables, available for sale and held to maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables comprise trade and other receivables, investments in loan receivables and cash and non-cash equivalents in the Balance Sheet.

Loans and receivables are recognised initially at fair value and subsequently measured taking account of any provision for impairment.

A provision for impairment of loans and receivables is established when there is objective evidence that all amounts due according to the original terms of the receivable will not be collected. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial administration and default of payments are considered indicators that the loan and receivable is impaired. The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the Operating Cost Statement. When a loan or receivable is uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited in the Operating Cost Statement.

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in investments in the balance sheet. Available for sale financial assets comprise investments in ordinary shares and investments in preference shares which are not classified as held-to-maturity.

Available for sale financial assets are initially recognised and subsequently carried at fair value except in situations where fair value cannot be reliably measured. Fair value is defined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arms length transaction.

A quoted investment is valued using the bid price on the date of valuation.

In the case of an investment in other early stage businesses the inability to estimate future earnings or cashflows and the difficulty of estimating the probability and financial impact of success of its discovery or development activities can lead to the conclusion that fair value cannot be reliably estimated and in these circumstances the investment is carried at cost less impairment.

Changes in fair value of financial assets classified as Available for Sale are recognised in reserves. When financial assets classified as Available for Sale are sold or impaired, the accumulated fair value adjustments recognised in reserves are included in the Operating Cost Statement.

STATEMENT OF ACCOUNTING POLICIES (continued)

Equity securities classified as available for sale which indicate a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the asset is impaired. The cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any previously recognised impairment loss, is removed from equity and recognised in the operating cost statement. Impairment losses recognised in the operating cost statement are not reversed through the Operating Cost Statement.

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and maturities that the management has the positive intention and ability to hold to maturity. Held to maturity financial assets are included as investments which are classified as non-current assets. Held to maturity financial assets comprise investments in mandatorily redeemable preference shares.

Held to maturity assets are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment in the same way as loans and receivables.

8. Assets held by Local Enterprise Companies

Tangible assets and investments purchased by Local Enterprise Companies, in their own name with funds provided under the operating contract with Scottish Enterprise, are included in the accounts of the relevant Local Enterprise Company at cost or valuation, less depreciation and provisions as appropriate. Under the terms of the operating contract all sums due from the disposal of these assets and investments and income arising from these assets fall to be repaid to Scottish Enterprise.

The net book values of these assets and investments are included in the Balance Sheet of Scottish Enterprise under debtors due after less than one year.

9. Stock

Stock, representing finished goods, is stated at the lower of cost and net realisable value.

10. Financial Liabilities

Scottish Enterprise classifies its financial liabilities as other financial liabilities. These comprise trade and other payables in the balance sheet and are included in current liabilities, except for maturities greater than 12 months after the balance sheet date. Financial liabilities are recognised at fair value.

11. Income

Income is received from various sources and activities. Income from the sale of goods or provision of services is recognised in the period in which ownership has transferred or the period in which the service was provided to the extent that the income has become receivable. Revenue grants and partners' contributions to projects are recognised in the period to which they relate.

Income is stated net of VAT where applicable.

STATEMENT OF ACCOUNTING POLICIES (continued)**12. European funding**

European funding is credited to the Operating Cost Statement on the basis of amounts receivable in respect of expenditure incurred to 31 March each year on approved projects.

13. Dividend income

Dividend income is credited to the Operating Cost Statement in the year in which it is receivable.

14. Leasing

Rentals paid under operating leases are charged to the Operating Cost Statement on a straight-line basis over the period of the lease.

15. Taxation

Scottish Enterprise is subject to United Kingdom corporation tax on its annual profits as computed for taxation purposes. Provision for deferred taxation is made only when material liabilities are expected to arise in the foreseeable future.

Provision for corporation tax is made on gains, profits and losses, as computed for tax purposes, arising from its business activities. The Grant-in-Aid received from the Scottish Ministers is allocated in the first instance to non-business expenditures. This policy has been applied for all years to 31 March 2009.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

16. Pension costs

Scottish Enterprise's employees are eligible to be members of the Scottish Enterprise Pension and Life Assurance Scheme (the Scheme).

The Scheme is a defined benefit pension scheme providing benefits based on final pensionable pay, which are contracted out of the State Earnings-Related Pension Fund. Assets and liabilities of the Scheme are held separately from those of Scottish Enterprise. The Scheme's assets are measured using market values and the Scheme's liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

STATEMENT OF ACCOUNTING POLICIES (continued)

Contributions to the Scheme are calculated so as to spread the cost of pensions over employees' working lives with Scottish Enterprise. The contributions are determined by an actuary on the basis of triennial valuations using the Age Attained Method. The actuaries also review the progress of the Scheme in each of the intervening years. Variations from regular cost are spread over the expected average remaining working lifetime of members of the Scheme after making allowances for future withdrawals. The expected cost of providing staff pensions to employees contributing to the Scheme is recognised in the operating cost statement on a systematic basis over the expected average remaining lives of members of the funds in accordance with FRS 17 'Retirement Benefits' and recognises retirement benefits as the benefits are earned and not when they are due to be paid. The operating cost statement also includes the net impact of returns on the Scheme's assets and interest on the Scheme's liabilities, which is disclosed as other finance income.

Prior to the transfer of employees to Skills Development Scotland on 1 April 2008, some of Scottish Enterprise's employees were members of the Strathclyde Pension Fund and this is accounted for in the comparative figures only. This scheme is also a defined benefit pension scheme. Similar to the Scottish Enterprise Pension and Life Assurance Scheme, assets and liabilities of this scheme are held separately from those of Scottish Enterprise. Valuation of assets and liabilities and accounting for the expected cost of providing staff pensions to these employees, together with the net return / interest on pension assets and liabilities, were consistent with those outlined above for the Scottish Enterprise Pension and Life Assurance Scheme.

17. Exchange Gains and Losses

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions.

Assets and liabilities at the balance sheet date that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date and any exchange rate gains or losses are taken to the Operating Cost Statement.

18. Research and Development

Research and development expenditure is written off in the financial year in which it is incurred.

19. Notional costs

Scottish Enterprise is required to provide for a notional cost of capital at a rate of 3.5% per annum calculated on the arithmetic average of net assets. Notional costs are charged to the Operating Cost Statement within Interest payable and similar charges. The notional cost of capital attributable to non business activities is reversed on the Operating Cost Statement and those attributable to the business activities of Property Services and Investment Management are credited to the General Fund. From 2008-09 the charge has been calculated including the net pension asset/liability. The change to the basis of the calculation would not have a material impact on the 2007-08 charge which has therefore not been restated.

NOTES TO THE ACCOUNTS
at 31 March 2009

1. EXPENDITURE

	2009	<i>Restated</i>
	£000	2008
		£000
Operating expenditure		
<i>CONTINUING OPERATIONS</i>		
Enterprise		
Growth Business	23,409	40,946
Internationalisation	22,034	21,166
Business Environment	7,350	9,273
Innovation		
Growth Business	14,862	12,824
Innovation Systems	16,138	19,845
Commercialisation	11,467	21,323
ITI	38,023	37,380
Investment		
Business Infrastructure	51,408	61,970
Investment Funds	11,457	2,872
Research & Development	4,674	4,886
Property Costs	25,684	8,445
	<u>226,506</u>	<u>240,930</u>
<i>DISCONTINUING OPERATIONS</i>		
Skills and Learning		
Providing Better Information, Advice and Guidance	-	4,503
Providing the Best Start for the workforce of the future	-	76,039
More people in Work	-	11,579
Developing People who are in work	-	17,359
Other costs		
Training Allowance Costs	-	2,405
	<u>-</u>	<u>111,885</u>
Management expenditure		
<i>CONTINUING OPERATIONS</i>		
Operational and Support employment costs	50,244	63,346
Severance Costs	2,386	26,256
Premises, ICT, business services and other management costs	36,343	39,483
Travel and subsistence	1,823	2,517
	<u>90,796</u>	<u>131,602</u>
<i>DISCONTINUING OPERATIONS</i>		
Operational and Support employment costs	-	41,696
Severance Costs	-	-
Premises, ICT, business services and other management costs	-	7,367
Travel and subsistence	-	428
	<u>-</u>	<u>49,491</u>

NOTES TO THE ACCOUNTS (continued)

2. INCOME

	2009 £000	<i>Restated</i> 2008 £000
CONTINUING OPERATIONS		
Property Services:		
Rents	11,994	10,465
Sundry property income	347	1,595
Surplus on disposal of property	5,247	1,352
Investment Management:		
Surplus on disposal of investments	411	3,389
Other:		
European Funding	3,477	13,590
UK Government funds	1,225	2,667
Contributions and other fees	17,253	18,346
	<u>39,954</u>	<u>51,404</u>
DISCONTINUING OPERATIONS		
Other:		
European Funding	-	2,193
Contributions and other fees	-	4,867
	<u>-</u>	<u>7,060</u>

3. SHARE OF PROFITS AND LOSSES FROM JOINT VENTURES AND ASSOCIATES

	2009 £000	<i>Restated</i> 2008 £000
Operating profit from joint venture investments	36	-
Operating profit/(loss) from associate companies	(27)	(125)
	<u>9</u>	<u>(125)</u>
Share of turnover from joint venture investments	<u>-</u>	<u>-</u>

4. INCOME FROM INVESTMENTS

	2009 £000	2008 £000
Dividends and other investment income	<u>282</u>	<u>449</u>

5. OTHER FINANCE INCOME

	2009 £000	2008 £000
Expected return on pension scheme assets	29,152	34,276
Interest on pension scheme liabilities	(25,198)	(28,098)
	<u>3,954</u>	<u>6,178</u>

NOTES TO THE ACCOUNTS (continued)**6. INTEREST PAYABLE AND SIMILAR CHARGES**

	2009 £000	<i>Restated</i> 2008 £000
Share of associate and joint venture's interest	17	421
Notional cost of capital	12,903	14,886
	<u>12,920</u>	<u>15,307</u>

7. EXCESS OF EXPENDITURE OVER INCOME

	2009 £000	2008 £000
This is stated after charging/(crediting):		
Auditors' remuneration		
- audit of these accounts (i)	179	224
- all other services – auditor of these accounts	93	113
	<u>272</u>	<u>337</u>
- audit fees for subsidiary companies	98	149
- non-audit fees – auditors of subsidiaries	166	192
	<u>264</u>	<u>341</u>
Depreciation		
- owned assets	6,492	8,034
Operating lease rentals		
- buildings	6,051	7,252
- other	1,046	1,047
Foreign exchange losses/(gains)	61	(87)
Deficit/(surplus) on trading activities		
- Property management	8,096	1,827
- Investment management	5,614	(7,401)

- (i) The auditors of Scottish Enterprise, appointed by the Auditor General for Scotland, are KPMG LLP. The fees for audit services are payable to Audit Scotland who are responsible for meeting the appointed auditor's fee.

NOTES TO THE ACCOUNTS (continued)

8. TAXATION

	2009 £000	<i>Restated</i> 2008 £000
UK Corporation tax @ 28% (2008: 30%)	366	832
Corporation tax over provided in previous years	(146)	(451)
	<u>220</u>	<u>381</u>
Share of joint ventures' tax	16	-
Share of associates' tax	8	81
Total current tax	<u>244</u>	<u>462</u>
Transfer to deferred tax	-	(18)
Total tax	<u><u>244</u></u>	<u><u>444</u></u>
Factors affecting current tax charge:		
	2009 £000	2008 £000
Net Operating Costs before taxation	<u>280,873</u>	<u>478,517</u>
Current tax @ 28% (2008: 30%)	(78,644)	(143,555)
Effect of:		
Non-taxable income and disallowed expenditure	79,388	144,693
Capital allowances	(354)	(225)
Tax over provided in previous years	(146)	(451)
Current tax charge	<u><u>244</u></u>	<u><u>462</u></u>

9. INTANGIBLE ASSETS

GROUP

	<i>Patents and other rights £000</i>	<i>Software Licences £000</i>	<i>Total £000</i>
Cost			
As at 1 April 2008	633	854	1,487
Additions	-	1	1
As at 31 March 2009	<u>633</u>	<u>855</u>	<u>1,488</u>
Amortisation			
As at 1 April 2008	633	815	1,448
Charge for year	-	1	1
As at 31 March 2009	<u>633</u>	<u>816</u>	<u>1,449</u>
Net book value at 31 March 2009	<u>-</u>	<u>39</u>	<u>39</u>
Net book value at 31 March 2008	<u>-</u>	<u>39</u>	<u>39</u>

NOTES TO THE ACCOUNTS (continued)

SCOTTISH ENTERPRISE

	<i>Patents and other rights £000</i>	<i>Software Licences £000</i>	<i>Total £000</i>
Cost			
As at 1 April 2008	633	846	1,479
Additions	-	-	-
As at 31 March 2009	<u>633</u>	<u>846</u>	<u>1,479</u>
Amortisation			
As at 1 April 2008	633	806	1,439
Charge for year	-	1	1
As at 31 March 2009	<u>633</u>	<u>807</u>	<u>1,440</u>
Net book value at 31 March 2009	<u>-</u>	<u>39</u>	<u>39</u>
Net book value at 31 March 2008	<u>-</u>	<u>40</u>	<u>40</u>

10. TANGIBLE ASSETS

GROUP

	<i>Investment Property £000</i>	<i>Other Property £000</i>	<i>Transport Equipment £000</i>	<i>Plant and Equipment £000</i>	<i>Information Technology £000</i>	<i>Furniture & Fittings £000</i>	<i>Total £000</i>
Cost and valuation							
At 1 April 2008	206,576	65,019	162	27,444	5,307	7,454	311,962
Additions	15,004	665	35	582	94	61	16,441
Disposals	(6,934)	(5,805)	(26)	(3)	(224)	196	(12,796)
Written off	-	-	-	-	-	(5,502)	(5,502)
Revaluation	(55,389)	(4,563)	-	-	-	-	(59,952)
At 31 March 2009	<u>159,257</u>	<u>55,316</u>	<u>171</u>	<u>28,023</u>	<u>5,177</u>	<u>2,209</u>	<u>250,153</u>
Depreciation							
At 1 April 2008	-	5,126	87	15,395	4,328	3,762	28,698
Charge for year	-	3,309	42	2,300	525	316	6,492
Written off	-	-	-	-	-	(1,926)	(1,926)
Revaluation	-	(2,975)	-	-	-	-	(2,975)
Disposals	-	(2,464)	(13)	(36)	(219)	52	(2,680)
At 31 March 2009	<u>-</u>	<u>2,996</u>	<u>116</u>	<u>17,659</u>	<u>4,634</u>	<u>2,204</u>	<u>27,609</u>
Net book value							
At 31 March 2009	<u>159,257</u>	<u>52,320</u>	<u>55</u>	<u>10,364</u>	<u>543</u>	<u>5</u>	<u>222,544</u>
At 31 March 2008	<u>206,576</u>	<u>59,893</u>	<u>75</u>	<u>12,049</u>	<u>979</u>	<u>3,692</u>	<u>283,264</u>

Included within Investment Property is land on long leasehold (over 50 years) with a value of £32m (2008: £40m).

NOTES TO THE ACCOUNTS (continued)

Investment properties held for industrial and commercial use were valued at £159m (2008: £207m) and, included within other property, are properties owned and occupied by Scottish Enterprise for its own use which were valued at £1m (2008: £6m). Valuations at 31 March 2009 were carried out by James Barr, Chartered Surveyors on the basis of market value, as defined by the Appraisal and Valuation Manual issued by The Royal Institution of Chartered Surveyors and gave rise to a net deficit on revaluation of £60m.

Within other property a building has been revalued by James Barr, Chartered Surveyors on the basis of depreciated replacement cost representing the gross replacement cost discounted for consumption of assets to date. The building is depreciated over a period of 25 years. A surplus on revaluation at 31 March 2009 of £Nil (2008: £3.2m) was credited to the Revaluation Reserve.

The net movement on revaluation is accounted for as follows:-

GROUP

	<i>Operating Cost Statement £000</i>	<i>Revaluation reserve £000</i>	<i>Total asset movement £000</i>
Movement on revaluation	<u>(17,049)</u>	<u>(42,903)</u>	<u>(59,952)</u>

SCOTTISH ENTERPRISE

	<i>Investment Property £000</i>	<i>Other Property £000</i>	<i>Transport Equipment £000</i>	<i>Plant and Equipment £000</i>	<i>Information Technology £000</i>	<i>Furniture & Fittings £000</i>	<i>Total £000</i>
Cost and valuation							
At 1 April 2008	158,701	6,287	113	740	1,844	5,623	173,308
Additions	14,869	-	-	746	234	1,505	17,354
Disposals	(5,879)	(4,822)	(12)	-	-	-	(10,713)
Written off	-	-	-	-	-	(5,502)	(5,502)
Revaluation	(43,319)	(205)	-	-	-	-	(43,524)
At 31 March 2009	<u>124,372</u>	<u>1,260</u>	<u>101</u>	<u>1,486</u>	<u>2,078</u>	<u>1,626</u>	<u>130,923</u>
Depreciation							
At 1 April 2008	-	2,313	58	728	1,799	2,040	6,938
Transfer from LECs	-	-	-	700	216	1,176	2,092
Charge for year	-	(33)	25	-	-	-	(8)
Disposals	-	(1,698)	(3)	-	-	-	(1,701)
Written off	-	-	-	-	-	(1,926)	(1,926)
At 31 March 2009	<u>-</u>	<u>582</u>	<u>80</u>	<u>1,428</u>	<u>2,015</u>	<u>1,290</u>	<u>5,395</u>
Net book value							
At 31 March 2009	<u>124,372</u>	<u>678</u>	<u>21</u>	<u>58</u>	<u>63</u>	<u>336</u>	<u>125,528</u>
At 31 March 2008	<u>158,701</u>	<u>3,974</u>	<u>55</u>	<u>12</u>	<u>45</u>	<u>3,583</u>	<u>166,370</u>

NOTES TO THE ACCOUNTS (continued)

Included within Investment Property is land on long leasehold (over 50 years) with a value of £30.0m (2008: £37.1m).

Investment properties held for industrial and commercial use were valued at 31 March 2009 by James Barr, Chartered Surveyors, on a market value basis as defined by the Appraisal and Valuation Manual issued by The Royal Institution of Chartered Surveyors and had a value of £124m giving rise to a net deficit on revaluation of £43.5m.

The net movement on revaluation is accounted for as follows:-

SCOTTISH ENTERPRISE

	<i>Operating Cost Statement £000</i>	<i>Revaluation reserve £000</i>	<i>Total asset movement £000</i>
Movement on revaluation	<u>(13,355)</u>	<u>(30,169)</u>	<u>(43,524)</u>

11. OTHER INVESTMENTS**GROUP**

	<i>Ordinary Shares £000</i>	<i>Preference Shares £000</i>	<i>Loans £000</i>	<i>Loans to Associates £000</i>	<i>Total £000</i>
Cost					
At 1 April 2008	44,038	13,689	27,567	2,502	87,796
Reclassification	1,840	(1,356)	(484)	-	-
Additions	25,288	656	7,762	-	33,706
Revaluation	(1,131)	-	-	-	(1,131)
EU Funding received	(6,611)	(96)	(739)	-	(7,446)
Repayments	-	-	(1,878)	-	(1,878)
Disposals	(2,018)	(557)	-	-	(2,575)
Written off	(2,244)	(60)	(608)	-	(2,912)
At 31 March 2009	<u>59,162</u>	<u>12,276</u>	<u>31,620</u>	<u>2,502</u>	<u>105,560</u>
Diminution of value					
At 1 April 2008	16,378	9,699	11,898	-	37,975
Reclassification	(45)	6	39	-	-
Additions to provisions	9,577	822	247	-	10,646
Provisions set against disposals	(631)	(125)	-	-	(756)
Provisions set against write-offs	(2,244)	(60)	(608)	-	(2,912)
At 31 March 2009	<u>23,035</u>	<u>10,342</u>	<u>11,576</u>	<u>-</u>	<u>44,953</u>
Net book value					
At 31 March 2009	<u>36,127</u>	<u>1,934</u>	<u>20,044</u>	<u>2,502</u>	<u>60,607</u>
At 31 March 2008	<u>27,660</u>	<u>3,990</u>	<u>15,669</u>	<u>2,502</u>	<u>49,821</u>

NOTES TO THE ACCOUNTS (continued)

SCOTTISH ENTERPRISE

	<i>Ordinary Shares £000</i>	<i>Preference Shares £000</i>	<i>Loans £000</i>	<i>Total £000</i>
Cost				
At 1 April 2008	34,841	13,121	20,515	68,477
Reclassification	1,840	(1,356)	(484)	-
Additions	24,860	656	7,375	32,891
Revaluations	(730)	-	-	(730)
EU Funding	(6,611)	(97)	(738)	(7,446)
Repayments	-	-	(898)	(898)
Disposals	(1,273)	(496)	-	(1,769)
Written Off	-	(60)	-	(60)
At 31 March 2009	52,927	11,768	25,770	90,465
Diminution of value				
At 1 April 2008	12,188	9,317	5,514	27,019
Reclassification	(45)	6	39	-
Additions to provisions	9,008	803	349	10,160
Provisions set against disposals	(631)	(125)	-	(756)
Provisions set against write offs	-	(60)	-	(60)
At 31 March 2009	20,520	9,941	5,902	36,363
Net book value				
At 31 March 2009	32,407	1,827	19,868	54,102
At 31 March 2008	22,653	3,804	15,001	41,458

The above investments have been funded as follows:

	<i>Grant In Aid £000</i>	<i>Voted Loans £000</i>	<i>Public Dividend Capital £000</i>	<i>Total £000</i>
GROUP				
Net book value				
At 31 March 2009	59,911	614	82	60,607
At 31 March 2008	47,559	2,180	82	49,821
SCOTTISH ENTERPRISE				
Net book value				
At 31 March 2009	53,424	614	64	54,102
At 31 March 2008	40,188	1,188	82	41,458

NOTES TO THE ACCOUNTS (continued)

From 1 April 1991 all receipts, both revenue and capital, arising from the investments funded by Public Dividend Capital require to be repaid to the Treasury. This arrangement is consequent upon the provision by the Secretary of State for Scotland to the Scottish Development Agency, at the end of the 1990/91 financial year, of an addition to Grant-in-Aid for the specific purpose of enabling the Agency to repay all outstanding Public Dividend Capital.

Amounts payable to the Treasury are disclosed as appropriations in the Operating Cost Statement and amounted to £Nil (2008: £554,000).

Listed Investments

Investments with a Stock Exchange value at 31 March 2009 are included above at a cost of £12,048,000 (2008: £12,462,000) less provisions of £8,641,000 (2008: £6,411,000). The Stock Exchange value of these investments at 31 March 2009 was £3,565,000 (2008: £7,340,000) including unrealised surpluses on valuation of £158,000 (2008: £1,289,000). Income from listed investments in the year to 31 March 2009 was £64,000 (2008: £64,000).

The schedule of main invested companies is given in Note 30.

The Group accounts include the results of the following, all of which are registered in Scotland.

Subsidiary Undertakings

		% of Voting rights
Limited by shares	Nature of Business	
Atlas Connect Limited	Communications infrastructure	100
Co-operative Development Scotland Limited	Assisting new and emerging co-operative businesses	100
Optocap Limited	Electronics packaging	100
Scotland Europa Limited	Business services	100
SCTR Limited	Business incubator	100
SE Conference House Limited	Property letting	100
Enterprise Services Scotland Limited	Dormant	100
Scottish Development Finance Limited	Dormant	100
Scottish Development Overseas Limited	Dormant	100
		% of Membership
Limited by guarantee	Nature of Business	
ITI Scotland Limited	Commissioning of research	50(S)
Investors in People (Scotland) Limited	Training & skills accreditation	50(S)
Scottish Stem Cell Network Limited	Promotion and development of stem cell science in Scotland	100
SSTRIC Limited	Provision of a clean room facility	67
Euroinfocentre Limited (i)	Dormant	100
Traction Test Facility Limited (in liquidation)	Dormant	100

NOTES TO THE ACCOUNTS (continued)

General Partner	Nature of Business	% of Membership
Scottish Equity Partnership (Limited Partnership)	Venture capital fund	50

Companies marked "(S)" are subsidiaries by virtue of board control.

(i) 50% held by Scottish Enterprise Glasgow.

Local Enterprise Companies

Scottish Enterprise Ayrshire
 Scottish Enterprise Borders
 Scottish Enterprise Dumfries & Galloway
 Scottish Enterprise Dunbartonshire
 Scottish Enterprise Edinburgh & Lothian
 Scottish Enterprise Fife
 Scottish Enterprise Forth Valley
 Scottish Enterprise Glasgow
 Scottish Enterprise Grampian
 Scottish Enterprise Lanarkshire
 Scottish Enterprise Renfrewshire
 Scottish Enterprise Tayside

The following companies are subsidiary companies of the Local Enterprise Companies.

Name of Company	Nature of Business
Ayrshire Development Fund Limited	Investment fund
Scottish Borders Rural Broadband Limited (in liquidation)	Broadband telecoms access
SEBSED Limited	Loan fund
Katalyst Projects (2005) Limited	Property development
Loch Lomond Shores Management Company Limited	Property management
GDA Investments Limited	Investment fund
Glasgow Science Centre Charitable Trust	Visitor attraction ownership
Glasgow Science Centre Limited	Visitor attraction operator
Glasgow Science Centre (Trading) Limited	Commercial operations management
The Glasgow Science Centre Endowment Fund	Investment fund
Calder Park (Management) Limited	Property management
SEF Development Fund Limited	Local economic development
SE Grampian Investments Limited	Investment fund
SET Development Fund Limited	Local economic development
Tay Euro Fund Limited	Investment fund
Business Ventures Limited	Dormant
The Loch Lomond Trust	Dormant

NOTES TO THE ACCOUNTS (continued)

Joint Ventures and Associated Undertakings

Limited by shares	Nature of Business	% of Voting rights
East Dunbartonshire Development Company Limited	Property development	27.70
Ardrossan Saltcoats Stevenston Enterprise Properties Limited (in liquidation)	Property development	33.33
Discovery Quay Developments Limited	Property development	33.33
The Kelvin Institute	Commercialisation of research	28.70
Ravenscraig Limited	Property development	33.33
Katalyst Projects Limited	Property development	25.00
AMCET Limited	Promotion of commercialisation of technology	26.00
Limited by guarantee	Nature of Business	% of Membership
Renfrewshire Investment Fund Limited	Investment fund	50.00
Dunbartonshire Enterprise Fund Limited	Investment fund	50.00
Scottish Health Innovations Limited	Commercialisation of intellectual assets	50.00
Scottish Intellectual Asset Management Limited	Commercialisation of intellectual assets	50.00
Headstart Capital Fund	Investment Fund	50.00
Innovation Centres (Scotland) Limited	Business development and property management services	50.00
Joint arrangement	Nature of Business	% of Interest
SE Forth Valley / Kemfine UK	Property development	60.00

12. STOCK

	<i>2009</i>	<i>Group</i>	<i>2009</i>	<i>Scottish</i>
	<i>£000</i>	<i>2008</i>	<i>£000</i>	<i>Enterprise</i>
		<i>£000</i>		<i>2008</i>
				<i>£000</i>
Finished Goods	85	72	-	-

NOTES TO THE ACCOUNTS (continued)

13. DEBTORS

Amounts falling due after more than one year

	<i>Group</i>		<i>Scottish Enterprise Restated</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Assets and investments held by Local Enterprise Companies (i)	-	-	48,111	63,802
Subsidiary undertakings	-	-	6,152	6,152
Other debtors	1,704	1,954	1,704	1,954
	<u>1,704</u>	<u>1,954</u>	<u>55,967</u>	<u>71,908</u>

Amounts falling due within one year

	<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Local Enterprise Companies	-	-	785	10,980
Other Subsidiary undertakings	-	-	34	151
Current taxation	567	149	534	139
Other debtors	7,819	17,450	5,654	11,959
Accrued income and prepaid charges	8,178	10,689	7,282	5,206
	<u>16,564</u>	<u>28,288</u>	<u>14,289</u>	<u>28,435</u>

(i) Assets and investments held by Local Enterprise Companies

Local Enterprise Companies hold in their own name, tangible assets and investments purchased with funds provided under the operating contract with Scottish Enterprise. Under the terms of the operating contract all sums arising from the disposal of these assets and investments fall to be repaid to Scottish Enterprise.

The sums due from these assets are attributable to the following:

	<i>Scottish Enterprise Restated</i>	
	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>
Land and property	37,830	52,299
Investments	10,212	11,179
Other	69	324
	<u>48,111</u>	<u>63,802</u>

NOTES TO THE ACCOUNTS (continued)

Local Enterprise Companies are required to grant standard securities in favour of Scottish Enterprise in respect of heritable property acquired as above. Scottish Enterprise also holds a floating charge over the assets of each Local Enterprise Company.

(ii) Provisions

Debtors above are shown net of provisions as follows:

GROUP

	<i>At 1 April 2008 £000</i>	<i>Utilised during year £000</i>	<i>Movements in Provisions £000</i>	<i>At 31 March 2009 £000</i>
Other debtors	2,569	(336)	4,791	7,024

SCOTTISH ENTERPRISE

	<i>At 1 April 2008 £000</i>	<i>Utilised during year £000</i>	<i>Movements in Provisions £000</i>	<i>At 31 March 2009 £000</i>
Assets held by Local Enterprise Companies	183	-	(183)	-
Other debtors	2,515	(336)	768	2,947
	<u>2,698</u>	<u>(336)</u>	<u>585</u>	<u>2,947</u>

(iii) Public Sector balances

Included within Debtors are balances due from other public sector organisations as follows:

	<i>2009 £000</i>	<i>Group 2008 £000</i>	<i>2009 £000</i>	<i>Scottish Enterprise 2008 £000</i>
Central Government	1,591	6,771	1,543	5,881
Local Authorities	584	1,003	561	792
	<u>2,175</u>	<u>7,774</u>	<u>2,104</u>	<u>6,673</u>

NOTES TO THE ACCOUNTS (continued)

14. CASH AT BANK AND IN HAND

	<i>Restated Group</i>		<i>Scottish Enterprise</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Scottish Enterprise	36,633	74,237	36,633	74,237
Scottish Co-Investment Fund	48,126	57,650	48,126	57,650
Local Enterprise Companies	5,272	12,632	-	-
Other subsidiary undertakings	11,473	11,519	-	-
	<u>101,504</u>	<u>156,038</u>	<u>84,759</u>	<u>131,887</u>

The Scottish Co-Investment Fund is operated by Scottish Enterprise, but is part funded by the European Union and is intended to finance direct investment activity in association with private sector partners.

15. CREDITORS: amounts falling due within one year

	<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Local Enterprise Companies	-	-	1,824	626
Trade Creditors	15,384	37,134	13,227	33,791
Other subsidiary undertakings	-	-	3	203
Other taxation and social security	1,195	2,126	944	2,135
Current taxation	466	444	-	-
Other creditors	2,710	1,552	1,481	824
Accrued charges	13,800	16,856	7,858	11,439
Prepaid revenue	2,441	6,116	6,479	10,213
Treasury appropriations	-	551	-	551
	<u>35,996</u>	<u>64,779</u>	<u>31,816</u>	<u>59,782</u>

16. CREDITORS: amounts falling due after more than one year

	<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Creditors and accrued charges	969	456	-	-
Deferred income (i)	35,165	40,389	-	2,600
EU Funding for Scottish Co-investment Fund	-	5,098	-	5,098
	<u>36,134</u>	<u>45,943</u>	<u>-</u>	<u>7,698</u>

NOTES TO THE ACCOUNTS (continued)

(i) Deferred Income

Deferred Income relates principally to specific capital grants received by the Glasgow Science Centre Charitable Trust and will be released over the expected useful lives of the relevant assets by equal annual instalments.

(ii) Public Sector balances

Included within Creditors are balances due to other public sector organisations as follows:

	<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Central Government	1,980	3,843	1,097	3,378
Local Authorities	4,295	3,603	4,295	3,603
	<u>6,275</u>	<u>7,446</u>	<u>5,392</u>	<u>6,981</u>

17. PROVISIONS FOR LIABILITIES AND CHARGES

GROUP AND SCOTTISH ENTERPRISE

	<i>At</i>	<i>Increase</i>	<i>Utilised</i>	<i>Amounts</i>	<i>At</i>
	<i>1 April</i>	<i>in year</i>	<i>in year</i>	<i>Released</i>	<i>31 March</i>
	<i>2008</i>			<i>Unused</i>	<i>2009</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Future severance costs	21,644	701	(21,127)	(200)	1,018
Pension contributions	800	-	-	(422)	378
Car Scheme Buy Out	-	3,417	-	-	3,417
	<u>22,444</u>	<u>4,118</u>	<u>(21,127)</u>	<u>(622)</u>	<u>4,813</u>

A provision is recognised for the cost of severance payments not yet settled, including payments of £182,000 (2008: £11,185,000) required to augment pension benefits for those taking early retirement. The terms of severance have been agreed with the employees concerned and will be incurred during the next financial year.

A provision has been made for additional contributions payable in respect of former employees choosing to transfer their pension provision to alternative pension schemes following the restructuring of Scottish Enterprise.

A provision of £3,417,000 has been made following the decision to end the Scottish Enterprise Essential Car User Scheme. The provision will meet the costs of compensation payable to staff and for charges associated with the termination of the lease agreements.

NOTES TO THE ACCOUNTS (continued)

18. MOVEMENT IN TAXPAYERS' FUNDS

GROUP

	<i>General Fund £000</i>	<i>General Reserve £000</i>	<i>Specific Reserve £000</i>	<i>Reval'n Reserve £000</i>	<i>Pension Reserve £000</i>	<i>Total £000</i>	<i>Restated 2008 £000</i>
At 1 April 2008	294,068	(12,220)	2,612	102,763	43,519	430,742	311,211
Grant-in-aid received	257,738	-	-	-	-	257,738	524,139
Transfer from Operating Cost Statement	(288,601)	4,703	(480)	-	5,399	(278,979)	(476,199)
Notional cost of capital	11,135	-	-	-	-	11,135	10,733
Transfer to Skills Development Scotland	-	-	-	-	2,872	2,872	-
Actuarial (losses)/gains in pension scheme	-	-	-	-	(58,061)	(58,061)	46,548
Unrealised surpluses on investments	-	-	-	(1,131)	-	(1,131)	1,289
Surplus on revaluation	4,680	1,017	-	(48,600)	-	(42,903)	13,021
At 31 March 2009	<u>279,020</u>	<u>(6,500)</u>	<u>2,132</u>	<u>53,032</u>	<u>(6,271)</u>	<u>321,413</u>	<u>430,742</u>

The General Fund is the accumulated surplus on grant in aid funded activity of Scottish Enterprise. Since the incorporation of Scottish Enterprise in 1991 the aggregate amount of grant in aid provided is £7,337m (2008: £7,079m). The grant in aid provision of £258m for 2008-09 included £53m in respect of net capital expenditure.

Specific Reserves are those reserves for which their subsequent use has been restricted to a specific purpose by a subsidiary undertaking.

Revaluation Reserve is the cumulative unrealised balance arising on revaluation adjustments to assets. Included within the Revaluation Reserve total of £53m (2008: £103m) is £53m (2008: £101m) attributable to net unrealised surpluses on Investment Property.

The Pension Reserve is the accumulated surplus on the provision of retirement benefits to past and current employees.

SE Edinburgh & Lothian's interest in Edinburgh Waterfront Limited and Scottish Enterprise's interest in Careers Trust Scotland Limited were transferred to Edinburgh City Council and Skills Development Scotland Limited respectively on 31 March 2009. The transfers were approved under the Machinery of Government regulations and as a consequence the assets and liabilities of these organisations and the transactions for the previous year have been eliminated from the comparative figures in these financial statements.

NOTES TO THE ACCOUNTS (continued)

SCOTTISH ENTERPRISE

	<i>General fund £000</i>	<i>Revaluation reserve £000</i>	<i>Pension Reserve £000</i>	<i>Total £000</i>	<i>Restated 2008 £000</i>
At 1 April 2008	283,252	66,922	43,519	393,693	263,706
Grant in aid received	257,738	-	-	257,738	524,139
Transfer from Operating Cost Statement	(289,775)	-	5,399	(284,376)	(456,227)
Notional cost of capital	10,817	-	-	10,817	10,991
Transfer to Skills Development Scotland	-	-	2,872	2,872	-
Actuarial (losses)/gains in pension scheme	-	-	(58,061)	(58,061)	46,548
Unrealised gains on investments	-	(730)	-	(730)	888
(Deficit) / Surplus on revaluation	4,680	(34,849)	-	(30,169)	3,648
At 31 March 2009	<u>266,712</u>	<u>31,343</u>	<u>(6,271)</u>	<u>291,784</u>	<u>393,693</u>

Included within the Revaluation Reserve total of £31m (2008: £67m) is £31m (2008: £62m) attributable to net unrealised surpluses on Investment Property.

19. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of net expenditure to net cash outflow from operating activities

GROUP

	<i>2009 £000</i>	<i>2008 £000</i>
Net expenditure before taxation	280,873	482,861
Surplus on disposal of assets	5,247	1,352
Surplus on disposal of investments	411	3,433
Property revaluation deficit	(17,049)	(5,531)
Investment revaluation surplus	-	115
Depreciation and assets written off	(4,494)	(7,834)
Share of profit /(loss) in associate companies and joint ventures	297	(4,761)
Investment provision and write off	(10,646)	(4,755)
Decrease/ (increase) in provision for restructuring	17,631	(20,125)
Decrease in debtors	(12,392)	(2,495)
Increase / (decrease) in stocks and work in progress	13	(1,063)
Decrease in creditors	35,463	1,966
Pension scheme net charges	5,399	5,317
Interest received on deposits	5,150	5,936
Income from investments	282	449
Notional cost of capital	(12,903)	(14,886)
Net cash outflow from operating activities	<u>293,282</u>	<u>439,979</u>

NOTES TO THE ACCOUNTS (continued)

(b) Analysis of cash flows for headings netted in the cash flow statement

GROUP

	<i>2009</i> <i>£000</i>	<i>2008</i> <i>£000</i>
Returns on investments and servicing of finance		
Interest received	5,150	5,936
Income from investments	282	449
Net inflow for returns on investment and servicing of finance	<u>5,432</u>	<u>6,385</u>
Capital expenditure and financial investment		
Purchase of fixed and intangible assets	16,442	26,683
Purchase of investments	26,260	20,735
Sale of fixed assets	(15,363)	(11,346)
Sale of other investments	(2,230)	(6,480)
Repayment of loans	(1,878)	(4,173)
Net outflow for capital expenditure and financial investment	<u>23,231</u>	<u>25,419</u>
Financing		
Grant-in-Aid received	<u>257,738</u>	<u>524,139</u>
Net inflow from financing	<u>257,738</u>	<u>524,139</u>

20. ANALYSIS OF NET FUNDS

GROUP

	<i>2009</i> <i>£000</i>	Restated <i>2008</i> <i>£000</i>
Cash at bank and in hand	<u>101,504</u>	<u>156,038</u>
Total	<u>101,504</u>	<u>156,038</u>

21. SUMMARY OF LOSSES AND AMOUNTS WRITTEN OFF

	<i>No. of</i> <i>cases</i>	<i>£000</i>
Claims abandoned or waived	<u>3</u>	<u>82</u>

Due to the high risk nature of many of its investments, there are occasions when Scottish Enterprise is required to write off balances which are no longer recoverable. In the year to 31 March 2009, no balances in excess of £250,000 were written off.

NOTES TO THE ACCOUNTS (continued)**22. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES**

Contracted capital commitments outstanding and not included in the balance sheet are:

	2009 £000	2008 £000
Group	<u>2,230</u>	<u>9,379</u>
Scottish Enterprise	<u>2,230</u>	<u>2,637</u>

The contingent liabilities existing at the year-end comprise the following:

	2009 £'000	2008 £'000
Rental guarantees	2,305	2,771
Contingent liabilities arising from legal actions	-	1,029
Other contingent liabilities (i) (ii)	3,015	3,055

- (i) A bank guarantee of £1,015,000 for Social Investment Scotland was provided in March 2005 and remains in place.
- (ii) Scottish Enterprise has a potential £2,000,000 liability to meet the costs of addressing coastal defence and erosion problems at the site of Fife Energy Park.

23. MINORITY INTERESTS

	<i>Group</i>		<i>Scottish Enterprise</i>	
	2009 £000	2008 £000	2009 £000	2008 £000
Share of profits carried forward	1,941	2,645	-	-
Share of post tax (loss)/profit for year	(370)	837	-	-
Share of partnership appropriations	-	(1,541)	-	-
	<u>1,571</u>	<u>1,941</u>	<u>-</u>	<u>-</u>

NOTES TO THE ACCOUNTS (continued)

24. FINANCIAL COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows:

GROUP

	<i>Land and buildings</i>	<i>Other</i>	<i>2009 Total</i>	<i>2008 Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
On operating leases due to expire				
Within one year	1,030	245	1,275	1,517
Between two and five years	1,352	15	1,367	2,576
After five years	4,564	-	4,564	7,589
	<u>6,946</u>	<u>260</u>	<u>7,206</u>	<u>11,682</u>

SCOTTISH ENTERPRISE

	<i>Land and buildings</i>	<i>Other</i>	<i>2009 Total</i>	<i>2008 Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
On operating leases due to expire				
Within one year	365	58	423	1,466
Between two and five years	888	-	888	895
After five years	4,334	-	4,334	7,359
	<u>5,587</u>	<u>58</u>	<u>5,645</u>	<u>9,720</u>

25. FINANCIAL INSTRUMENTS

Scottish Enterprise has exposure to the following risks from the use of financial instruments:-

Liquidity risk
Credit risk
Market risk

Liquidity risk

Liquidity risk is the risk that Scottish Enterprise will not be able to meet its financial obligations as they fall due. The organisation's approach to managing liquidity is to ensure that it will have sufficient liquid funds to meet its liabilities as they fall due. Scottish Enterprise's primary source of funds is the Grant in Aid provision from the Scottish Government. Scottish Enterprise has no debt or borrowing facility with any external party.

Liquidity is managed by the use of the annual operating plan process and the monitoring of actual performance against budgets and forecasts.

NOTES TO THE ACCOUNTS (continued)

The table below details the contractual maturities of financial liabilities.

	<i>Carrying Amount £000</i>	<i>Contractual Cashflows £000</i>	<i>Within one year £000</i>	<i>After more than one year £000</i>
Financial liabilities				
Trade and other payables	32,863	32,863	31,894	969
	<u>32,863</u>	<u>32,863</u>	<u>31,894</u>	<u>969</u>

Credit risk

Credit risk is the risk of financial loss to Scottish Enterprise if a customer or counter party fails to meet its contractual obligations and arises from the trade receivables.

Scottish Enterprise carries out appropriate credit checks on potential customers before significant sales transactions are entered into in order to mitigate the credit risk Scottish Enterprise will have from any single counterparty. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet.

Scottish Enterprise operates a debt management process including monitoring, escalation procedures and recourse to court action to recover monies outstanding. Provision is made for doubtful receivables upon the age of the debt and experience of collecting overdue debts. Cash and cash equivalents are held with banks which are not expected to fail.

The maximum exposure to credit risk at the reporting date was:-

	<i>2009 Carrying Amount £000</i>	<i>2008 Carrying Amount £000</i>
Financial assets		
Trade and other receivables	13,652	25,873
Cash and cash equivalents	101,504	156,038
	<u>115,156</u>	<u>181,911</u>

The movement in the impairment provision in respect of financial assets is set out in Note 13 above.

Market risk

Market risk is the risk that market prices such as interest rates, foreign exchange rates and equity prices will affect income or the value of holdings in financial instruments.

Interest rate risk

At the balance sheet date the market risk of Scottish Enterprise's interest bearing financial instruments was:-

NOTES TO THE ACCOUNTS (continued)

	<i>2009</i> <i>Carrying</i> <i>Amount</i> <i>£000</i>	<i>2008</i> <i>Carrying</i> <i>Amount</i> <i>£000</i>
Fixed rate instruments		
Financial assets	19,544	15,197
Financial liabilities	-	-
	<u>19,544</u>	<u>15,197</u>
Variable rate instruments		
Financial assets	-	-
Financial liabilities	-	-
	<u>-</u>	<u>-</u>

Currency risk

Scottish Enterprise is exposed to currency risk on transactions and balances that are denominated in currencies other than sterling. Whenever practical, Scottish Enterprise enters into agreements in its functional currency in order to minimise currency risks.

Scottish Enterprise is exposed to currency risks from its activities conducted overseas but does not enter into any hedge arrangements and does not consider currency risk to be material.

Fair values

The fair values, together with the carrying amounts of financial assets and liabilities in the balance sheet are as follows:-

	<i>2009</i> <i>Carrying</i> <i>Amount</i> <i>£'000</i>	<i>2009</i> <i>Fair Value</i> <i>£'000</i>	<i>2008</i> <i>Carrying</i> <i>Amount</i> <i>£'000</i>	<i>2008</i> <i>Fair Value</i> <i>£'000</i>
Financial assets held for sale (i)	34,456	34,456	29,325	29,325
Trade and other receivables	13,652	13,652	25,873	25,873
Cash and cash equivalents	101,504	101,504	156,038	156,038
Trade and other payables	(32,863)	(32,863)	(55,998)	(55,998)
	<u>116,749</u>	<u>116,749</u>	<u>155,238</u>	<u>155,238</u>

(i) Financial assets held for sale are not being actively marketed and there is no expectation that completed sales will occur within one year.

NOTES TO THE ACCOUNTS (continued)

Estimation of fair values

The following methods and assumptions were used to estimate fair values:-

Financial assets held for sale	Based on an assessment of recoverable amounts
Trade and other receivables	Fair value deemed to be the same as book value
Cash and cash equivalents	Fair value deemed to be the same as book value
Trade and other payables	Fair value deemed to be the same as book value

26. PENSION SCHEME

Scottish Enterprise operates the Scottish Enterprise Pension & Life Assurance Scheme for all permanent staff which is a defined benefits scheme that provides benefits based on final pensionable salary. The assets of the scheme are held separately from those of Scottish Enterprise, being invested by the Trustees of the scheme.

On 1 April 2008, staff previously employed in Scottish Enterprise's Skills & Learning and Careers Scotland functions transferred to Skills Development Scotland. Skills Development Scotland replaced Scottish Enterprise as an admitted employer in the Strathclyde Pension Fund and as a consequence assumed the deficit of £2,872,000 in the fund which was previously attributed to Scottish Enterprise at 31 March 2008. The figures noted in the tables below for the current year are only in respect of the Scottish Enterprise Pension & Life Assurance Scheme while the prior years' comparatives include Scottish Enterprise's share of the Strathclyde Pension Fund.

The Trustees of the Scottish Enterprise Pension and Life Assurance Scheme, Scottish Enterprise (as principal employer) and Skills Development Scotland (as participating employer) have entered into an agreement effective from 1 April 2008, whereby employees of Skills Development Scotland, who were previously employees of Scottish Enterprise, will continue to participate in the Scottish Enterprise Pension and Life Assurance Scheme in accordance with the Deed of Agreement and Trust and other governing documentation of the Scheme.

The Deed of Participation admitting Skills Development Scotland as a participating employer to the Scheme does not address how the assets and liabilities of the Scheme relating to Skills Development Scotland's employees former participation in the Scheme, as employees of Scottish Enterprise, should be determined and accounted for. The Trustees of the Scheme have not yet determined a basis for apportionment of assets and liabilities between Scottish Enterprise and Skills Development Scotland. As a result, for the purposes of FRS 17 Retirement Benefits, the Directors of Scottish Enterprise continue to account for all assets and liabilities of the Scheme as at 31 March 2008. The Directors of Scottish Enterprise do not believe the future apportionment of the assets and liabilities of the Scheme are likely to have a material impact on the net assets of Scottish Enterprise as at 31 March 2009.

	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>
Present value of funded defined benefit obligations	(327,642)	(465,042)
Fair value of plan assets	321,371	508,561
Recognised (deficit)/ surplus in the scheme	<u>(6,271)</u>	<u>43,519</u>

NOTES TO THE ACCOUNTS (continued)

Movements in the present value of defined benefit obligations

	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>
At 1 April 2008	(465,042)	(510,471)
Transferred to Skills Development Scotland	86,489	-
Current service cost	(7,095)	(18,126)
Past service cost	(329)	(11,554)
Interest cost	(25,198)	(28,098)
Actuarial gains	71,445	96,415
Benefits paid	14,491	11,523
Contributions by members	(2,403)	(4,731)
	<u>(327,642)</u>	<u>(465,042)</u>

Movements in the present value of defined scheme benefits

	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>
At 1 April 2008	508,561	502,125
Transferred to Skills Development Scotland	(83,617)	-
Expected return on plan assets	29,152	34,276
Actuarial losses	(129,506)	(49,867)
Contributions by the employer	8,869	28,819
Contributions by members	2,403	4,731
Benefits paid by the plan	(14,491)	(11,523)
	<u>321,371</u>	<u>508,561</u>

Expense recognised in the operating cost statement

	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>
Current service cost	7,095	18,126
Past service cost	329	11,554
Expected return on pension scheme assets	(29,152)	(34,276)
Interest on pension scheme liabilities	25,198	28,098
Total pension expense	<u>3,470</u>	<u>23,502</u>

NOTES TO THE ACCOUNTS (continued)

The expense is recognised in the following lines in the Operating Cost Statement

	<i>2009</i> £000	<i>2008</i> £000
Management Expenditure	7,424	29,680
Other Finance Income	(3,954)	(6,178)
	<u>3,470</u>	<u>23,502</u>

The total loss amount recognised in the statement of recognised gains and losses in respect of actuarial gains and losses is £58,061,000 (2008: £46,548,000 (gain)).

Cumulative actuarial gains and losses recognised in the statement of recognised gains and losses since 1 April 2002 are net losses of £50,490,000 (2008: £7,571,000 (gains))

The fair value and the expected rates of return on scheme assets at 31 March 2009 were as follows:

	<i>Long term return</i>	<i>2009 Value £m</i>	<i>Long term return</i>	<i>2008 Value £m</i>
Equities	7.20%	205.4	7.50%	346.2
Corporate Bonds	6.70%	37.6	6.90%	43.3
Gilts	4.20%	22.5	4.50%	31.5
Property	5.20%	36.0	5.50%	63.6
Cash	4.00%	19.9	5.20%	24.0
Total fair value of assets		<u>321.4</u>		<u>508.6</u>

The expected rates of return on scheme assets are determined by reference to relevant indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance of the scheme's investment portfolio.

The principal actuarial assumptions at the year end were as follows:-

	<i>2009</i> % per annum	<i>2008</i> % per annum
Discount rate	7.10%	6.70%
Expected rate of return on plan assets	6.51%	6.89%
Future salary increases	5.00%	5.60%
Rate of increase in pensions	3.50%	3.60%
Price inflation	3.50%	3.60%

NOTES TO THE ACCOUNTS (continued)

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 60 year old to live for a number of years as follows:-

	2009 Years	2008 Years
Male – at the current pension age of 60	26.9	25.5
Male – future retiree	29.1	27.5
Female – at the current pension age of 60	29.6	28.1
Female – future retiree	31.6	30.0

History of the Scottish Enterprise Pension & Life Assurance Scheme for the current and prior periods and for Scottish Enterprise's share of the Strathclyde Pension Scheme for prior periods is as follows:

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Fair value of plan assets	321,371	508,561	502,125	457,022	355,950
Present value of defined benefit obligation	(327,642)	(465,042)	(510,471)	(470,186)	(383,876)
Surplus / (deficit)	(6,271)	43,519	(8,346)	(13,164)	(27,926)
Experience adjustments on scheme assets	(129,327) (40.2%)	(50,444) (9.9%)	(965) (0.2%)	70,727 15.5%	18,787 5.3%
Experience adjustments on scheme liabilities	28,234 8.6%	560 0.1%	(958) (0.2%)	15,764 3.4%	(5,379) (1.4%)
Total actuarial gains/(losses) on obligation	71,306 21.8%	96,415 20.7%	786 0.2%	(57,030) (12.1%)	(16,770) (4.4%)

27. MEMBERS AND EMPLOYEES

	2009 £	2008 £
(a) Non Executive Board members		
Fees and remuneration (i)	171,160	176,010
Pension and social security costs (iii)	29,448	31,422
Travel and subsistence	4,510	4,380
	<u>205,118</u>	<u>211,812</u>
Chairman's remuneration	<u>4,716</u>	<u>-</u>
Former Chairman's remuneration	<u>35,597</u>	<u>38,721</u>

NOTES TO THE ACCOUNTS (continued)

- (i) Fees and remuneration paid to Non Executive Board Members are noted in the Remuneration Report.
- (ii) Scottish Enterprise's Chief Executive, Jack Perry, is also a Member of the Board. His remuneration is included in the Remuneration Report.
- (iii) Scottish Enterprise is required to meet the pension benefits due to past Chairmen of Scottish Development Agency and Scottish Enterprise who are not members of the Scottish Enterprise Pension & Life Assurance Scheme. Provision has been made in these accounts for £124,000 (2008: £139,000) within the total pension scheme liability at 31 March 2009, as assessed by the advisers to the Scottish Enterprise Pension & Life Assurance Scheme.
- (iv) Due to the nature of Scottish Enterprise operations and the composition of its Board it is very likely that transactions will take place with companies or other organisations in which a member may have an interest. All transactions involving companies or organisations in which a member may have an interest are conducted at arms length and in accordance with normal project and programme rules. Transactions during the year with non-public bodies in which a member had an interest were as follows:-

Company	Board Member	Position	£	Description
Elonics Limited	Fred Hallsworth	Director	18,141	Grant funding
Point 35 Microstructures Ltd	Fred Hallsworth	Director	21,820	Grant funding
The Institute of Chartered Accountants of Scotland	Barbara Duffner	Council member	1,152	Course fees
Royal Institution of Chartered Surveyors	Barbara Duffner	Committee member	466	Conference fees
Greenoak Solutions Limited	Charlie Morrison	Chairman	35,300	Grant funding
The Boxshop Limited	Douglas Lamb	Managing Director	1,860	Grant funding
Standard Life Investments	Crawford Gillies	Director	48,629	Insurance costs
Rolls-Royce PLC	Jim McDonald	Advisory Board	375,044	Grant funding
Energen Biogas Limited	Graeme Waddell	Director	4,421	Grant funding

NOTES TO THE ACCOUNTS (continued)

- (v) Scottish Enterprise works in partnership with many publicly funded and representative bodies with whom joint projects and transactions have been undertaken during the year; the following Members also hold or held official positions in these organisations:

Organisation	Board Member	Position
The Kelvin Institute	Fred Hallsworth	Chairman
Scottish Institute for Enterprise	Fred Hallsworth	Director
University of Glasgow	Barbara Duffner	Lay Member of the Court
Heriot-Watt University	Ray Perman	Member of the Court
Scottish Government Economic Statistics Advisory Group	Donald MacRae	Member
British Council	Sir Timothy O'Shea	Board Member
University of Edinburgh	Sir Timothy O'Shea	Principal
TMRI Limited	Jack Perry	Chairman
The Royal Yacht Britannia	Pat Denzler	Trustee
Scottish Council for Development & Industry	Grahame Smith	Director
Riverside Inverclyde	Crawford Gillies	Director

(b) Staff costs

	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>
Wages and salaries	52,530	90,720
Social security costs	4,673	7,626
Pension costs	7,614	18,071
Severance costs (i)	2,386	26,256
Inward seconded and temporary staff costs	378	488
Staff costs recovered from external organisations	(1,431)	(223)
Travel and subsistence	1,883	2,962
Entertainment	10	54
	68,043	145,954

- (i) The number of staff who left or agreed to leave Scottish Enterprise under voluntary severance in the year to 31 March 2009 amounted to 17 (2008: 264), at a total cost of £2,315,000. This comprises payments to individuals of £1,711,000 for compensation for loss of office and pay in lieu of notice and payments to the Scottish Enterprise Pension & Life Assurance Scheme of £604,000 in relation to future pension benefits, based on actuarial calculations. These costs were partially offset by a release of unused provision from the previous year of £200,000 (see Note 17). Other severance costs of £271,000 were in relation to other group companies.

NOTES TO THE ACCOUNTS (continued)**(c) Average number of employees calculated on a full time equivalent basis**

	2009 No.	2008 No.
Executive board	4	4
Senior management	7	12
Operations	973	2,099
Administration and support function	268	458
Inward Secondments and temporary staff	6	6
	<u>1,258</u>	<u>2,579</u>
Operations – ITI Scotland Limited	72	68
	<u>1,330</u>	<u>2,647</u>

28. RELATED PARTY TRANSACTIONS

Scottish Enterprise is a non-departmental public body sponsored by the Scottish Government. The Scottish Government is regarded as a related party. During the year Scottish Enterprise has had material transactions with the Scottish Government and with Highlands and Islands Enterprise, which is within the same sponsoring department of the Scottish Government. In addition, Scottish Enterprise has had a number of material transactions with other UK Government Departments.

Scottish Enterprise also considers Members of the Board to be related parties and therefore transactions with companies that Board Members have a controlling interest in are deemed to be related party transactions.

Due to the operation of internal controls and the system of delegated authority to approve contracts, Scottish Enterprise does not consider members of staff are within the definition of related party.

29. INSURANCE ARRANGEMENTS

Having considered the net benefits arising from commercial insurance against non-insurance, Scottish Enterprise has obtained commercial insurance cover for appropriate risks. In all cases the benefits of commercial insurance are considered greater than those of non-insurance.

30. SCHEDULES OF INVESTMENTS AT 31 MARCH 2009

Disclosure of all Scottish Enterprise's investments, particularly in small businesses, would create a schedule of excessive length. This schedule discloses all investments where Scottish Enterprise holds more than 20% of the voting rights, and where the total investment is in excess of £100,000 but excludes subsidiary and associated undertakings which are disclosed in Note 10. Investment amounts are stated at cost before provisions.

NOTES TO THE ACCOUNTS (continued)

All companies are incorporated in the United Kingdom unless otherwise stated.

Shares described are ordinary shares, unless indicated by "(P)", where they are preference shares.

A. Investments funded by grant in aid, Voted Loans (VLF) and National Loans Fund

	<i>% of Voting rights</i>	<i>Shares £000</i>	<i>Loans £000</i>
Advanced Microwave Technologies Limited Microwave treatment and purification of animal blood	25.0	225	
Airframe Components Europe Limited Maintenance solutions to the aviation industry	20.0	24 116 (P)	100
Alivox Limited Development of language recognition software	20.2	120	50
Amoebics Limited Development of anti bacteria measures	22.8	272	-
Amphotonix Limited Design of semiconductor optical amplifiers	24.5	410	-
Antoxis Limited Design and synthesis of therapeutic antioxidants	24.4	277	-
Arrayjet Limited Develop robotics using ink jet printheads to make biological microarrays	21.7	752	-
Biofilm Limited Medical technology	29.8	106	1,394
Biopta Limited Services to the biotechnology industry	29.0	556	135
Calnex Solutions Limited Development of next generation test equipment	26.7	520	-
Centeo Biosciences Limited Design and supply instrumentation which improves the R&D process	26.7	382	-
CiQual Limited Software solutions for Wireless Service Providers to understand and interpret the needs users	21.1	342	-
Compound Semiconductors Technologies Global Design, development, and manufacture of discrete and integrated III-V opto-electronic devices	29.0	400	-
Critical Blue Limited Development of electronic automation design software	20.8	1,500	-
DEM Solutions Limited Provider of engineering software and consultancy	21.0	600	-
Designled Products Limited Design and development of light guide technology	22.6	137	-
Dimensional Imaging Limited Services to the medical industry	23.4	261	-
Ecopet Limited Extrusion facilities to manufacture film from recycled Polyethylene Terephthalate	29.9	240	-

NOTES TO THE ACCOUNTS (continued)

	<i>% of Voting rights</i>	<i>Shares £000</i>	<i>Loans £000</i>
Elonics Limited Semi-conductor company specialising in radio-frequency (RF) wireless silicon devices	22.4	1,125 25 (P)	-
Essential Viewing Systems Limited Software development	24.6	500	447
Exerity Limited Design and sale of audio visual technology	23.7	749	-
Extramed Limited Healthcare software	20.2	250	-
Factonomy Limited Technology partner for the agile and flexible development of web- enabled business solutions	25.2	380	-
Gas Sensing Solutions Limited Development of gas sensing device	29.9	544	-
Helixion Limited Developing a new direction for Mobility device security in next generation Convergence networks	20.6	100	-
Hubdub Limited Designed and implemented software to run "information markets	23.4	378	-
Hydrosense Limited Hygiene testing products	29.9	550 25 (P)	40
Kerchoonz Limited Internet-based multi media portal for free music and video downloads	20.4	195	-
Kowalski TV Limited TV content production, specialising in factual entertainment, specialist factual series and documentaries	25.0	75	50
Lamellar Biomedical Limited Development and manufacture of synthetic lamellar bodies	29.9	538	95
Leading Software Limited Software development company	22.1	622	-
Lumicure Limited Medical technology	24.8	1,043	-
LUX Innovate Limited Development of light based detection solutions	22.0	409	-
Microstencil Limited Designs for micro electronic packaging industry	20.1	500	-
Mobiqa Limited Solution reliable wireless transmission of tickets and coupons to mobile phones	23.8	1,548	20
Mpathy Medical Devices Limited Developing a range of innovative low impact surgical solutions to restore pelvic health to women	29.9	1,383	-
Ncimb Limited Maintains the National Collections of Industrial, Marine and Food Bacteria	21.2	252	-
Ocutec Limited Medical Technology Devices - Ophthalmogy	24.7	512	-

NOTES TO THE ACCOUNTS (continued)

	<i>% of Voting rights</i>	<i>Shares £000</i>	<i>Loans £000</i>
Outerlight Limited Development of computer games	20.5	315 100 (P)	-
Pincer Vodka Limited Functional Drinks supplier / inventor	26.7	100	-
PSI Electronics Limited Development of cable fault detection equipment	21.6	148	55
Pufferfish Limited Design, develop and sell experiential AV products	29.4	369	-
Pwb Health Limited Developing and marketing a range of innovative personal wellbeing products designed for home use	25.5	1,000	-
Pyreos Limited Development of infrared sensor technology	27.7	1,000	-
Quantum Filament Technology Limited Design of high quality flat screen displays	24.0	501	125
Rapid Mobile Media Limited Software development for mobile phones	27.6	1,250	-
Reisswolf Scotland Document security business	23.0	100	-
RSK Tech Limited Providing IT advice to T-shirt printing / garment decoration companies	21.4	57 43 (P)	-
Sentinent Medical Developing a miniature Middle Ear Implant (MEI)	26.3	204	-
SFX Technologies Limited Innovative speaker technology	24.2	930	-
Smarter Grid Solutions Limited Grid solution to renewable generators and network operators	24.5	150	-
Spaceright Europe Limited Specialist provider of noticeboards, display equipment and school dining furniture	29.8	366	-
Spiral Gateway Limited Development of novel processor architecture platform technology	24.1	460	-
Syntopharma Limited Design of delivery methodology for licenced drugs	29.9	822	-
Tayside Flow Technology Limited Development of medical devices	29.0	1,498	50
Traak Systems Limited Developing intelligent self-learning radio frequency identification ('RFID') and sensor network products	28.9	172	-
Verisim Limited Software development for financial services sector	29.9	972	50
Visible Ink Limited Media	21.4	100	-
Total of items listed		<u>29,600</u>	<u>2,611</u>

NOTES TO THE ACCOUNTS (continued)**B. Other investments greater than £1m and voting rights less than 20%**

	<i>% of Voting rights</i>	<i>Shares £000</i>	<i>Loans £000</i>
Cyclacel Pharmaceuticals Inc. Drug development Registered in USA & quoted on NASDAQ	2.2	5,401	-
Enigmatic Corporation Limited Policy-Driven automation solutions for resource management	10.6	2,000	-
LAB901 Limited Pharmaceutical and biotechnology	14.8	1,350	-
MMIC Solutions Limited Low cost packaging for high frequency MMIC's	17.9	1,035	-
Nessco Group Holdings Limited Telecoms network support - oil & gas	17.2	137	1,112
Netidme Limited Software - Identity Verification	18.9	500	500
Novabiotics Limited Biotechnology – anti infectives for disease treatment	12.8	948	440
Pelamis Limited Generation of renewable energy from ocean waves	-	-	2,000
Prismtech Limited Supply of computer middleware platform solutions	8.4	1,500	-
City of Edinburgh Council Development of visitor attraction conference facility	-	-	6,380
Glasgow Harbour Limited Property development	-	-	4,000
Intense Limited Optoelectronics	-	-	2,749
Total of items listed		12,871	17,181
		<i>Shares £000</i>	<i>Loans £000</i>
Total of items listed – Note 29A		29,600	2,611
Total of items listed – Note 29B		12,871	17,181
		42,471	19,792
Other shares and loans			43,297
Total cost of shares and loans before provisions			105,560



SCOTTISH ENTERPRISE

DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in pursuance of Section 30(1) of the Enterprise and New Towns (Scotland) Act 1990, hereby give the following direction.
2. The statement of accounts for the financial year ended 31 March 2006, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FRoM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
4. Clarification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards is given in Schedule 1 attached. Additional disclosure requirements are set out in Schedule 2 attached.
5. The income and expenditure account and balance sheet shall be prepared under the historical cost convention modified by the inclusion of:
 - 5.1 Fixed assets at their value to the business by reference to current costs; and

Stocks valued at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.
6. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 18 June 2002 is hereby revoked.

Jane Morgan

Signed by the authority of the Scottish Ministers

Dated: 14 December 2005

SCHEDULE 1

APPLICATION OF THE ACCOUNTING AND DISCLOSURE REQUIREMENTS OF THE COMPANIES ACT AND ACCOUNTING STANDARDS

Companies Act

1. The disclosure exemptions permitted by the Companies Act shall not apply with the exception of section 230 of the Companies Act 1985.
2. The Operating and Financial Review shall contain a schedule analysing and summarising the cash outturn by Scottish Executive funding block.
3. Scottish Enterprise is not required to provide the additional information required by paragraph 33(3) of Schedule 4 to the Companies Act, nor to comply fully with the disclosure requirements re investments of section 231 of the Companies Act 1985 (specifically those specified in Schedule 5, Part 11, paragraphs 23 to 28).

Accounting Policies

4. The accounting policies adopted by Scottish Enterprise shall include the following:
 - 4.1 Grant in aid received by Scottish Enterprise shall be credited to a general reserve on the basis that grant in aid cannot be allocated between revenue and capital expenditure as disclosed in the accounts.
 - 4.2 Land and buildings held for industrial or commercial use shall be accounted for in accordance with the principles of Statement of Standard Accounting Practice 19 "Accounting for Investment Properties", being included in the balance sheet at open market value on the basis of annual revaluations, which should be conducted by an independent firm of professional valuers at least every five years.

SCHEDULE 2

ADDITIONAL DISCLOSURE REQUIREMENTS

1. The notes to the accounts shall include:
 - 1.1 Disclosure of the income, expenditure, and net surplus or deficit of Commercial Property Activities;
 - 1.2 An analysis of other income;
 - 1.3 An analysis of operating costs, including training allowances costs, in categories consistent with “Smart Successful Scotland”;
 - 1.4 An analysis of management costs;
 - 1.5 An analysis of bad and doubtful debts and miscellaneous losses;
 - 1.6 The accumulated figure of financing provided by grant-in-aid since the incorporation of Scottish Enterprise;
 - 1.7 Details of the property valuation in appropriate categories together with the revaluation adjustment required to bring the original cost to market value. The basis of the valuation should be clearly stated and any comments, including those of the valuers, on the basis and limitations of the valuation which will assist the reader of the accounts in assessing the value of the portfolios should be provided;
 - 1.8 An analysis of property related items in the income and expenditure account to show surpluses/deficits on sales of property by reference to the net book amount at the beginning of the year of sale; adjustments in respect of land purchased or held and property developments contracted or in progress during the year; and adjustments in respect of changes in the value of investment property held throughout the year;
 - 1.9 An analysis of the movements on all reserves;
 - 1.10 The insurance arrangements of the Scottish Enterprise Network;
 - 1.11 An analysis of expenditure on travel and subsistence and entertaining, separately disclosing expenditure in respect of board members and staff;
 - 1.12 The average, full-time equivalent number of employees, whether permanent or temporary, employed in the Scottish Enterprise Network, analysed in appropriate categories to disclose at least the following:
 - Senior Management (that is, the holders of those posts identified in paragraph 2.7.8 of the Management Statement of Scottish Enterprise);
 - Operations;
 - Administration and support functions.
 - 1.13 The total sum paid to each Local Enterprise Company analysed by strategic theme (alternatively, this disclosure may be provided in the Operating Financial Review);

1.14 The guarantees and contingent liabilities provided by the Scottish Enterprise Network in the following categories:

- Joint ventures or property investments underwritten;
- liability arising from legal action;
- guaranteed loan and bank overdrafts of companies in which the Scottish Enterprise Network has invested;
- guarantees to banks in respect of property sales;
- any other guarantees or liabilities;

1.15 A schedule of all investments showing:

- I) In respect of companies in which the Scottish Enterprise Network holds 20% or more of the voting rights and where the total investment (including loans) is in excess of £100,000:
 - Name of company
 - Nature of its business
 - Percentage of voting rights held
 - Amount invested in shares (distinguishing between ordinary and preference shares)
 - Amount of loan given to each company
 - Any other commitments in respect of each company

- II) In respect of companies in which the Scottish Enterprise Network holds less than 20% of the voting rights but where the total investment (including loans) is in excess of £1,000,000:
 - Name of company
 - Nature of its business
 - Percentage of voting rights held
 - Amount invested in shares (distinguishing between ordinary and preference shares)
 - Amount of loan given to each company
 - Any other commitments in respect of each company

- III) In respect of all other investments by the Scottish Enterprise Network:
 - Total number of companies involved
 - Total amount invested
 - Total amount of loans given
 - Total amount of any other commitments