
SCOTTISH ENTERPRISE

ANNUAL REPORT AND ACCOUNTS

31 March 2008

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.

	Page
Management Commentary	2
Remuneration Report	15
Statement of Accountable Officer's Responsibilities	19
Statement on Internal Control	20
Independent Auditors' Report to the Members of Scottish Enterprise, the Auditor General for Scotland and the Scottish Parliament	23
Group Operating Cost Statement	25
Statement of Group Recognised Gains and Losses	26
Group Balance Sheet	27
Scottish Enterprise Balance Sheet	28
Group Cash Flow Statement	29
Statement of Accounting Policies	30
Notes to the Accounts	35
Accounts Direction	66

MANAGEMENT COMMENTARY

for the year ended 31 March 2008

BUSINESS OBJECTIVES AND STRATEGY

Scottish Enterprise (SE) was established in terms of 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.

During the year under review, Scottish Enterprise was made up of a national function, twelve Local Enterprise Companies (LECs) and a number of subsidiaries. The national function directly undertook national and strategic projects, and was also responsible for leadership, support and control of the Scottish Enterprise Group. Scottish Enterprise contracted with the Local Enterprise Companies for the implementation of strategy at local level, through the delivery of a wide range of business development and training services, along with environmental and regeneration programmes.

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. The resulting focus for Scottish Enterprise is 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 Enterprises 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.

In response to the Scottish Government's Review of the Enterprise Networks, Scottish Enterprise has completed a radical restructuring of its operations. This has included a simplified governance structure, and a substantial reduction in headcount and costs. From April 2008, Scottish Enterprise now operates as a single organisation, whilst retaining local offices to ensure it remains close to its customers and responsive to their needs.

CURRENT AND FUTURE DEVELOPMENTS

In pursuit of the Scottish Government's economic growth targets – to raise Scotland's GDP growth rate to the UK level by 2011 and match the GDP growth rate of a set of small, independent EU countries by 2017 – Scottish Enterprise will 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 2008/11 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 developing business led Regional Advisory Boards.

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, the new 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 2008/11 can be found on the website at <http://www.scottish-enterprise.com/>

In relation to 2008/09, Scottish Enterprise will deliver a £327m 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 2008 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, including the Local Enterprise Companies. 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 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, and 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 additional Resource Budget has been provided by the Scottish Ministers.

The final Resource Budget for 2007/08, after in year adjustments, amounted to £569m. This comprised a grant in aid provision of £524m and a non-cash allocation of £45m, from which £10m of cash reserves was accessed and used towards operational activities.

Scottish Enterprise successfully achieved its main financial objective for the year. The final net cash outturn was £2.2m (0.4%) below the related Resource Budget allocation. The 'non-cash' outturn was £8.9m (20%) under the available allocation. A detailed analysis of the cash outturn is provided later in this section.

The Resource Budget for 2008/09 amounts to £266m, including £236m of grant in aid and a 'non-cash' budget provision of £30m. This budget reflects the impact of the recent Scottish Government Spending Review and the transfer of responsibilities to other organisations following the Review of the Enterprise Networks.

As noted previously in this report, the Resource Budget is supplemented by income generated and applied against expenditure incurred during the year. For 2008/09 this income is forecast to amount to £61m. In total the Scottish Enterprise Business Plan for 2008/09, including these resources, amounts to £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 2008 was as follows:

	£000	£000
Operating Expenditure		
Growing Business	187,954	
Global Connections	127,744	
Learning and Skills	121,691	
	<u>437,389</u>	
Management and Administration		
Operational employment costs	84,737	
Support employment costs	20,305	
Severance costs	26,256	
Research and Development - ICT	13,794	
Premises, business services and other management costs	31,633	
	<u>176,725</u>	
	614,114	
Less: Income		<u>78,714</u>
		535,400
Funded by		
Grant-in-Aid	524,139	
Utilisation of cash reserves brought forward	10,000	
Net utilisation of Scottish Co – Investment Funds	3,501	
	<u>537,640</u>	
Net 'cash' underspend		<u>2,240</u>

Funding of Local Enterprise Companies

The total expenditure funded by Scottish Enterprise in relation to each Local Enterprise Company, analysed by strategic goal, was as follows:

	<i>Growing Business</i>	<i>Global Connections</i>	<i>Skills & Learning</i>	<i>Management & Administration</i>	<i>Cash Paid to LECs Total</i>	<i>Accruals Adjustment</i>	<i>SE Funded Expenditure</i>	
							<i>2008 Total £000</i>	<i>2007 Total £000</i>
Ayrshire	2,325	1,808	7,035	2,989	14,157	(1,082)	13,075	14,241
Borders	2,331	2,590	1,239	2,550	8,710	99	8,809	7,066
Dumfries & Galloway	2,704	1,166	2,203	2,032	8,105	44	8,149	7,185
Dunbartonshire	1,409	4,056	6,324	2,400	14,189	(881)	13,308	16,802
Edinburgh & Lothian	11,249	21,602	12,416	5,937	51,204	12,633	63,837	46,826
Fife	5,325	4,055	6,401	2,827	18,608	(1,890)	16,718	18,537
Forth Valley	2,766	1,236	4,493	2,624	11,119	374	11,493	13,785
Glasgow	6,669	13,417	28,474	5,971	54,531	796	55,327	55,349
Grampian	5,859	3,379	4,775	3,262	17,275	(335)	16,940	18,975
Lanarkshire	4,771	10,440	18,084	4,628	37,923	(3,668)	34,255	34,580
Renfrewshire	2,876	2,387	10,284	3,303	18,850	1,926	20,776	19,030
Tayside	3,895	5,118	6,005	3,300	18,318	659	18,977	21,424
Total	<u>52,179</u>	<u>71,254</u>	<u>107,733</u>	<u>41,823</u>	<u>272,989</u>	<u>8,675</u>	<u>281,664</u>	<u>273,800</u>

Management and administration funding to the Local Enterprise Companies included resources to meet the cost of customer facing operational staff, such as account and client managers, support staff and office accommodation.

Cash Balances

Due to the nature of its business and activities, Scottish Enterprise requires to retain cash balances. As at 31 March 2008 these amounted to £159m (2007: £96m). This increase is as a result of receiving funds to meet future commitments regarding the Scottish Co-investment Fund (£40m) and the voluntary severance programme provided for in these accounts (£22m). The cash balances are analysed in Note 14 to the accounts.

A significant element of the cash balances, amounting to £58m (2007: £25m), 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 additional Resource Budget has been provided by the Scottish Ministers.

Income from the European Union

European Union funds amounting to £16m (2007: £9m) 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 2008, expenditure on fixed assets and investments and proceeds from disposal were:

	<i>Expenditure</i>		<i>Disposals</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Tangible assets, including property	27	23	11	13
Investments, including loan repayments	21	9	11	14

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 2008 and is included in the accounts at £207m (2007: £187m).

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, and that of the Local Government Pension Scheme. The Remuneration Report contains specific disclosures relating to senior management.

Payment Policy

As stated in our Customer Charter, Scottish Enterprise is 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. In the year ended 31 March 2008, the Scottish Enterprise Group paid 97% (2006: 94%) of suppliers' invoices within the Charter standard.

The Customer Charter is available from our website at www.scottish-enterprise.com.

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. SE 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 membership, were as follows:

		Audit	Operations	Investment	Performance	Nominations	Remuneration	Urgent Approvals
Sir John Ward CBE	Chairman							C
Jack Perry	Chief Executive			M	M	M	M	M
Frank Blin CBE	(retired 31 October 2007)			C(i)				M(i)
Pat Denzler		M	M			M	M	
Barbara Duffner OBE		M				M	M	
Fred Hallsworth		C			M			
Douglas Lamb		M				M	M	
Donald MacRae				M	C			M
Colin McClatchie			M			C	C	
Charles Morrison			C					M
Sir Timothy O'Shea				M	M			
Ray Perman				C(ii)	M			M(ii)

C – Chair
M – Member

(i) Until 31/10/07
(ii) From 01/11/07

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 Operations Committee, which monitors financial operations and in-year performance against priority measures; 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.

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
John Phillips	MD, HR & Corporate Services
Lena Wilson	Chief Operating Officer
Charlie Woods	(left employment under voluntary severance programme 2 July 2007)

Paul Lewis, MD, Industries & Policy, joined the Executive Board with effect from 1 April 2008.

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. This is delivered using 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 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 Royal Institution of Chartered Surveyors Appraisal and Valuation Standards. 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 will continue 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's objective is to stimulate more, better and faster investment than would otherwise take place.

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.

Measured against its key performance indicators, 2007/08 has been a very successful year for Scottish Enterprise. Actual performance against every objective was either within or in excess of the forecast range.

The following tables show the objectives set at the start of the year, a brief description of the measure and a commentary on the results. The tables present the forecast range and actual performance for 2007/08, together with the actual performance from 2006/07.

GROWING BUSINESS			
2006/07 Actual	Measures of progress	2007/08 Forecast Range	2007/08 Actual
9,334	<p>Business start-ups we help Objective: To improve the number and quality of start ups Description: Businesses starting up with our support. Commentary: Highest ever achievement levels, reflecting an early success for the new model for the Business Gateway introduced in October 2007</p>	9,000 – 10,000	10,393
14	<p>Major high-growth business start-ups we help Objective: More innovative businesses with growth potential. Description: Supported start-ups by the National High Growth Start Up Unit. These businesses are forecast to be worth a combined £50-£80m by their third year of trading (based on 10-15 businesses starting per year) Commentary: The High Growth Start-up Unit continues to build on success, bolstered by an evaluation in 2007-08 which suggested a potential economic impact worth £129m by 2010</p>	10-15	10
1,684	<p>Number of Account and Client companies receiving dedicated support to increase sales growth over three years Objective: Work intensively, with companies, to address barriers to growth and to introduce improvements to deliver growth for the business. Description: Raise the growth in sales of account managed businesses by at least £800k and £400k for client managed companies after 3 years. Commentary: The number of growth companies being assisted by SE continues to expand, led by the support provided by our Account Managers</p>	1,700 – 2,100	1,889
152	<p>Collaborative projects between universities and business Objective: More commercially successful innovation. Description: Number of licences to exploit intellectual property; and number of new collaborative ventures between universities and business, and businesses with businesses, aimed at technology transfer. Commentary: This improving performance will help stimulate the flow of economic benefits from Scotland's major strengths in science and research, into our growing businesses</p>	150 - 170	178
New Measure	<p>Businesses participating in environmental activities Objective: To improve business performance by assisting business to improve environmental performance as set out in <i>Going for green growth: a green jobs strategy for Scotland</i>. Description: A number of related programmes, such as Lean Management, are available to companies, each contributing to efficient and environmental practices. Commentary: The increased focus on environmental issues and awareness amongst companies contributed to high levels of take-up.</p>	300 - 350	352

GROWING BUSINESS (continued)			
1:2.7	<p>Value of Private Leverage Invested as a result of the Co-Investment Fund</p> <p>Objective: Increase the level of private risk capital funding and number of risk capital providers in the Scottish market.</p> <p>Description: The Scottish Co-investment Fund is an innovative partnership with the private sector to provide risk capital for early stage ambitious Scottish businesses.</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 venture funding market infrastructure in Scotland</p>	1:2 – 1:2.5	1:2.2

SKILLS AND LEARNING			
2006/07 Actual	Measures of progress	2007/08 Forecast Range	2007/08 Actual
202,433	<p>Number of unique individuals engaging with Careers Scotland in career planning</p> <p>Objective: Supporting and enabling individuals of all ages to make well informed choices about work, learning and training and to be successful within the changing labour market.</p> <p>Description: Number of unique individuals supported by Careers Scotland to make and take forward well informed effective career choices and decisions about employment, learning or training.</p> <p>Commentary: Initiatives, such as local Careers Scotland Centres have been successful in attracting higher numbers of individual customers.</p>	175,000 – 195,000	210,233
38,779	<p>Individuals on occupational training programmes</p> <p>Objective: Work-based training and development for young people and older workers.</p> <p>Description: Young people in Modern Apprenticeships, Skillseekers and Get Ready for Work; older people in adult MAs.</p> <p>Commentary: While within the forecast target range, the prioritisation of customer groups has led to a lower level of actual achievements compared to 2007/08</p>	36,000 – 42,000	36,714
21,164	<p>Individuals achieving positive outcomes from occupational training</p> <p>Objective: Improved impact of training programmes.</p> <p>Description: Achievement of MA and Skillseeker qualifications, or progression from Get Ready for Work to Skillseekers, full-time education or employment.</p> <p>Commentary: Continuing strong focus on quality, achievement and completion rates has enabled achievement to exceed forecast target range.</p>	15,000 – 18,000	20,472

SKILLS AND LEARNING (continued)			
726	<p>Companies implementing Workforce Development to support growth</p> <p>Objective: Enabling business competitiveness and growth by implementing workforce development solutions.</p> <p>Description: Helping companies to identify and address a wide range of workforce development issues achieve growth.</p> <p>Commentary: Demand for support from companies has been greater than anticipated</p>	600 - 700	716

GLOBAL CONNECTIONS			
2006/07 Actual	Measures of progress	2007/08 Forecast Range	2007/08 Actual
625	<p>High potential organisations in priority industries helped to do business internationally</p> <p>Objective: Internationalisation of Scottish businesses.</p> <p>Description: Number of high potential companies in priority industries supported to do business internationally.</p> <p>Commentary: The achievement level significantly exceeded the previous year, and in-year forecast.</p>	550 - 650	733
1,775	<p>Planned high-value jobs brought to Scotland through our support for inward investment</p> <p>Objective: Bringing high value activities to Scotland.</p> <p>Description: Planned jobs secured for Scotland from inward investment in research, design or development, or advertised at £29,000 or more.</p> <p>Commentary: A significant increase in the number of companies assisted was achieved in year, with a strong pipeline of projects in place for 2008/09.</p>	2,100 – 2,400	2,578
1:3.3	<p>Value of Additional Investment on site in high impact projects.</p> <p>Objective: Deliver business infrastructure and strategic area regeneration to support key industries and help attract investment and people to Scotland.</p> <p>Description: Additional anticipated investment on high impact sites levered as a result of Scottish Enterprise investment delivered through the Strategic Investment Plan.</p> <p>Commentary: Leverage achieved was within forecast range. We will continue to seek to maximise leverage in future years.</p>	1:2 – 1:2.5	1:2.0

SOCIAL AND COMMUNITY RELATIONS

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

Scottish Enterprise works in partnership in the development and delivery of its activities and will continue to contribute an economic development perspective to Community Planning. Following the Enterprise Network reforms, Scottish Enterprise will place a particular emphasis on working collaboratively with local authorities, Skills Development Scotland, the NHS in Scotland, Scottish universities, the Scottish Funding Council, VisitScotland and Highlands & Islands Enterprise.

Scottish Enterprise has approved a corporate social responsibility policy and is building this into its enterprise support activity.

ENVIRONMENTAL MATTERS

During 2007 Scottish Enterprise's Operating Plan was subject to a Strategic Environmental Assessment (SEA) as a means of assessing ways of improving its environmental performance. The priorities identified through this process included encouraging and supporting energy and resource efficiency in its business development activity. Scottish Enterprise has reviewed its approach to resource efficiency support and has refined the services it will offer in 2008/09 to include awareness workshops for business which will highlight the business benefits of resource efficiency, and the support available from Scottish Enterprise and a range of public sector organisations.

Climate change is a major environmental issue and Scottish Enterprise is developing its approach to embed consideration of carbon emissions into its policy and operations. It is important that this work can clearly demonstrate an understanding of the organisation's impact on the environment, and a willingness to address and minimise its contribution to climate change. This work is supported by a Corporate Environmental Management policy and action plan which focuses on internal reductions and cost savings. Scottish Enterprise is committed to reduce gas and electricity consumption by 16% and travel by 5% by 2010.

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. Scottish Enterprise follows a mainstreaming strategy to effectively realise equality outcomes. Pivotal to this is ensuring that functions, policies and projects are fully impact assessed, if appropriate to not only eliminate discrimination, but to actively promote services to under represented groups. To date Scottish Enterprise has published 21 assessments and an action plan is in place to address the organisation's remaining activities. Greater detail on this work can be accessed in a separate equal opportunities report which is published on the website at http://www.scottish-enterprise.com/publications/eop_annual_report_2007.pdf.

Scottish Enterprise's priority for 2008/09 is to review its equality scheme to ensure it is fully compliant. The scheme will also be enhanced to cover age, religion/belief and sexual orientation in preparation for new public sector duties in these areas which are likely to be forthcoming in the near future.

POST BALANCE SHEET EVENTS

As a result of the reforms to the Enterprise Networks announced by the Cabinet Secretary for Finance and Sustainable Growth, in September 2007, substantial changes have been made to the delivery model for Scottish Enterprise activities, from 1 April 2008 onwards. These include:

- All local enterprise companies have ceased operating from 1 April 2008. They have currently remained as legal entities and may hold assets, for administrative purposes, but all operations formerly carried out by them are now delivered directly through Scottish Enterprise.
- All Careers Scotland activity and most skills and training activity have been transferred to Skills Development Scotland. Scottish Enterprise continues to deliver skills interventions that are specific to business growth. Under Financial Reporting Standard 3, the activities which have transferred constitute discontinued operations, and have therefore been disclosed as such in these accounts.
- Responsibility for the provision of local business support through Business Gateway operations and local regeneration activities are in the process of transferring to local authorities.

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 2008 were £224,000 (2007: £234,400).

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
23 July 2008

REMUNERATION REPORT

for the year ended 31 March 2008

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 2008.

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 2004 for an initial period of three years which was extended by a further two years in February 2007. 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.

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 SE Board to consider. This policy is set within the context of applicable Government guidelines. In consultation with the Chairman and Chairs of other SE 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 2008 were:-

Colin McClatchie	Chairman
Barbara Duffner	Deputy Chair
Douglas Lamb	
Pat Denzler	

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 have access to the Essential Car User Scheme.

Executive Board members are all eligible to become members of the Scottish Enterprise Pension & Life Assurance Scheme. If they choose to join, as ordinary members, they would contribute 6% of

pensionable salary and Scottish Enterprise would contribute 23% of the employees' pensionable salary. This is a final salary scheme that provides benefits at a normal retirement age of 60. 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 for the year to 31 March 2008 were:-

		<i>2008</i>	<i>2007</i>
		<i>Remuneration</i>	<i>Remuneration</i>
		£	£
Sir John Ward	Chairman	38,721	38,721
Frank Blin (retired 31 October 2007)		8,867	17,734
Pat Denzler		13,121	13,076
Barbara Duffner		13,721	13,436
Fred Hallsworth		15,848	13,121
Douglas Lamb		12,581	12,581
Donald MacRae		15,638	15,503
Colin McClatchie		15,638	15,638
Charles Morrison		16,896	18,154
Sir Timothy O'Shea		13,721	13,721
Ray Perman		15,638	15,458

The fees noted above for Frank Blin and Sir Timothy O'Shea were paid to PricewaterhouseCoopers LLP and the University of Edinburgh respectively, in return for these organisations making them available to provide their services as Scottish Enterprise Board members.

Remuneration of Executive Board members for the year to 31 March 2008 was:-

	<i>2008</i>				<i>2007</i>			
	<i>Salary</i>	<i>Bonus</i>	<i>Car allowance and other benefits</i>	<i>Total</i>	<i>Salary</i>	<i>Bonus</i>	<i>Car allowance and other benefits</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Jack Perry	191	24	10	225	187	23	9	219
Hugh Hall	141	14	4	159	58	5	1	64
John Phillips	127	9	5	141	120	10	4	134
Lena Wilson	167	17	9	193	158	17	4	179
Charlie Woods (to 2 July 2007)	27	-	-	27	106	9	-	115

Pension benefits of Executive Board members for the year to 31 March 2008 are as follows:-

	<i>Accrued Pension at age 60 as at 31 March 2008 and related lump sum £000</i>	<i>Increase in pension net of inflation and related lump sum at age 60 £000</i>	<i>Cash Equivalent Transfer Value (ii)</i>		
			<i>At 31 March 2008 £000</i>	<i>At 31 March 2007 £000</i>	<i>Increase net of members' contributions £000</i>
Jack Perry	30 - 35 plus lump sum of 100 - 105	0 - 2.5 plus lump sum of 10.0 - 12.5	777	575	190
Hugh Hall	0 - 5 plus lump sum of 5 - 10	0 - 2.5 plus lump sum of 5.0 - 7.5	49	12	28
John Phillips	30 - 35 plus lump sum of 90 - 95	0 - 2.5 plus lump sum of 7.5 - 10.0	579	421	150
Lena Wilson	40 - 45 plus lump sum of 120 - 125	0 - 2.5 plus lump sum of 7.5 - 10.0	667	471	187
Charlie Woods (i) (iii)	35 - 40 plus lump sum of 115 - 120	2.5 - 5 plus lump sum of 15.0 - 17.5	720	611	108

- (i) Pension details for Charlie Woods are as at the date he ceased to be a member of the Executive Board.
- (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. 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.
- (iii) In early 2007, an approved voluntary severance programme was implemented, which was open to all senior managers throughout the SE Group. Charlie Woods left the employment of Scottish Enterprise on 2 July 2007 and a payment was made to him under this programme, which comprised £30,000 for compensation for loss of office and £5,502 for accrued holiday pay. On the basis of actuarial calculations in relation to future pension benefits, a payment of £572,438 was made to the Scottish Enterprise Pension & Life Assurance Scheme.

Jack Perry
Accountable Officer
23 July 2008

STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

for the year ended 31 March 2008

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 Executive's Enterprise, Transport and Lifelong Learning Department, now succeeded by the Accountable Officer for the 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 Executive.

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
23 July 2008

STATEMENT ON INTERNAL CONTROL

for the year ended 31 March 2008

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 2008 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. An updated register is provided to the Executive Board on a monthly basis for information. The register is reviewed and discussed by the Executive Board on a quarterly basis, including consideration of progress on agreed actions to manage the risks.
- Each business unit is 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. For 2007/08 local Risk Registers were in place, to identify and document significant risks at the business unit level and the action in hand or planned to manage these. Business unit management teams review their Risk Registers and update them for changes on a regular basis.

- Ownership is assigned for each identified risk, both at a corporate and local 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 a shared service for internal audit. The internal audit planning approach is risk-based. The internal audit plans and activity for 2007/08 were reported regularly to the local Audit Committees and the SE 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 both the local and SE Audit Committees during 2007/08.

Internal Control Assessment Framework

In order to complement the organisation's risk management and internal audit arrangements, we have in place an Internal Control assessment framework. This framework requires all heads of business units to carry out a review of their unit'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 unit heads to sign off a local Certificate of Assurance. This is addressed to myself 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 business unit 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
23 July 2008

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

We have audited the accounts of the Scottish Enterprise Group ("the group") and Scottish Enterprise ("the parent") for the year ended 31 March 2008 under the Enterprise and New Towns (Scotland) Act 1990. These comprise the Group Operating Cost Statement, the Group and the 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, the Chief Executive and auditor

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 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 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.

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

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 Management Commentary and the unaudited part of the Remuneration Report. 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.

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 accounts give a true and fair view, in accordance with the 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 2008 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 with 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
23 July 2008

191 West George Street
Glasgow
G2 2LJ

GROUP OPERATING COST STATEMENT
for the year ended 31 March 2008

	Notes	2008 £000	Restated 2007 £000
Operating expenditure			
Continuing operations	1	240,930	246,199
Discontinuing operations	1	112,484	114,979
		<u>353,414</u>	<u>361,178</u>
Management expenditure			
Continuing operations	1	131,602	104,147
Discontinuing operations	1	49,494	48,583
		<u>181,096</u>	<u>152,730</u>
Total expenditure		<u>534,510</u>	<u>513,908</u>
Income			
Continuing operations	2	(51,404)	(47,429)
Discontinuing operations	2	(6,998)	(4,470)
		<u>(58,402)</u>	<u>(51,899)</u>
Excess of expenditure over income from operations		<u>476,108</u>	<u>462,009</u>
Share of losses in associated undertakings and joint ventures	3	3,607	2,498
Income from investments	4	(449)	(263)
Interest receivable		(5,936)	(6,632)
Other finance income	5	(6,178)	(7,816)
Interest payable and similar charges	6	15,709	13,955
Net operating costs before taxation	7	<u>482,861</u>	<u>463,751</u>
Taxation	8	354	1,559
Net operating costs after taxation		<u>483,215</u>	<u>465,310</u>
Minority interests	23	837	(421)
Appropriations	11	554	36
Notional cost of capital		(4,153)	(3,540)
Net expenditure		<u>480,453</u>	<u>461,385</u>

All of the above results are derived from continuing operations, other than those noted as discontinuing operations. The discontinuing operations relate to the transfer of Careers Scotland and skills and training activity to Skills Development Scotland. The 2007 comparative figures have been restated to separately disclose discontinuing operations. This has no impact on the results for the year to 31 March 2007.

STATEMENT OF GROUP RECOGNISED GAINS AND LOSSES
for the year ended 31 March 2008

	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>
Surpluses on revaluation	21,000	42,397
Actuarial gain/ (loss) recognised in pension scheme	46,548	(179)
Recognised gains for the year	<u>67,548</u>	<u>42,218</u>

GROUP BALANCE SHEET

at 31 March 2008

	Notes	2008 £000	2007 £000
FIXED ASSETS			
Intangible Assets	9	39	50
Tangible Assets	10	<u>283,264</u>	<u>267,108</u>
		283,303	267,158
Investments			
Investments in joint ventures			
share of net assets		15,728	20,659
share of net liabilities		<u>(7,068)</u>	<u>(7,628)</u>
		8,660	13,031
Investment in associates		1,391	1,781
Other investments	11	<u>49,821</u>	<u>39,657</u>
		59,872	54,469
TOTAL FIXED ASSETS		343,175	321,627
CURRENT ASSETS			
Stock	12	72	1,135
Debtors:			
amounts falling due after more than one year	13	1,954	1,242
amounts falling due within one year	13	28,288	31,677
Cash at bank and in hand	14	<u>159,368</u>	<u>95,868</u>
		189,682	129,922
CREDITORS: amounts falling due within one year	15	<u>(64,779)</u>	<u>(58,305)</u>
NET CURRENT ASSETS		<u>124,903</u>	<u>71,617</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>468,078</u>	<u>393,244</u>
CREDITORS: amounts falling due after more than one year	16	(45,943)	(53,942)
PROVISIONS FOR LIABILITIES AND CHARGES	17	<u>(22,444)</u>	<u>(2,319)</u>
		(68,387)	(56,261)
NET ASSETS BEFORE PENSION SURPLUS / (LIABILITY) AND MINORITY INTERESTS		399,691	336,983
PENSION SURPLUS / (LIABILITY)	26	<u>43,519</u>	<u>(8,346)</u>
		443,210	328,637
MINORITY INTERESTS	23	<u>(1,941)</u>	<u>(2,645)</u>
		441,269	325,992
TAXPAYERS' FUNDS			
General Fund	18	294,068	217,240
General Reserve	18	(5,023)	16,552
Specific Reserve	18	5,942	6,539
Revaluation Reserve	18	102,763	94,007
Pension Reserve	18	<u>43,519</u>	<u>(8,346)</u>
		441,269	325,992

Jack Perry
Accountable Officer
23 July 2008

BALANCE SHEET
at 31 March 2008

	Notes	2008 £000	2007 £000
FIXED ASSETS			
Intangible assets	9	40	50
Tangible assets	10	166,370	157,858
Investments	11	41,458	31,151
		<u>207,868</u>	<u>189,059</u>
CURRENT ASSETS			
Debtors:			
amounts falling due after more than one year	13	8,106	73,093
amounts falling due within one year	13	103,053	17,171
Cash at bank and in hand	14	131,887	63,968
		<u>243,046</u>	<u>154,232</u>
CREDITORS: amounts falling due within one year	15	<u>(59,782)</u>	<u>(45,368)</u>
NET CURRENT ASSETS		<u>183,264</u>	<u>108,864</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>391,132</u>	<u>297,923</u>
CREDITORS: amounts falling due after more than one year	16	(7,698)	(12,736)
PROVISIONS FOR LIABILITIES AND CHARGES	17	<u>(22,444)</u>	<u>(2,319)</u>
		<u>(30,142)</u>	<u>(15,055)</u>
NET ASSETS BEFORE PENSION SURPLUS / (LIABILITY)		360,990	282,868
PENSION SURPLUS / (LIABILITY)	26	43,519	(8,346)
		<u>404,509</u>	<u>274,522</u>
TAXPAYERS' FUNDS			
General Fund	18	294,068	217,240
Revaluation Reserve	18	66,922	65,628
Pension Reserve	18	43,519	(8,346)
		<u>404,509</u>	<u>274,522</u>

Jack Perry
Accountable Officer
23 July 2008

GROUP CASH FLOW STATEMENT

for the year ended 31 March 2008

	<i>Notes</i>	<i>2008</i> <i>£000</i>	<i>2007</i> <i>£000</i>
Net cash outflow from operating activities	19	(439,979)	(434,725)
Dividends from associate companies		-	811
Returns on investments and servicing of finance	19	6,385	6,466
Appropriations paid		(1,564)	(352)
Taxation		(62)	(1,375)
Capital expenditure and financial investment	19	(25,419)	(5,853)
Net cash outflow before financing		<u>(460,639)</u>	<u>(435,028)</u>
Financing	19	524,139	422,153
Increase / (Decrease) in cash in the period		<u><u>63,500</u></u>	<u><u>(12,875)</u></u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	<i>Notes</i>	<i>2008</i> <i>£000</i>	<i>2007</i> <i>£000</i>
Increase / (Decrease) in cash in the period		63,500	(12,875)
Cash inflow from decrease in debt		-	4,773
Movement in net funds in the period		<u>63,500</u>	<u>(8,102)</u>
Net funds at 1 April 2007		95,868	103,970
Net funds at 31 March 2008	20	<u><u>159,368</u></u>	<u><u>95,868</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 will be 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.

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 2008 is based on interim accounts.

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.

STATEMENT OF ACCOUNTING POLICIES (continued)**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 is 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 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.

STATEMENT OF ACCOUNTING POLICIES (continued)

(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, 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 50 years.

5. Non property assets

Non property assets are 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, is included within Furniture and Fittings. Depreciation is charged over the 20 year period of the original lease term.

Non property assets are stated at historic cost. Scottish Enterprise considers that the inclusion of these assets at current cost would have no material effect on the accounts.

6. Investments

Investments in shares and loans are stated at cost unless there is a readily ascertainable market value in which case the investment is carried at that value. Unrealised surpluses on revaluation are taken to the Revaluation Reserve. Provision is made against investments where the anticipated realisable value is lower than cost and these provisions are charged to the Operating Cost Statement within Investment Management.

The cost of investments made by the Scottish Co-investment Fund in areas eligible for European support are met in part from European funding received in advance and included in the Balance Sheet as a long term liability. To the extent that the cost is eligible for European support, an amount is transferred from the long term liability and is deducted from the cost of the investment.

7. 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)**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. 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.

11. 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.

12. Dividend income

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

13. Leasing

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

14. 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 2008.

STATEMENT OF ACCOUNTING POLICIES (continued)

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.

15. Pension costs

The cost of providing retirement benefits to employees is determined separately for each scheme by a qualified actuary using the projected unit method. Liabilities are discounted by the yield available on long dated high quality corporate bonds and the increase or decrease in the present value of the scheme's liabilities in the financial year attributable to current and past periods of service is taken to the Operating Cost Statement.

The expected return on the plans' assets less the interest cost of the plans' liabilities is recognised in the Operating Cost Statement as Other Finance Income. The interest cost of the plans' liabilities represents the increase in liabilities arising from unwinding of the discount due to the passage of time.

Actuarial gains or losses arising in the schemes are recognised in the Statement of Recognised Gains and Losses.

16. 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.

17. Research and Development

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

18. 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 total assets less current liabilities. 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.

NOTES TO THE ACCOUNTS
at 31 March 2008

1. EXPENDITURE

	2008	<i>Restated</i>
	£000	2007
		£000
Operating expenditure		
<i>CONTINUING OPERATIONS</i>		
Growing Businesses		
A Culture of Enterprise	23,429	22,320
Increased Business Innovation and Application of Knowledge	79,578	79,634
Developing More Businesses of Scale	17,935	17,918
Global Connections		
Better Connections	2,831	3,633
Increased Involvement in Global Markets	18,442	18,318
Scotland to be a Globally Attractive Location	63,255	62,281
More people choosing to Live, Work and Study in Scotland	4,254	1,952
Skills and Learning		
Developing People who are in work	8,866	8,604
Other costs		
Property Management	15,239	16,413
Investment Management	2,373	8,940
Research and Development	4,728	6,186
	<u>240,930</u>	<u>246,199</u>
 <i>DISCONTINUING OPERATIONS</i>		
Skills and Learning		
Providing Better Information, Advice and Guidance	5,102	4,549
Providing the Best Start for the workforce of the future	76,039	81,455
More people in Work	11,579	12,791
Developing People who are in work	17,359	13,713
Other costs		
Training Allowance Costs	2,405	2,471
	<u>112,484</u>	<u>114,979</u>
 Management expenditure		
<i>CONTINUING OPERATIONS</i>		
Operational and Support employment costs	63,346	64,336
Severance Costs	26,256	6,177
Premises, ICT, business services and other management costs	39,483	31,260
Travel and subsistence	2,517	2,374
	<u>131,602</u>	<u>104,147</u>
 <i>DISCONTINUING OPERATIONS</i>		
Operational and Support employment costs	41,696	37,988
Severance Costs	-	1,842
Premises, ICT, business services and other management costs	7,370	8,372
Travel and subsistence	428	381
	<u>49,494</u>	<u>48,583</u>

Expenditure of Scottish Enterprise is incurred on the basis of the strategic themes set out in Smart, Successful Scotland – Growing Businesses, Global Connections and Skills and Learning. Operating expenditure is the cost of delivery of programmes and projects and is

NOTES TO THE ACCOUNTS (continued)

classified in the accounts under the priority levels within each theme. The costs of investment management and provision of property services are not priorities within Smart, Successful Scotland but the expenditure is extracted and disclosed separately as they are distinct trading activities. Training allowance costs are also shown separately.

Management expenditure is the cost of providing services and includes salary costs of operational staff as well as those carrying out administrative and management functions, the costs of the voluntary severance programme, the cost of office premises and the associated business service costs.

Under the provisions of Section 2 (4) of the Enterprise and New Towns (Scotland) Act 1990, Scottish Enterprise bears the cost of training allowances paid to participants on youth and adult training schemes administered by Local Enterprise Companies. The adult training allowance is paid by the Department for Work and Pensions acting in their capacity as agents of Scottish Enterprise. The allowance is currently equivalent to an individual's benefit entitlement plus £10 per week training supplement.

The figure of £2.4m (2007: £2.5m) represents the cost of allowances, including adult training allowances paid by the Department for Work and Pensions on behalf of Scottish Enterprise for the year ended 31 March 2008. The sum contains £10,000 (2007: £8,000) of allowances known to have been paid in error (Note 21).

2. INCOME

	2008 £000	<i>Restated</i> 2007 £000
CONTINUING OPERATIONS		
Property Services:		
Rents	10,465	9,798
Sundry property income	1,595	1,396
Surplus on disposal of property	1,352	4,890
Investment Management:		
Surplus on disposal of investments	3,389	1,225
Other:		
European Funding	13,590	9,250
UK Government funds	2,667	356
Contributions and other fees	18,346	20,514
	<u>51,404</u>	<u>47,429</u>
DISCONTINUING OPERATIONS		
Other:		
European Funding	2,193	69
Contributions and other fees	4,805	4,401
	<u>6,998</u>	<u>4,470</u>

NOTES TO THE ACCOUNTS (continued)**3. SHARE OF PROFITS AND LOSSES FROM JOINT VENTURES AND ASSOCIATES**

	<i>2008</i> <i>£000</i>	<i>2007</i> <i>£000</i>
Operating loss from joint venture investments	(3,482)	(2,498)
Operating loss from associate companies	(125)	-
	<u>(3,607)</u>	<u>(2,498)</u>
Share of turnover from joint venture investments	<u>1,453</u>	<u>733</u>

4. INCOME FROM INVESTMENTS

	<i>2008</i> <i>£000</i>	<i>2007</i> <i>£000</i>
Dividends and other investment income	<u>449</u>	<u>263</u>

5. OTHER FINANCE INCOME

	<i>2008</i> <i>£000</i>	<i>2007</i> <i>£000</i>
Expected return on pension scheme assets	34,276	31,309
Interest on pension scheme liabilities	(28,098)	(23,493)
	<u>6,178</u>	<u>7,816</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	<i>2008</i> <i>£000</i>	<i>2007</i> <i>£000</i>
On loans wholly repayable within five years	-	166
Share of associate and joint venture's interest	823	728
Notional cost of capital	14,886	13,061
	<u>15,709</u>	<u>13,955</u>

NOTES TO THE ACCOUNTS (continued)

7. EXCESS OF EXPENDITURE OVER INCOME

	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>
This is stated after charging/(crediting):		
Auditors' remuneration		
- audit of these accounts (i)	224	234
- all other services – auditor of these accounts	113	58
	<u>337</u>	<u>292</u>
- audit fees for subsidiary companies	149	217
- non-audit fees – auditors of subsidiaries	192	1,134
	<u>341</u>	<u>1,351</u>
Depreciation		
- owned assets	8,034	9,303
Operating lease rentals		
- buildings	7,252	8,006
- other	1,047	1,084
Foreign exchange (gains) / losses	(87)	184
Deficit/(surplus) on trading activities		
- Property management	1,827	329
- Investment management	(7,401)	986

(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.

8. TAXATION

	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>
UK Corporation tax @ 30% (2007: 30%)	832	621
Corporation tax over provided in previous years	(451)	14
	<u>381</u>	<u>635</u>
Consortium relief	-	306
Transfer to deferred tax	(18)	(21)
Share of joint ventures' tax	(90)	568
Share of associates' tax	81	71
Total current tax	<u>354</u>	<u>1,559</u>
Factors affecting current tax charge:		
	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>
Net Operating Costs before taxation	482,861	463,751
Current tax @ 30% (2007: 30%)	(144,858)	(139,125)
Effect of:		
Non-taxable income and disallowed expenditure	145,906	140,991
Capital allowances	(225)	(300)
Tax over provided in previous years	(469)	(7)
Current tax charge	<u>354</u>	<u>1,559</u>

NOTES TO THE ACCOUNTS (continued)**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 2007	633	795	1,428
Additions	-	59	59
As at 31 March 2008	<u>633</u>	<u>854</u>	<u>1,487</u>
Amortisation			
As at 1 April 2007	633	745	1,378
Charge for year	-	70	70
As at 31 March 2008	<u>633</u>	<u>815</u>	<u>1,448</u>
Net book value at 31 March 2008	<u>-</u>	<u>39</u>	<u>39</u>
Net book value at 31 March 2007	<u>-</u>	<u>50</u>	<u>50</u>

SCOTTISH ENTERPRISE

	<i>Patents and other rights £000</i>	<i>Software Licences £000</i>	<i>Total £000</i>
Cost			
As at 1 April 2007	633	787	1,420
Additions	-	59	59
As at 31 March 2008	<u>633</u>	<u>846</u>	<u>1,479</u>
Amortisation			
As at 1 April 2007	633	737	1,370
Charge for year	-	69	69
As at 31 March 2008	<u>633</u>	<u>806</u>	<u>1,439</u>
Net book value at 31 March 2008	<u>-</u>	<u>40</u>	<u>40</u>
Net book value at 31 March 2007	<u>-</u>	<u>50</u>	<u>50</u>

NOTES TO THE ACCOUNTS (continued)

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 2007	187,100	64,579	156	26,876	5,788	7,687	292,186
Additions	25,193	111	22	813	405	80	26,624
Disposals	(9,605)	(582)	(16)	(245)	(886)	(313)	(11,647)
Revaluation	3,888	911	-	-	-	-	4,799
At 31 March 2008	206,576	65,019	162	27,444	5,307	7,454	311,962
Depreciation							
At 1 April 2007	-	4,536	60	13,326	3,932	3,224	25,078
Charge for year	-	3,505	39	2,314	1,260	846	7,964
Written off	-	-	-	-	-	-	-
Revaluation	-	(2,691)	-	-	-	-	(2,691)
Disposals	-	(224)	(12)	(245)	(864)	(308)	(1,653)
At 31 March 2008	-	5,126	87	15,395	4,328	3,762	28,698
Net book value							
At 31 March 2008	206,576	59,893	75	12,049	979	3,692	283,264
At 31 March 2007	187,100	60,043	96	13,550	1,856	4,463	267,108

Included within Investment Property is land on long leasehold (over 50 years) with a value of £40m (2007 - £41m)

Investment properties held for industrial and commercial use were valued at £207m (2007: £187m) and those properties owned and occupied by Scottish Enterprise for its own use or that of the Local Enterprise Companies were valued at £6m (2007: £6m). Valuations at 31 March 2008 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 surplus on valuation of £7m.

In the period following the financial year-end, the residential property market has suffered a significant downturn. In recognition of this, Scottish Enterprise has reconsidered the value of its properties and taking account of current market conditions, estimates that these may have reduced by up to £11m.

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 continues to be depreciated over a period of 25 years. A surplus on revaluation at 31 March 2008 of £3.2m (2007: £10.3m) was credited to the Revaluation Reserve.

NOTES TO THE ACCOUNTS (continued)

The net surplus 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>
(Deficits) / Surpluses on revaluation	<u>(5,531)</u>	<u>13,021</u>	<u>7,490</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 2007	149,580	5,885	117	724	1,810	5,623	163,739
Additions	17,995	-	12	16	34	-	18,057
Disposals	(7,375)	-	(16)	-	-	-	(7,391)
Written off	-	-	-	-	-	-	-
Revaluation	(1,499)	402	-	-	-	-	(1,097)
At 31 March 2008	<u>158,701</u>	<u>6,287</u>	<u>113</u>	<u>740</u>	<u>1,844</u>	<u>5,623</u>	<u>173,308</u>
Depreciation							
At 1 April 2007	-	1,999	43	724	1,360	1,755	5,881
Charge for year	-	314	27	4	439	285	1,069
Disposals	-	-	(12)	-	-	-	(12)
Written off	-	-	-	-	-	-	-
At 31 March 2008	<u>-</u>	<u>2,313</u>	<u>58</u>	<u>728</u>	<u>1,799</u>	<u>2,040</u>	<u>6,938</u>
Net book value							
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>
At 31 March 2007	<u>149,580</u>	<u>3,886</u>	<u>74</u>	<u>-</u>	<u>450</u>	<u>3,868</u>	<u>157,858</u>

Land on long leasehold (over 50 years) has a value of £37.1m (2007: £37.6m).

Investment properties held for industrial and commercial use were valued at 31 March 2008 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 £159m giving rise to a net deficit on revaluation of £1.5m.

NOTES TO THE ACCOUNTS (continued)

The net deficit 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>
(Deficits) / Surpluses on revaluation	<u>(4,744)</u>	<u>3,647</u>	<u>(1,097)</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 2007	35,015	14,058	25,751	2,002	76,826
Reclassification	1,248	15	(1,513)	500	250
Additions	14,430	1,280	9,614	-	25,324
Revaluation	1,404	-	-	-	1,404
EU Funding received	(4,316)	-	(523)	-	(4,839)
Repayments	-	-	(4,173)	-	(4,173)
Disposals	(3,658)	(920)	(909)	-	(5,487)
Written off	(85)	(744)	(680)	-	(1,509)
At 31 March 2008	<u>44,038</u>	<u>13,689</u>	<u>27,567</u>	<u>2,502</u>	<u>87,796</u>
Diminution of value					
At 1 April 2007	15,672	9,680	11,817	-	37,169
Reclassification	(1,552)	257	1,295	-	-
Additions to provisions	3,600	757	246	-	4,603
Provisions set against disposals	(1,263)	(369)	(808)	-	(2,440)
Provisions set against write-offs	(79)	(626)	(652)	-	(1,357)
At 31 March 2008	<u>16,378</u>	<u>9,699</u>	<u>11,898</u>	<u>-</u>	<u>37,975</u>
Net book value					
At 31 March 2008	<u>27,660</u>	<u>3,990</u>	<u>15,669</u>	<u>2,502</u>	<u>49,821</u>
At 31 March 2007	<u>19,343</u>	<u>4,378</u>	<u>13,934</u>	<u>2,002</u>	<u>39,657</u>

NOTES TO THE ACCOUNTS (continued)**SCOTTISH ENTERPRISE**

	<i>Ordinary Shares £000</i>	<i>Preference Shares £000</i>	<i>Loans £000</i>	<i>Loans to LECs £000</i>	<i>Total £000</i>
Cost					
At 1 April 2007	24,942	12,609	16,924	363	54,838
Reclassification	1,253	15	(1,268)	-	-
Additions	13,891	1,280	8,295	-	23,466
Revaluations	1,003	-	-	-	1,003
EU Funding received	(4,316)	-	(523)	-	(4,839)
Repayments	-	-	(2,787)	(363)	(3,150)
Disposals	(1,847)	(457)	-	-	(2,304)
Written Off	(85)	(326)	(126)	-	(537)
At 31 March 2008	<u>34,841</u>	<u>13,121</u>	<u>20,515</u>	<u>-</u>	<u>68,477</u>
Diminution of value					
At 1 April 2007	11,605	8,481	3,601	-	23,687
Reclassification	(1,552)	257	1,295	-	-
Additions to provisions	2,887	881	742	-	4,510
Provisions set against disposals	(673)	(6)	(6)	-	(685)
Provisions set against write offs	(79)	(296)	(118)	-	(493)
At 31 March 2008	<u>12,188</u>	<u>9,317</u>	<u>5,514</u>	<u>-</u>	<u>27,019</u>
Net book value					
At 31 March 2008	<u>22,653</u>	<u>3,804</u>	<u>15,001</u>	<u>-</u>	<u>41,458</u>
At 31 March 2007	<u>13,337</u>	<u>4,128</u>	<u>13,323</u>	<u>363</u>	<u>31,151</u>

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 2008	<u>47,559</u>	<u>2,180</u>	<u>82</u>	<u>49,821</u>
At 31 March 2007	<u>36,243</u>	<u>3,368</u>	<u>46</u>	<u>39,657</u>
SCOTTISH ENTERPRISE				
Net book value				
At 31 March 2008	<u>40,188</u>	<u>1,188</u>	<u>82</u>	<u>41,458</u>
At 31 March 2007	<u>30,043</u>	<u>1,062</u>	<u>46</u>	<u>31,151</u>

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 £554,000 (2007 - £36,000).

Listed Investments

Investments with a Stock Exchange value at 31 March 2008 are included above at a cost of £12,462,000 (2007 - £11,615,000) less provisions of £6,411,000 (2007- £4,042,000). The Stock Exchange value of these investments at 31 March 2008 was £7,340,000 (2007 - £9,568,000) including unrealised surpluses on valuation of £1,289,000 (2007 – Nil). Income from listed investments in the year to 31 March 2008 was £64,000 (2007 - £86,000).

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

Limited by shares	Nature of Business	% of Voting rights
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
Limited by guarantee	Nature of Business	% of Membership
High Blantyre Developments Limited (i)	Property development	100
Careers Trust Scotland Limited	Funding support for Careers Scotland initiatives	50
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 (ii)	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 Lanarkshire.

ii. 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)

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	Property development	33.33
Discovery Quay Developments Limited	Property development	33.33
The Kelvin Institute	Commercialisation of research	28.70
Ravensraig 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 Investment Fund Limited	Investment fund	50.00
The Interactive University Limited	Marketing & distribution of educational material	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
Fusion Assets Limited	Property development	50.00
Joint Ventures	Nature of Business	% of Membership
Waterfront Edinburgh Limited	Land remediation	50.00

12. STOCK

	<i>2008</i>	<i>Group</i>	<i>2008</i>	<i>Scottish</i>
	<i>£000</i>	<i>2007</i>	<i>£000</i>	<i>Enterprise</i>
		<i>£000</i>		<i>2007</i>
				<i>£000</i>
Finished Goods	72	1,135	-	-

NOTES TO THE ACCOUNTS (continued)**13. DEBTORS****Amounts falling due after more than one year**

	<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Assets and investments held by Local Enterprise Companies (i)	-	-	-	71,851
Subsidiary undertakings	-	-	6,152	-
Other debtors	1,954	1,242	1,954	1,242
	<u>1,954</u>	<u>1,242</u>	<u>8,106</u>	<u>73,093</u>

Amounts falling due within one year

	<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Assets and investments held by Local Enterprise Companies (i)	-	-	74,618	-
Local Enterprise Companies	-	-	10,980	3,243
Other Subsidiary undertakings	-	-	151	20
Current taxation	149	331	139	331
Other debtors	17,450	25,943	11,959	9,367
Accrued income and prepaid charges	10,689	5,403	5,206	4,210
	<u>28,288</u>	<u>31,677</u>	<u>103,053</u>	<u>17,171</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</i>	
	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>
Land and property	52,299	49,159
Investments	21,995	22,183
Other	324	509
	<u>74,618</u>	<u>71,851</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 2007 £000</i>	<i>Utilised during year £000</i>	<i>Movements in Provisions £000</i>	<i>At 31 March 2008 £000</i>
Other debtors	2,624	(320)	265	2,569

SCOTTISH ENTERPRISE

	<i>At 1 April 2007 £000</i>	<i>Utilised during year £000</i>	<i>Movements in Provisions £000</i>	<i>At 31 March 2008 £000</i>
Assets held by Local Enterprise Companies	400	(217)	-	183
Other debtors	2,412	(320)	423	2,515
	<u>2,812</u>	<u>(537)</u>	<u>423</u>	<u>2,698</u>

(iii) Public Sector balances

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

	<i>2008 £000</i>	<i>Group 2007 £000</i>	<i>2008 £000</i>	<i>Scottish Enterprise 2007 £000</i>
Central Government	6,771	5,928	5,881	5,282
Local Authorities	1,003	580	792	468
	<u>7,774</u>	<u>6,508</u>	<u>6,673</u>	<u>5,750</u>

NOTES TO THE ACCOUNTS (continued)

14. CASH AT BANK AND IN HAND

	<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Scottish Enterprise	74,237	39,007	74,237	39,007
Scottish Co-Investment Fund	57,650	24,961	57,650	24,961
Local Enterprise Companies	12,632	20,179	-	-
Other subsidiary undertakings	14,849	11,721	-	-
	<u>159,368</u>	<u>95,868</u>	<u>131,887</u>	<u>63,968</u>

The Scottish Co-Investment Fund is operated by Scottish Enterprise, but is part funded by the European Commission 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>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Local Enterprise Companies	-	-	626	27,677
Trade Creditors	37,134	26,772	33,791	3,269
Other subsidiary undertakings	-	-	203	43
Other taxation and social security	2,126	2,531	2,135	2,319
Current taxation	444	284	-	-
Other creditors	1,552	6,096	824	363
Accrued charges	16,856	15,998	11,439	6,007
Prepaid revenue	6,116	6,604	10,213	5,670
Treasury appropriations	551	20	551	20
	<u>64,779</u>	<u>58,305</u>	<u>59,782</u>	<u>45,368</u>

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

	<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Creditors and accrued charges	456	2,004	-	-
Deferred income (i)	40,389	41,984	2,600	2,800
EU Funding for Scottish Co-investment Fund	5,098	9,936	5,098	9,936
Deferred taxation	-	18	-	-
	<u>45,943</u>	<u>53,942</u>	<u>7,698</u>	<u>12,736</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>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Central Government	3,843	2,376	3,378	2,339
Local Authorities	3,603	1,076	3,603	44
Public Corporation	-	16	-	-
	<u>7,446</u>	<u>3,468</u>	<u>6,981</u>	<u>2,383</u>

17. PROVISIONS FOR LIABILITIES AND CHARGES

GROUP AND SCOTTISH ENTERPRISE

	<i>At</i>	<i>Increase in</i>	<i>Utilised</i>	<i>At</i>
	<i>1 April 2007</i>	<i>year</i>	<i>in year</i>	<i>31 March 2008</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Future severance costs	2,319	21,597	(2,272)	21,644
Pension contributions	-	800	-	800
	<u>2,319</u>	<u>22,397</u>	<u>(2,272)</u>	<u>22,444</u>

A provision is recognised for the cost of severance payments not yet settled, including payments of £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.

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>2007 £000</i>
At 1 April 2007	217,240	16,552	6,539	94,007	(8,346)	325,992	308,712
Grant-in-aid received	524,139	-	-	-	-	524,139	426,926
Transfer from Operating Cost Statement	(461,619)	(22,961)	(597)	(593)	5,317	(480,453)	(461,385)
Notional cost of capital	11,066	(333)	-	-	-	10,733	9,521
Actuarial (losses)/gains in pension scheme	-	-	-	-	46,548	46,548	(179)
Unrealised surpluses on investments	-	-	-	1,289	-	1,289	-
Surplus on revaluation	3,242	1,719	-	8,060	-	13,021	42,397
At 31 March 2008	294,068	(5,023)	5,942	102,763	43,519	441,269	325,992

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 £7,079m (2007: £6,555m). The grant in aid provision of £524,139,000 for 2007-08 included £104,665,000 in respect of net capital expenditure.

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

Revaluation Reserve is the cumulative unrealised balance arising on revaluation adjustments to assets. Included within the Revaluation Reserve total of £102,763,000 (2007: £94,007,000) is £101,474,000 (2007: £81,298,000) 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.

SCOTTISH ENTERPRISE

	<i>General fund £000</i>	<i>Revaluation reserve £000</i>	<i>Pension Reserve £000</i>	<i>Total £000</i>	<i>2007 £000</i>
At 1 April 2007	217,240	65,628	(8,346)	274,522	269,311
Grant in aid received	524,139	-	-	524,139	426,926
Transfer from Operating Cost Statement	(461,619)	-	5,317	(456,302)	(459,137)
Notional cost of capital	11,066	-	-	11,066	9,616
Actuarial (losses)/gains in pension scheme	-	-	46,548	46,548	(179)
Unrealised gains on investments	-	888	-	888	-
Surplus on revaluation	3,242	406	-	3,648	27,985
At 31 March 2008	294,068	66,922	43,519	404,509	274,522

Included within the Revaluation Reserve total of £66,922,000 (2007: £65,628,000) is £61,648,000 (2007: £61,270,000) attributable to net unrealised surpluses on Investment Property.

NOTES TO THE ACCOUNTS (continued)**19. NOTES TO THE STATEMENT OF CASH FLOWS****(a) Reconciliation of net expenditure to net cash outflow from operating activities****GROUP**

	2008 £000	2007 £000
Net expenditure before taxation	482,861	463,751
Surplus on disposal of assets	1,352	4,890
Surplus on disposal of investments	3,433	1,225
Property revaluation deficit	(5,531)	(5,307)
Investment revaluation surplus	115	-
Depreciation	(7,834)	(9,520)
Share of loss in associate companies and joint ventures	(4,761)	(2,309)
Investment provision and write off	(4,755)	(7,030)
Provision for restructuring	(20,125)	(1,464)
Decrease in debtors	(2,495)	(9,642)
Decrease in stocks and work in progress	(1,063)	(10)
Decrease in creditors	1,966	834
Pension scheme net charges	5,317	5,902
Interest received on deposits	5,936	6,632
Interest paid on loan finance	-	(166)
Income from investments	449	-
Notional cost of capital	(14,886)	(13,061)
Net cash outflow from operating activities	<u>439,979</u>	<u>434,725</u>

NOTES TO THE ACCOUNTS (continued)

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

GROUP

	<i>2008</i> <i>£000</i>	<i>2007</i> <i>£000</i>
Returns on investments and servicing of finance		
Interest received	5,936	6,632
Interest paid	-	(166)
Income from investments	449	-
Net inflow for returns on investment and servicing of finance	<u>6,385</u>	<u>6,466</u>
Capital expenditure and financial investment		
Purchase of fixed and intangible assets	26,683	23,384
Purchase of investments	20,735	9,459
Sale of fixed assets	(11,346)	(13,259)
Sale of associate companies and joint ventures	-	(6,446)
Sale of other investments	(6,480)	(3,310)
Repayment of loans	(4,173)	(3,975)
Net outflow for capital expenditure and financial investment	<u>25,419</u>	<u>5,853</u>
Financing		
Debt due within one year: decrease in loans	-	(3,017)
Debt due after one year: decrease in loans	-	(1,756)
Grant-in-Aid received	524,139	426,926
Net inflow from financing	<u>524,139</u>	<u>422,153</u>

20. ANALYSIS OF NET FUNDS

GROUP

	<i>2008</i> <i>£000</i>	<i>2007</i> <i>£000</i>
Cash at bank and in hand	159,368	95,868
Total	<u>159,368</u>	<u>95,868</u>

21. SUMMARY OF LOSSES AND AMOUNTS WRITTEN OFF

	<i>No. of</i> <i>cases</i>	<i>£000</i>
Cash Losses – training allowances paid in error (Note 1)	<u>106</u>	<u>10</u>
Claims abandoned or waived	<u>82</u>	<u>1,602</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 2008, 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:

	2008 £000	2007 £000
Group	<u>9,379</u>	<u>4,623</u>
Scottish Enterprise	<u>2,637</u>	<u>3,731</u>

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

	2008 £'000	2007 £'000
Rental guarantees	2,771	3,237
Contingent liabilities arising from legal actions	1,029	38
Other contingent liabilities (ii)	3,055	3,055
Joint ventures and property investments underwritten	-	-
Guaranteed loan and bank overdrafts for invested companies	-	-
Guarantees to banks for property sales (i)	-	-

- (i) Scottish Enterprise is able to guarantee secured loans made by banks to purchasers of properties which are being disposed of by Scottish Enterprise. Based on valuations of the properties in question, and the loan balances outstanding at 31 March 2008, Scottish Enterprise considers there is no current net potential liability under the scheme. The total value of loans outstanding in respect of these guarantees amounted to £ Nil (2007: £25,833).
- (ii) A bank guarantee of £1,015,000 for Social Investment Scotland was provided in March 2005. During the financial year a bank guarantee in the sum of £40,000 was renewed in respect of Connect Scotland. There is a possibility that an amount of around £2m may be required to be incurred over the next two years in relation to coastal defences at Fife Energy Park.

23. MINORITY INTERESTS

	<i>Group</i>		<i>Scottish Enterprise</i>	
	2008 £000	2007 £000	2008 £000	2007 £000
Share of profits carried forward	2,645	3,382	-	-
Share of post tax profit/(loss) for year	837	(421)	-	-
Share of partnership appropriations	(1,541)	(316)	-	-
	<u>1,941</u>	<u>2,645</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>2008 Total</i>	<i>2007 Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
On operating leases due to expire				
Within one year	1,016	501	1,517	1,039
Between two and five years	1,742	834	2,576	3,003
After five years	7,589	-	7,589	7,630
	<u>10,347</u>	<u>1,335</u>	<u>11,682</u>	<u>11,672</u>

SCOTTISH ENTERPRISE

	<i>Land and buildings</i>	<i>Other</i>	<i>2008 Total</i>	<i>2007 Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
On operating leases due to expire				
Within one year	1,013	453	1,466	776
Between two and five years	595	300	895	2,053
After five years	7,359	-	7,359	7,263
	<u>8,967</u>	<u>753</u>	<u>9,720</u>	<u>10,092</u>

25. FINANCIAL INSTRUMENTS

Scottish Enterprise has no borrowings. Funding for Scottish Enterprise's activities is primarily provided by the Scottish Government in the form of grant in aid and therefore Scottish Enterprise is not exposed to liquidity risks. Assets and liabilities are materially denominated in sterling and as a consequence, exposure to currency risks is not material.

26. PENSION SCHEMES

Scottish Enterprise operates the Scottish Enterprise Pension & Life Assurance Scheme for all permanent staff that provides benefits based on final pensionable salary. Following their transfer to Scottish Enterprise from their previous employers as part of the creation of Careers Scotland, some staff chose to remain with the Local Government Pension Scheme, a statutory scheme that also provides benefits based on final pensionable salary. The assets of the schemes are held separately from those of Scottish Enterprise, being invested by the Trustees of the Scottish Enterprise Pension & Life Assurance Scheme and the administering authority in the case of the Local Government Pension Scheme. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method.

The Scottish Enterprise Pension & Life Assurance Scheme is a defined benefit scheme. Employees contribute 6% of pensionable salary and Scottish Enterprise contributed 23% of the employees' pensionable salary.

NOTES TO THE ACCOUNTS (continued)

The most recent formal valuation for funding purposes was as at 31 March 2005. The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries and pensions. The valuation assumed investment returns of 6.95% p.a. pre-retirement and 4.95% p.a. post-retirement. Salary growth was assumed to be 4.9% p.a. and pension increases were assumed to be 2.9% p.a. At the actuarial valuation the market value of the scheme's assets was £300.5m and the actuarial value of those assets was sufficient to cover 98% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

Of the schemes comprising the Local Government Pension Scheme, Scottish Enterprise contributes to the Strathclyde Pension Fund being the only scheme in which there are Scottish Enterprise employee members. The Strathclyde Pension Fund is a multi-employer defined benefit scheme. Employees contribute 6% of pensionable salary to the Strathclyde Pension Fund and Scottish Enterprise contributes 16.2% of the employees' pensionable salary. The most recent valuation of the Strathclyde Pension Fund was as at 31 March 2005 and the assets of the Fund (across all participating employers) were sufficient to meet 97% of the members' accrued benefits. The most significant assumptions used in the valuation were investment returns of 6.3% p.a., salary growth of 4.4% p.a. and pension increases of 2.9% p.a.

The principal assumptions used by the independent qualified actuary in updating the most recent valuations of both the Scottish Enterprise Pension and Life Assurance Scheme and the Local Government Pension Scheme to 31 March 2008 for FRS17 purposes were:

	<i>Scottish Enterprise</i>			<i>Strathclyde Pension Fund</i>		
	2008	2007	2006	2008	2007	2006
Discount rate	6.7%	5.4%	4.9%	6.7%	5.4%	4.9%
Retail price inflation	3.6%	3.2%	2.7%	3.6%	3.2%	2.7%
Rate of increase in salaries	5.6%	5.2%	4.7%	5.6%	5.2%	4.7%
Rate of increase for pensions	3.6%	3.2%	2.7%	3.6%	3.2%	2.7%

NOTES TO THE ACCOUNTS (continued)

The expected rates of return and the assets in the Scottish Enterprise Pension and Life Assurance Scheme at 31 March 2008 were:

	<i>Long term return</i>	<i>2008 Value £M</i>	<i>Long term return</i>	<i>2007 Value £M</i>	<i>Long term return</i>	<i>2006 Value £M</i>
Equities	7.50%	285.2	7.50%	282.1	7.30%	268.4
Corporate Bonds	6.90%	37.2	5.40%	33.5	4.90%	51.3
Gilts	4.50%	25.4	4.50%	27.5	4.30%	4.7
Property	5.50%	55.4	5.50%	63.9	6.10%	54.2
Cash	5.20%	21.8	4.50%	11.9	4.50%	5.5
Total market value of assets		425.0		418.9		384.1
Actuarial valuation of scheme liabilities		378.6		414.6		382.6
Net pension asset		46.4		4.3		1.5

The expected rates of return and the assets in the Local Government Pension Scheme at 31 March 2008 were:

	<i>Long term return</i>	<i>2008 Value £M</i>	<i>Long term return</i>	<i>2007 Value £M</i>	<i>Long term return</i>	<i>2006 Value £M</i>
Equities	7.50%	61.0	7.50%	61.1	7.30%	55.5
Corporate Bonds	6.90%	6.1	5.40%	5.1	4.90%	3.7
Gilts	4.50%	6.1	4.50%	5.1	4.30%	3.7
Property	5.50%	8.1	5.50%	8.3	6.10%	6.6
Cash	5.20%	2.3	4.50%	3.6	4.50%	3.4
Total market value of assets		83.6		83.2		72.9
Actuarial valuation of scheme liabilities		86.5		95.9		88.4
Net pension liability		(2.9)		(12.7)		(15.5)

NOTES TO THE ACCOUNTS (continued)

The movement in surplus/(deficit) in each of the two schemes during the year to 31 March 2008 comprises:

	<i>Scottish Enterprise</i>		<i>Strathclyde Fund</i>		<i>Total</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Surplus/(Deficit) in scheme at 1 April 2007	4,311	1,478	(12,657)	(15,547)	(8,346)	(14,069)
Current Service Cost	(14,367)	(14,642)	(3,760)	(3,718)	(18,127)	(18,360)
Employer Contributions	25,994	16,811	2,825	2,643	28,819	19,454
Other income	-	117	-	-	-	117
Other expenditure	-	(263)	-	-	-	(263)
Past Service Costs	(11,553)	(4,230)	-	1,368	(11,553)	(2,862)
Net Return	5,623	7,164	555	652	6,178	7,816
Actuarial Gains/(Losses)	36,383	(2,124)	10,165	1,945	46,548	(179)
Surplus/(Deficit) in scheme at 31 March 2008	46,391	4,311	(2,872)	(12,657)	43,519	(8,346)

Amount charged to the Operating Cost Statement in respect of defined benefit schemes is as follows:

	<i>Scottish Enterprise</i>		<i>Strathclyde Fund</i>		<i>Total</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Current Service cost	14,367	14,642	3,760	3,718	18,127	18,360
Past Service cost	11,553	4,230	-	(1,368)	11,553	2,862
Total	25,920	18,872	3,760	2,350	29,680	21,222

Amount credited to the Operating Cost Statement in respect of defined benefit schemes is as follows:

	<i>Scottish Enterprise</i>		<i>Strathclyde Fund</i>		<i>Total</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Expected return on scheme assets	28,500	26,247	5,776	5,062	34,276	31,309
Interest on pension liabilities	(22,877)	(19,083)	(5,221)	(4,410)	(28,098)	(23,493)
Net Return	5,623	7,164	555	652	6,178	7,816

NOTES TO THE ACCOUNTS (continued)

Analysis of amounts recognised in the Statement of Recognised Gains and Losses:

	<i>Scottish Enterprise</i>		<i>Strathclyde Fund</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Actual Return less expected return on scheme assets	(40,954)	(2,839)	(8,913)	1,875
Experience gains and losses on scheme liabilities	656	(958)	(112)	-
Changes in assumptions underlying the present value of liabilities	76,681	1,673	19,190	70
	36,383	(2,124)	10,165	1,945

History of experience gains and losses:

Scottish Enterprise	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Actual Return less expected return on scheme assets	(40,954)	(2,839)	59,536	12,741	30,054
Value of plan assets	424,944	418,907	384,081	297,281	260,243
Percentage of scheme assets	(9.64%)	(0.68%)	15.50%	4.29%	11.55%
Experience gains and losses on scheme liabilities	656	(958)	196	662	468
Present value of scheme liabilities	378,414	414,441	382,453	303,746	275,093
Percentage of present value of scheme liabilities	0.17%	(0.23%)	0.05%	0.22%	0.17%
Actuarial gain / (loss) in pension scheme	36,383	(2,124)	5,877	7,615	23,827
Present value of scheme liabilities	378,414	414,441	382,453	303,746	275,093
Percentage of present value of scheme liabilities	9.61%	(0.51%)	1.54%	2.51%	8.66%
Strathclyde Pension Fund	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Actual Return less expected return on scheme assets	(8,913)	1,875	11,191	6,046	6,740
Value of plan assets	83,617	83,217	72,941	58,669	45,974
Percentage of scheme assets	(10.66%)	2.25%	15.34%	10.30%	14.66%
Experience gains and losses on scheme liabilities	(112)	-	9,366	(6,041)	(1,218)
Present value of scheme liabilities	85,895	95,175	87,733	80,130	61,043
Percentage of present value of scheme liabilities	(0.13%)	-	10.68%	(7.54%)	(2.00%)
Actuarial gain / (loss) in pension scheme	10,165	1,945	7,821	(5,599)	3,292
Present value of scheme liabilities	85,895	95,175	87,733	80,130	61,043
Percentage of present value of scheme liabilities	11.83%	2.04%	8.91%	(6.99%)	5.39%

NOTES TO THE ACCOUNTS (continued)

27. MEMBERS AND EMPLOYEES

	2008 £	2007 £
(a) Non Executive Board members		
Fees and remuneration (i)	176,010	191,265
Pension and social security costs (iii)	31,422	33,967
Travel and subsistence	4,380	6,260
	<u>211,812</u>	<u>231,492</u>
Chairman's remuneration	<u>38,721</u>	<u>38,721</u>

- (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 £139,000 (2007: £155,000) within the total pension scheme liability at 31 March 2008, 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
Point 35 Microstructures Ltd	Fred Hallsworth	Director	10,265	Grant funding
Elonics Limited	Fred Hallsworth	Director	1,000,013	Ordinary shares
The Institute of Chartered Accountants of Scotland	Barbara Duffner	Council Member	3,798	Course fees
Royal Institution of Chartered Surveyors	Barbara Duffner	Committee Member	2,367	Course fees
Greenoak Solutions Ltd	Charlie Morrison	Chairman	18,222	Grant funding
			100,000	Ordinary shares
The Boxshop Ltd	Douglas Lamb	Managing Director	15,150	Grant funding
PricewaterhouseCoopers LLP	Frank Blin	Partner	175,815	Consultancy Fees
			149,000	Audit Fees

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
Kelvin Insititute	Fred Hallsworth	Director
Scottish Institute for Enterprise	Fred Hallsworth	Director
University of Glasgow	Barbara Duffner	Lay Member of the Court
Heriot-Watt University	Ray Perman	Member of Court
Roslin Institute	Sir Timothy O'Shea	Director
University of Edinburgh	Sir Timothy O'Shea	Principal
TMRI Limited	Jack Perry	Chairman
University of Strathclyde	Jack Perry	Member of General Convocation
The Royal Yacht Britannia	Pat Denzler	Trustee

(b) Staff costs

	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>
Wages and salaries	90,720	89,739
Social security costs	7,626	7,619
Pension costs	18,071	18,344
Severance costs (i)	26,256	8,019
Inward seconded and temporary staff costs	488	373
Staff costs recovered from external organisations	(223)	(1,278)
Travel and subsistence	2,962	2,847
Entertainment	54	41
	<u>145,954</u>	<u>125,704</u>

- (i) The number of staff who left or agreed to leave under voluntary severance in the year to 31 March 2008 amounted to 264 (2007: 36), including staff at Local Enterprise Companies, at a total cost of £26,256,000. This comprises payments to individuals of £15,071,000 for compensation for loss of office and pay in lieu of notice and payments to the Scottish Enterprise Pension & Life Assurance Scheme of £11,185,000 in relation to future pension benefits, based on actuarial calculations.

(c) Average number of employees calculated on a full time equivalent basis

	<i>2008</i>	<i>2007</i>
	<i>No.</i>	<i>No.</i>
Executive board	4	5
Senior management	12	15
Operations	2,099	2,168
Administration and support function	458	452
Inward Secondments and temporary staff	6	10
	<u>2,579</u>	<u>2,650</u>
Operations – ITI Scotland Limited	68	70
	<u>2,647</u>	<u>2,720</u>

NOTES TO THE ACCOUNTS (continued)

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, in particular, the Department for Work and Pensions.

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.

Local Enterprise Companies are private limited companies and purchase insurance cover for the risks commensurate with their business activities.

NOTES TO THE ACCOUNTS (continued)**30. SCHEDULES OF INVESTMENTS AT 31 MARCH 2008**

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.

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>
Alivox Limited Development of language recognition software	20.3	120	-
Amoebics Limited Development of anti bacteria measures	22.8	272	-
Amphotonix Limited Design of semiconductor optical amplifiers	22.6	410	-
Biofilm Limited Medical technology	29.8	106	1,394
Biopta Limited Services to the biotechnology industry	30.6	461	135
Bloxx Limited Hardware solutions for internet access and security management	25.0	592	-
Calnex Solutions Limited Development of next generation test equipment	26.7	520	-
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	-
Designed Products Limited Design and development of light guide technology	22.5	137	-
Dimensional Imaging Limited Services to the medical industry	23.4	261	-
Edinburgh Robotics Limited Mobile robotic software	25.7	149	-
Essential Viewing Systems Limited Software development	24.6	350	447
Exterity Limited Design and sale of audio visual technology	24.8	600	-
Gas Sensing Solutions Limited Development of gas sensing device	25.2	365	-
Hydrosense Limited Hygiene testing products	29.9	550	15

NOTES TO THE ACCOUNTS (continued)

	<i>% of Voting rights</i>	<i>Shares £000</i>	<i>Loans £000</i>
Lamellar Biomedical Limited Development and manufacture of synthetic lamellar bodies	29.5	425	-
Lumicure Limited Medical technology	22.9	750	-
LUX Innovate Limited Development of light based detection solutions	22.6	309	-
Microstencil Limited Designs for micro electronic packaging industry	20.8	500	-
NX Vision Limited (formerly Inxstor Limited) Design of remote viewing visual media technology	29.9	494	-
Orkell Limited (formerly Legal Data Solutions Limited) Interactive legal information system	29.9	444	-
PSI Electronics Limited Development of cable fault detection equipment	21.7	148	-
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	-
Rapid Mobile Media Limited Software development for mobile phones	27.6	1,250	-
SFX Technologies Limited Innovative speaker technology	22.6	750	-
Spiral Gateway Limited Development of novel processor architecture platform technology	24.1	460	-
Syntopharma Limited Design of delivery methodology for licenced drugs	23.9	372	-
Tayside Flow Technology Limited Development of medical devices	24.9	1,055	177
Verisim Limited Software development for financial services sector	27.6	848	-
Total of items listed		<u>16,299</u>	<u>2,168</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>
Aspects Software Limited Software development	10.9	1,439	-
Cyclacel Pharmaceuticals Inc. Drug development Registered in USA & quoted on NASDAQ	< 0.1	5,401	-
Elonics Limited Development of communication semiconductors	18.8	1,075	-
LAB901 Limited Pharmaceutical and biotechnology	15.3	1,350	-
City of Edinburgh Council Development of visitor attraction conference facility	-	-	5,530
Glasgow Harbour Limited Property development	-	-	4,000
Intense Limited Optoelectronics	-	-	2,980
Total of items listed		<u>9,265</u>	<u>12,510</u>
		<i>Shares £000</i>	<i>Loans £000</i>
		<i>Total £000</i>	
Total of items listed – Note 29A		16,299	2,168
Total of items listed – Note 29B		9,265	12,510
		<u>25,564</u>	<u>14,678</u>
Other shares and loans			<u>47,554</u>
Total cost of shares and loans before provisions			<u><u>87,796</u></u>



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