

SCOTTISH ENTERPRISE

ANNUAL REPORT AND ACCOUNTS

For the year ended 31 March 2010

Enterprise and New Towns (Scotland) Act 1990

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

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MANAGEMENT COMMENTARY

for the year ended 31 March 2010

BUSINESS OBJECTIVES AND STRATEGY

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

Scottish Enterprise's current focus reflects the Scottish Government's reforms as a result of the 2007 Review of the Enterprise Networks. Scottish Enterprise's focus is on:

- Supporting growth businesses
- Supporting industries with the potential to thrive in the global economy
- Improving the business environment in Scotland, including infrastructure activity and projects of regional or national importance

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

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

1. **Learning, Skills and Well-being:** Scottish Enterprise's contribution includes promoting skills utilisation and leadership, 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 focused on the demands of Scotland's key sectors.
3. **Infrastructure Development and Place:** Scottish Enterprise's contribution includes addressing the infrastructure needs of the key sectors, in partnership with others in the public sector, and leading key national and regional projects.
4. **Effective Government:** Scottish Enterprise's contribution includes increasing alignment in planning and delivery with other public sector agencies, including the development of shared services, delivering year on year efficiency improvements 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 and under-performing areas and support for the third sector. We also pursue sustainable economic opportunities in renewable energy, support business growth through business resource efficiency and invest in innovation for low carbon products and services.

CURRENT AND FUTURE DEVELOPMENTS

The economic crisis and subsequent recovery has demonstrated how globally interconnected the national economies are and has re-emphasised how important it is for an open economy like Scotland to be globally competitive. In support of the Scottish Government's Economic Recovery Plan in the shorter term and in pursuit of the Scottish Government's longer term sustainable economic growth targets, Scottish Enterprise will continue to focus on measures that increase Scotland's productivity and competitiveness.

The Scottish Enterprise Business Plan for 2010/13 is therefore structured around:

- **Supporting Globally Competitive Businesses:** helping companies improve their business, increase business in international markets, commercialise Scotland's research strengths and assisting companies grow through innovation.
- **Building Globally Competitive Sectors:** helping identify major opportunities in Scotland's key sectors and working with industry and public sector partners to respond to these opportunities.
- **Establishing a Globally Competitive Business Environment:** working with partners to increase access to business infrastructure and financial capital that allows Scotland's key sectors and individual companies to grow.

MANAGEMENT COMMENTARY (continued)

The GES identifies 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. In 2008, Universities were added as a seventh key sector. 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 where we concentrate our efforts.

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 technologies across the key sectors. Scotland has other important industries such as aerospace, defence and marine, chemical sciences, construction, forest industries and textiles. Scottish Enterprise will continue to work with these sectors to help them realise clear growth opportunities that sustain or strengthen Scotland's economic growth.

Scottish Enterprise's predominant 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 opportunities – which in turn stimulate the labour market and help raise and widen participation.

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

To complement this activity, and to achieve the aspirations set out in the GES, Scottish Enterprise also works closely with our public sector partners - in particular Local Authorities, Skills Development Scotland, NHS Scotland, the Scottish Funding Council, VisitScotland and Highlands & Islands Enterprise (HIE) - to secure the alignment of strategies and resources across the public sector behind growth opportunities. Scottish Enterprise will pursue this nationally through its role in the Scottish Government's Strategic Forum, via its active participation in the Strategic Group on Economic Recovery and locally via Community Planning Partnerships. 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 2010/13 can be found on the website at www.scottish-enterprise.com

In relation to 2010/11, Scottish Enterprise will deliver a £310m 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 2010 are contained in the attached accounts, prepared in accordance with Section 30(1) of the Enterprise and New Towns (Scotland) Act 1990 and in the form directed by the Scottish Ministers. These accounts show the net expenditure of the Scottish Enterprise Group. The accounting policies explain the basis on which the accounts are prepared.

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

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

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

The approved Resource Budget for 2009/10, after in year adjustments, amounted to £319m. This comprises grant in aid provision of £282m and a non-cash allocation of £37m, from which £7m of cash reserves was accessed and used towards operational activities. The non-cash allocation comprises an initial allocation of £33m, which was supplemented by an additional provision of £4m from the Scottish Government during the year.

Scottish Enterprise successfully achieved its main financial objective for the year. The final net cash outturn was equal to the related Resource Budget allocation. The 'non-cash' outturn was £2.1m (5.7%) under the available allocation. A detailed analysis of the cash outturn is provided later in this section.

MANAGEMENT COMMENTARY (continued)

The Resource Budget for 2010/11 amounts to £228m, including £195m of grant in aid and a 'non-cash' budget provision of £33m.

As noted previously in this report, the Resource Budget is supplemented by income generated and applied against expenditure incurred during the year and by applying reserves carried forward. For 2010/11 these supplementary resources are forecast to amount to £82m. In total therefore the Scottish Enterprise Business Plan for 2010/11, including these resources, amounts to £310m (2009: £349m).

Summary of 'Cash' Outturn

Scottish Enterprise's net 'cash' expenditure (excluding non-cash costs) against its funding provision for the year to 31 March 2010 was as follows:

	£000	£000
Operational Delivery Costs		
Enterprise	58,992	
Innovation	63,309	
Investment	<u>128,017</u>	
		250,318
Support Costs		
Customer Facing Staff costs	60,313	
Research & Development costs	3,063	
Premises, information services and other support costs	<u>24,185</u>	
		<u>87,561</u>
		337,879
Less: Income		<u>42,577</u>
		295,302
Funded by		
Grant-in-Aid	281,450	
Utilisation of cash reserves brought forward	6,855	
Net utilisation of Scottish Co – Investment Funds	<u>6,997</u>	
		<u>295,302</u>
Net 'cash' over / underspend		<u>-</u>

Cash Balances

Due to the nature of its business and activities, Scottish Enterprise requires to retain cash balances. As at 31 March 2010 these amounted to £108m (2009: £102m).

The balance includes £30m which is held for the purposes of funding the Scottish Investment Bank and will be used to attract further European funding. A significant element of the total cash balance, amounting to £69m (2009: £48m), relates to the activities of the Scottish Co-Investment Fund. This balance cannot be applied to fund any business activity other than that relating to the delivery and management of the Fund.

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

Income from the European Union

European Union funds amounting to £7m (2009: £3m) 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.

MANAGEMENT COMMENTARY (continued)

Non-Current Assets

During the year to 31 March 2010, expenditure on non-current assets and investments and proceeds from disposal were:

	<i>Expenditure</i>		<i>Disposals</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Property, plant and equipment	8	16	19	15
Investments, including loan repayments	24	26	2	4

Property

The Scottish Enterprise Group property portfolio, which includes land, site development and buildings, including buildings under construction, was independently revalued at 31 March 2010 and is included in the accounts at £178m (2009: £178m). In addition, property classified as held for sale was valued at £19m (2009: £30m).

Retirement Benefits Scheme

Reference is made in Note 5 to the accounts to the operation and performance of the Scottish Enterprise Pension and Life Assurance Scheme. The Remuneration Report contains specific disclosures relating to senior management.

Payment Policy

Scottish Enterprise has a stated service commitment to pay its suppliers within 30 days of receipt of agreed and valid invoices, or as provided for under the terms of an agreed contract. However, as advised by the Scottish Government in November 2008, Scottish Enterprise implemented a revised payment policy of 10 days for all suppliers. In the year ended 31 March 2010, Scottish Enterprise paid 80% (2009: 85%) of suppliers' invoices within the revised standard. The reduced level of performance reflects the more challenging payment policy being in place throughout the financial year. The average number of days taken to pay valid invoices during the year was 9.5 days (2009: 16.3 days).

CORPORATE GOVERNANCE

Codes of Conduct

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

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

MANAGEMENT COMMENTARY (continued)

Board Members

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

		Audit	Investment	Economic Policy	Nominations / Governance	Remuneration	Urgent Approvals
Crawford Gillies	Chairman				C		C
Lena Wilson	Chief Executive (appointed 4 November 2009)		M	M	M		M
Jack Perry CBE	Chief Executive (resigned 4 November 2009)		M	M	M		M
Ian Crawford		M	M		M	M	
Professor Russel Griggs OBE	(appointed 1 January 2010)			M			
Fred Hallsworth		C		M			M
Iain Macdonald			M/C		M	M	M
Donald MacRae			M	C			M
Colin McClatchie	(resigned 31 December 2009)				C	C	
Professor Jim McDonald			M	M			
Iain McLaren	(appointed 1 January 2010)	M					
Professor Sir Timothy O'Shea			M	M			
Ray Perman	(resigned 31 December 2009)		C	M			M
Grahame Smith		M			M	M	
Graeme Waddell		M	M			M/C	

C - Chair
M - Member

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, the work of which is considered in the Remuneration Report; an Investment Committee which examines the progress of major initiatives; a Nominations Committee, which scrutinises appointments to Scottish Enterprise Boards and the appointment of senior staff; an Urgent Approvals Committee; and a Economic Policy Committee (previously the 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:

Lena Wilson	Chief Executive from 4 November 2009 and previously Chief Operating Officer & CEO Scottish Development International
Jack Perry	Chief Executive to 4 November 2009
Hugh Hall	Chief Financial Officer to 31 March 2010
Paul Lewis	Managing Director, Industries & Policy

In addition to the designated Executive Board members, the following senior staff members began to regularly attend and play a full part in the operations of the Executive Board during the year:

Linda McDowall	Director, Business Networks and Communications
Jim McFarlane	Managing Director, Operations
David Smith	SDI Operations Director and acting CEO Scottish Development International
Julian Taylor	Senior Director, Policy and Research

In May 2010, a senior staff restructure was announced which replaced the Executive Board with an expanded group of senior staff now called the Executive Leadership Team. The senior staff members noted above were all appointed to the Executive Leadership Team at that time.

MANAGEMENT COMMENTARY (continued)

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 and to a globally competitive Scotland. 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. Human Resources is focused on equipping staff with the skills necessary to meet the needs of Scottish Enterprise's customers and collaborators 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 shares services with other public sector organisations.

Effective employee communications and engagement helps our employees deliver more. It enhances productivity, reduces absence and improves customer and partner relationships. As a result, Scottish Enterprise is committed to open, timely and effective employee communications and making Scottish Enterprise a great place to work. 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. An all staff conference is also held every two years. We also engage with and support the local communities we work in and encourage employees to participate in community projects which support local and national charities and help Scotland's environment. In addition, to fully understand issues concerning staff, Scottish Enterprise undertakes employee surveys and holds regular engagement forums. The results are analysed with a view to continually improving our employee relations.

Scottish Enterprise's Human Resources (HR) team manages all employee and industrial relations on behalf of management and has an employee relations (ER) framework in place, which comprises employment policies for staff, a Joint Consultation and Negotiation Committee supported by sub-groups on terms and conditions and change. 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 and efficiency programmes. The HR team manage all ER issues, both formal and informal, and design, manage 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, gender and age, 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 "Scottish Living Wage", "Two Tick" and "Age Positive" standards for its employment practices and is recognised as supporting diversity.

Sickness Absence

In the year to 31 March 2010 an average of 4 working days (2009: 4) were lost per staff working year.

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 Fair Value as defined in the Valuation Standards (6th Edition) issued by the Royal Institution of Chartered Surveyors. They reflect the existing zoning and planning consents, adjusted to reflect any realistic potential for change of use.

MANAGEMENT COMMENTARY (continued)

Driving the organisation forward

Since 2007-08 Scottish Enterprise has carried out a radical restructuring of its operations which has secured significant efficiency savings in 2009-10 in excess of £13m against the benchmark expenditure levels and ensured that the organisation is fully focused on supporting its business customers. Scottish Enterprise continues to pursue organisational change and efficiency projects that further improve its focus and provide value for the taxpayer.

Risks

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

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

Data Loss

There were no reported incidents of unauthorised exposure or loss of personal data during the financial year.

KEY PERFORMANCE INDICATORS

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

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

In 2009/10, we met or exceeded all of our performance targets. The tables below present the forecast range and actual performance for 2009/10, together with the actual performance from 2008/09 where applicable.

Outcomes			
2008/09 Actual	Measure Description	2009/10 Forecast Range	2009/10 Actual
£930m	<p>Turnover growth by businesses supported (through account managed activities)</p> <p>Description: The change in turnover of active account managed businesses between 2008/09 and 2009/10.</p> <p>Commentary: The reduced forecast range reflected the economic conditions at the start of the year. Nevertheless, the actual outturn was within range and expectations for next year show a significant increase.</p>	£300m - £600m	£376m
1,807	<p>Planned jobs through inward investment (of which at least 1,600 will be high value)</p> <p>Description: Planned jobs of a high value nature secured for Scotland from inward investment, of which 144 were recorded in Highlands & Islands.</p> <p>Commentary: A good performance from businesses in various industries, including Life Sciences and Chemical Sciences, ensured that the forecast range was achieved.</p>	1,600 – 2,400	2,111

MANAGEMENT COMMENTARY (continued)

Outputs			
2008/09 Actual	Measure Description	2009/10 Forecast Range	2009/10 Actual
New Measure	<p>Number of companies showing improvement:</p> <p>a. Innovation: Number of new products/services/processes implemented (and forecast revenues as a result). Description: The number of new products/services/processes delivered during the year.</p>	200 – 300	264
New measure	<p>b. Business efficiency: Number of projects resulting in a business benefit (productivity improvement and/or emissions reduction as a result) Description: The number of projects delivered during the year. - of which 14 were delivered by SMAS in the Highlands and Islands area. Commentary: The strong results suggest that many businesses are not only focusing on making efficiency savings in the current economic climate but also continue to create innovation across their activities.</p>	200 - 300	359
17	<p>Number of high growth start ups (including spin outs) with potential to reach £5m value in 3 years Description: Businesses participating in the High Growth Start Up Unit and other major spin-out ventures generated through other projects. Commentary: This was a good result given the continued slowing or lack of private investment during the year which made achieving a target similar to that for 2008/09 particularly challenging.</p>	17 - 25	17
£103m	<p>Investment in business R&D resulting from SE R&D grant/SMART Description: Increased investment in business R&D as demonstrated by the value of projects for which a Scottish Enterprise R&D grant or SMART grant was offered and accepted during the year. The appraisal of SMART grants was transferred into SE from October 2009; since then SMART grants, which are paid or payable by the Scottish Government, contributed £5m to the total £82m achieved for the year. Commentary: An ongoing focus on innovation delivered an encouragingly strong performance during the year against a target level which was set at a comparable level to the previous year despite economic conditions.</p>	£60m - £70m	£82m
1:2.6	<p>Investment leverage in physical infrastructure resulting from high impact projects Description: Private and public sector investment on infrastructure projects levered as a result of Scottish Enterprise investment. Commentary: The leverage achieved was just above the top of the forecast range reflecting a good result across the range of relevant infrastructure projects.</p>	1:2 to 1:2.5	1:2.7

MANAGEMENT COMMENTARY (continued)

Activities			
2008/09 Actual	Measure Description	2009/10 Forecast Range	2009/10 Actual
New Measure	<p>Number of growth businesses supported:</p> <p>a. Number of businesses assisted to internationalise Description: The number of businesses assisted to participate internationally. - of which 100 were assisted in Highlands and Islands</p>	600 - 700	909
New measure	<p>b. Number of businesses assisted to innovate Description: The number of businesses assisted towards achieving at least one new product, service, process or business model.</p>	700 - 800	924
New measure	<p>c. Number of businesses assisted to improve efficiency Description: The number of businesses assisted towards achieving outputs from improved efficiency, waste reduction, process improvement and other similar activities. - of which 33 were assisted by SMAS in Highlands and Islands</p> <p>Commentary: Focus on the three themes above has produced strong results above the top of the target ranges for the year. It is encouraging that a good number of businesses strive to develop different aspects of their activities despite difficult trading conditions.</p>	700 - 800	847
1:2.2	<p>Leverage resulting from SE Investment funds Description: Third party investment leverage ratio from investment deals completed by the Scottish Co-Investment Fund, Scottish Venture Fund and Scottish Seed Fund. Commentary: This continues to demonstrate the effectiveness of the co-investment approach which shares risk and encourages the development of the risk capital funding market infrastructure. We have also continued to respond to increased demand for risk capital investment as a result of the current economic climate.</p>	1:2 to 1:3	1:2.1

EQUITY

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

Environmental Matters

Climate change is a major environmental issue and therefore we are committed to promoting the growth of a low-carbon economy through support for resource efficiency and the development and use of cleaner technologies linked to key sectors. The National Renewable Infrastructure Plan identifies the sites required for manufacturing and constructing devices to produce offshore marine and wind energy. We have developed an Environmental and Clean Technology partnership to promote these sectors and co-ordinate activity with our partners. We have also supported workshops to promote low carbon business opportunities in partnership with the Business Council for Sustainable Development and we are working with the Government to produce a Low Carbon Strategy for Scotland.

MANAGEMENT COMMENTARY (continued)

This work is supported by an internal Environmental Management policy that focuses on reducing carbon emissions from our offices and staff travel. Scottish Enterprise has over the past four years embarked on a range of initiatives, related to the environment and sustainability, covering energy management, recycling, travel and estates development, all of which have seen significant reductions in our overall operational CO2 emissions. To further develop and embed our internal environmental management systems we are working in partnership with the Carbon Trust and undertaking the Carbonlite management programme. This programme has meant us undertaking a new baseline exercise from which we are developing an updated carbon management plan. This plan will provide the necessary focus on key areas where we can make the greatest carbon reductions from our internal operational activities. The plan will also help us prepare and assist in the delivery of the climate change duties placed on Scottish public sector bodies required by the Climate Change (Scotland) Act and the provisions of the CRC Energy Efficiency Scheme.

Social and Regional Equity

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

We take a pro-active stance to regional socio-economic development. Our ongoing work on transformational projects such as the Dundee and Clyde Waterfronts and our involvement with Urban Regeneration Companies ensures that we are not only well placed to comply with the forthcoming socio-economic duty in the Single Equality Act but that we can also lever this work to enhance Scotland's economic growth.

We continue our support for the social economy through our work alongside public and private stakeholders and partners to develop social enterprises and the Third Sector. Our focus is on the restructuring of the sector and working with growing social enterprises to increase traded income and reduce grant dependency on the public sector. This will generate significant benefits for communities and the Scottish economy.

Scottish Enterprise also actively supports responsible, sustainable, business practice both internally and with our business clients. Corporate responsibility is an increasingly important factor in business competitiveness and in helping to deliver social and regional equity.

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. We have for two years extended these duties to cover age, religion/belief and sexual orientation in line with new legislation which was enacted this year under the Single Equality Act.

We publish a report annually on our equal opportunities achievements and our latest report issued in January this year can be viewed here: <http://www.scottish-enterprise.com/publications/equal-opps-2009.pdf>. Amongst other activity, the Report highlights our ongoing commitment to equality impact assessments which are pivotal in mainstreaming the agenda within the organisation and in our service provision.

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 payable for audit services provided by the appointed auditors for the year ended 31 March 2010 were £176,000 (2009: £179,000).

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

Lena Wilson
Accountable Officer
25 June 2010

REMUNERATION REPORT

for the year ended 31 March 2010

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 2010.

Scottish Enterprise Board

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

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

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

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

Executive Board

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

Lena Wilson was appointed as the Chief Executive by the Board with the approval of the Scottish Ministers in November 2009 following Jack Perry's resignation. The Chief Executive and other Executive Board members are on standard Scottish Enterprise contracts of employment. Their contracts provide for a notice period of 12 months. They also have a separate bonus scheme from the other staff members.

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

During the year the Executive Board was supported by senior staff members who regularly attended Executive Board meetings. While these senior staff members were not formally designated as Executive Board members they played a full part in the deliberations and decision making process of the Executive Board and therefore the details of their remuneration are included within the scope of this report.

Remuneration Committee

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

The members of the Remuneration Committee who served during the year to 31 March 2010 were:-

Graeme Waddell		Chair
Colin McClatchie	(to December 2009)	Chair
Grahame Smith	(to March 2010)	Deputy Chair
Ian Crawford	(from March 2010)	
Iain MacDonald	(from March 2010)	

Graeme Waddell served as a member of the Remuneration Committee throughout the year, assuming the role of Chair in March 2010.

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

REMUNERATION REPORT (continued)

Each Executive Board member agrees with the Chief Executive 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, including 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 previously had access to the contributory Essential Car User Scheme. This scheme ceased on 21 May 2009. All previous members of the scheme, including Executive Board Members, but with the exception of the previous Chief Executive, received a compensation payment for the loss of this taxable benefit. The previous Chief Executive continued to have access to a company contract hire car until his resignation. Compensation payments to Executive Board Members were calculated on the same basis as those of all other members of the Essential Car User Scheme. Payments were made in April 2009 and the costs were accrued and disclosed as "car allowance and other benefits" in the accounts for the year ended 31 March 2009.

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

REMUNERATION REPORT (continued)

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

Remuneration

Fees paid to the Chairman and other non executive board members who served during the year to 31 March 2010 were:-

		2010 Remuneration £	2009 Remuneration £
Crawford Gillies	Chairman	38,721	4,716
Ian Crawford		12,581	4,194
Russel Griggs	(appointed 1 January 2010)	3,145	-
Fred Hallsworth		15,638	15,638
Iain Macdonald		12,791	8,387
Donald MacRae		15,638	15,638
Colin McClatchie	(retired 31 December 2009)	11,729	15,638
Jim McDonald		12,581	8,387
Iain McLaren	(appointed 1 January 2010)	3,145	-
Sir Timothy O'Shea		13,721	13,721
Ray Perman	(retired 31 December 2009)	11,729	15,638
Grahame Smith		12,581	4,194
Graeme Waddell		12,791	8,387

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

In addition, Sir Timothy O'Shea served as a non-executive director of ITI Scotland Limited until his resignation on 9 May 2009. Fees of £2,000 (2009: £12,000) were paid to the University of Edinburgh Development Trust for the provision of these services.

Remuneration of Executive Board members who served during the year to 31 March 2010 and senior staff who regularly attended Executive Board meetings was:-

	2010			2009				
	Salary £000	Bonus £000	<i>Car allowance and other benefits</i> £000	Total £000	Salary £000	Bonus £000	<i>Car allowance and other benefits</i> £000	Total £000
Executive Board								
Lena Wilson (i)(ii)	191	11	1	203	176	14	27	217
Jack Perry (to 4 November 2009) (iii)	150	-	121	271	203	18	10	231
Hugh Hall (to 31 March 2010)	162	-	12	174	143	11	24	178
Paul Lewis	126	6	-	132	122	6	24	152
Senior Staff								
Linda McDowall (iv)	95	7	-	102	-	-	-	-
Jim McFarlane (iv)	137	14	1	152	-	-	-	-
David Smith (iv)	95	9	-	104	-	-	-	-
Julian Taylor (iv)	82	6	-	88	-	-	-	-

- (i) Lena Wilson was appointed Chief Executive on 4 November 2009. The elements of the remuneration package in respect of the period following the appointment as Chief Executive comprised £80,769 (Salary) and £ Nil (Other benefits). A bonus payment of £10,935 has been awarded for the period to 3 November 2009, being the period in which Lena Wilson served as Chief Operating Officer of Scottish Enterprise and Chief Executive Officer of Scottish Development International.
- (ii) The Scottish Government's 2010-11 guidance on bonus payments to Chief Executive Officers allows for the payment of a bonus equivalent to 10% of salary for exceptional performance. Following the appointment of Lena Wilson as Chief Executive in November 2009 any bonus which may be payable in April 2011 will be in respect of performance for the period from November 2009 to March 2011.

REMUNERATION REPORT (continued)

- (iii) On 28 May 2009 Jack Perry tendered his contracted 12 months notice to resign. It was agreed that he would leave the employ of Scottish Enterprise once a new Chief Executive had been appointed and a successful transition period completed. Following the appointment of a new Chief Executive from inside the organisation on 4 November 2009, it was concluded that his services were no longer required and therefore a payment of £115,219 was made on his departure in lieu of the remaining notice period.
- (iv) In May 2010, Linda McDowall, Jim McFarlane, David Smith and Julian Taylor were appointed to the Executive Board. During 2009-10 these individuals regularly attended Executive Board meetings. In line with the FR&M and in light of their role in strategic decision making it is considered appropriate to disclose their remuneration for the year to 31 March 2010.

Retirement benefits of Executive Board members for the year to 31 March 2010 and those of the senior staff who regularly attended Executive Board meetings are as follows:-

	<i>Accrued Pension at age 60 as at 31 March 2010 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 (i)</i>		
			<i>At 31 March 2010 £000</i>	<i>At 31 March 2009 £000</i>	<i>Increase net of members' contributions £000</i>
Executive Board					
Lena Wilson	50 – 55 plus lump sum of 150 - 165	5.0 – 7.5 plus lump sum of 15.0 – 17.5	982	736	234
Jack Perry (to 4 November 2009) (ii)	40 - 45 plus lump sum of 120 - 135	0 – 2.5 plus lump sum of 5.0 – 7.5	1,049	855	185
Hugh Hall (to 31 March 2010)	5 – 10 plus lump sum of 15 - 30	0 – 2.5 plus lump sum of 5.0 – 7.5	138	85	44
Paul Lewis	35 - 40 plus lump sum of 105 - 120	0 – 2.5 plus lump sum of 5.0 – 7.5	694	556	131
Senior Staff					
Linda McDowall (iii)	30 - 35 plus lump sum of 90 - 105	0 – 2.5 plus lump sum of 2.5 – 5.0	721	628	88
Jim McFarlane (iii)	50 - 55 plus lump sum of 150 - 165	0 – 2.5 plus lump sum of 5.0 – 7.5	1,310	1,156	145
David Smith (iii)	5 - 10 plus lump sum of 15 - 30	0 – 2.5 plus lump sum of 2.5 – 5.0	174	131	38
Julian Taylor (iii)	20 - 25 plus lump sum of 60 - 75	0 – 2.5 plus lump sum of 2.5 – 5.0	349	280	65

- (i) The cash equivalent transfer value is the actuarially assessed value of the retirement scheme benefits accrued by a member at a point in time. The benefits valued are the member's accrued benefits and include benefits related to service transferred in from previous employment. It represents a payment made by a retirement benefit scheme to secure benefits in another 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.
- (ii) Details for Jack Perry are as at the date he ceased to be a member of the Executive Board and left the employ of Scottish Enterprise.
- (iii) Disclosures for Linda McDowall, Jim McFarlane, David Smith and Julian Taylor are based on a full year. No attribution has been done to calculate a percentage from when they began to regularly attend Executive Board meetings.

Graeme Waddell
Remuneration Committee Chairman
25 June 2010

Lena Wilson
Accountable Officer
25 June 2010

STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

for the year ended 31 March 2010

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

In preparing the accounts, Scottish Enterprise is required to:

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

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

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

Lena Wilson
Accountable Officer
25 June 2010

STATEMENT ON INTERNAL CONTROL

for the year ended 31 March 2010

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 2010 and up to the date of signing this Statement, and accords with guidance from Scottish Ministers.

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

Risk and Control Framework

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

Risk Management

- Scottish Enterprise has an approved Risk Management Policy, setting out our attitude to risk and our approach to managing the potential barriers to the achievement of our objectives. The Policy highlights that risk management and internal control are firmly aligned with the ability to achieve the key business objectives. The Policy and associated procedural guidance are available to all staff on the Scottish Enterprise intranet.
- A Corporate Risk Register has been established to consider those risks that impact the organisation as a whole, and are likely to affect the organisation's ability to achieve its strategic goals and objectives. The register is reviewed and discussed by the Executive Board on a regular basis, including consideration of progress on agreed actions to manage the risks.
- Management teams are responsible for maintaining a system of risk management and internal control, consistent with corporate risk arrangements, and designed to enable it to deliver its business objectives in an efficient and effective manner in accordance with our values and policies.
- Ownership is assigned for each identified risk, both at a corporate and management team level, with the risk owner responsible for monitoring the risk and ensuring that any identified mitigating actions are implemented.
- The Scottish Enterprise Board is made aware of and regularly reviews the key risks for the organisation.
- The Scottish Enterprise Audit Committee is responsible for reviewing the effectiveness of the entire approach to risk management within the organisation. It receives reports on a six monthly basis, and may also consider risk management on a more frequent basis if either the Chairman of the Audit Committee or the Executive Board considers this necessary. The Board also receives regular updates from the Chairman of the Audit Committee concerning internal control.
- Business units are responsible for ensuring early and full reporting of critical business risks. Specialist functions (business continuity, health and safety and information security) are in place to manage specific types of risk, and these provide the Board and management with assurance over these areas.
- Risk assessment is also a key component of the organisation's project appraisal processes.
- Awareness and training sessions are held as required, and a risk management element has been incorporated into project management training.

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

STATEMENT ON INTERNAL CONTROL (continued)

Internal Audit

Scottish Enterprise has in place an in-house internal audit team. The internal audit planning approach is risk-based. The internal audit plans and activity for 2009/10 were reported regularly to the Audit Committee.

- On a regular basis, the Director of Audit provides me with a report on internal audit activity throughout the organisation. The internal audit function is also utilised in monitoring risk management processes to determine whether internal controls are effectively designed and properly implemented. A risk-based approach is applied to the implementation and monitoring of controls.
- The internal audit function supports the organisation's continuous improvement activities through the identification of action points arising from ongoing audit activity. These actions span all aspects of the organisation's operations and, together with the recommendations of external auditors, continue to identify areas where there is scope for improvements in internal controls. The implementation of recommended action points was regularly reviewed by the Audit Committee during 2009/10.

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 major budget holders to carry out a review of their area's internal controls, including any subsidiary or joint venture operations for which they are accountable and responsible. The basis of this review is a detailed Internal Control Checklist which, once completed, provides the context for the sign off of a local Certificate of Assurance. This is addressed to 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 individual Certificates of Assurance and Internal Control Checklists; and
- Matters raised by external auditors in their management letter and other reports.

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

Lena Wilson
Accountable Officer
25 June 2010

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

We have audited the group and parent accounts of Scottish Enterprise for the year ended 31 March 2010 under the Enterprise and New Towns (Scotland) Act 1990. These comprise the group Net Expenditure Account, the group Statement of Other Comprehensive Income, the group and parent Balance Sheets, the group Cash Flow Statement, the group and parent Statements of Changes in Taxpayers' Equity, 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 auditors' 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, Accountable Officer and auditor

The board and Accountable Officer 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 Accountable Officer 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 1990 and directions made thereunder by the Scottish Ministers. We report to you whether, in our opinion, the information which comprises the management commentary, included in the Annual Report, is consistent with the accounts. We also report whether in all material respects the expenditure and receipts shown in the accounts were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

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

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

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

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 Accountable Officer 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

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

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 2010 and of the group net expenditure, group other comprehensive income, group and parent changes in taxpayers' equity 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.

DJ Watt
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
191 West George Street
Glasgow
G2 2LJ

25 June 2010

GROUP NET EXPENDITURE ACCOUNT

for the year ended 31 March 2010

	Notes	2010 £000	2009 £000
Expenditure			
Operating expenditure	3	223,506	232,444
Management expenditure on staff costs	3	60,313	52,719
Other management expenditure, incl. depreciation	3	28,584	39,031
		<u>312,403</u>	<u>324,194</u>
Income			
Income from Activities	2	(15,260)	(16,301)
Other Income	2	(25,162)	(22,083)
		<u>(40,422)</u>	<u>(38,384)</u>
Net Operating Expenditure		271,981	285,810
Interest payable and similar charges	1	10,816	12,920
Share of (losses)/profits in equity accounted investees	9	(34)	(9)
Income from investments	2	(242)	(282)
Interest receivable	2	(1,959)	(5,302)
Other finance charges/(income)	1	2,275	(3,954)
Net Expenditure after cost of capital charge and interest		282,837	289,183
Taxation	6	71	244
Net Expenditure after taxation		<u>282,908</u>	<u>289,427</u>
Minority interests	24	454	(478)
Appropriations	10	109	-
Notional cost of capital (reversal)	1	(696)	(1,768)
Net Expenditure		<u>282,775</u>	<u>287,181</u>

GROUP STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 March 2010

	<i>2010</i>	<i>2009</i>
	<i>£000</i>	<i>£000</i>
Revaluation of property, plant and equipment	699	(38,351)
Net change in fair value of available for sale assets	1,199	699
Actuarial losses recognised in retirement benefit scheme	<u>(37,851)</u>	<u>(58,061)</u>
Recognised (losses)/gains for the year	<u><u>(35,953)</u></u>	<u><u>(95,713)</u></u>

GROUP BALANCE SHEET

as at 31 March 2010

	Notes	2010 £000	2009 £000	2008 £000
NON-CURRENT ASSETS				
Property, plant and equipment	7	183,618	189,306	261,024
Intangible assets	8	-	67	135
		<u>183,618</u>	<u>189,373</u>	<u>261,159</u>
Financial assets				
Investments in equity accounted investees	9	4,671	5,653	5,356
Other investments	10	68,423	59,254	47,795
Total financial assets		<u>73,094</u>	<u>64,907</u>	<u>53,151</u>
Other non-current receivables	12	1,994	1,704	1,954
TOTAL NON-CURRENT ASSETS		<u>258,706</u>	<u>255,984</u>	<u>316,264</u>
CURRENT ASSETS				
Inventories	14	110	85	72
Income tax receivable		630	567	149
Trade and other receivables	15	25,834	16,098	28,139
Cash and cash equivalents	16	107,653	101,504	156,038
Assets classified as held for sale	13	18,675	30,425	25,005
TOTAL CURRENT ASSETS		<u>152,902</u>	<u>148,679</u>	<u>209,403</u>
TOTAL ASSETS		<u>411,608</u>	<u>404,663</u>	<u>525,667</u>
CURRENT LIABILITIES				
Trade and other payables	17	(37,889)	(37,116)	(65,804)
Other borrowings	18	(32)	(30)	(27)
Income tax payable		(342)	(466)	(444)
Provisions	19	(1,564)	(4,978)	(22,444)
TOTAL CURRENT LIABILITIES		<u>(39,827)</u>	<u>(42,590)</u>	<u>(88,719)</u>
NON-CURRENT ASSETS PLUS NET CURRENT ASSETS		<u>371,781</u>	<u>362,073</u>	<u>436,948</u>
NON-CURRENT LIABILITIES				
Other payables	17	(33,413)	(34,911)	(47,919)
Other borrowings	18	(540)	(572)	(602)
Retirement benefit obligations	5	(44,526)	(6,271)	43,519
TOTAL NON-CURRENT LIABILITIES		<u>(78,479)</u>	<u>(41,754)</u>	<u>(5,002)</u>
ASSETS LESS LIABILITIES		<u>293,302</u>	<u>320,319</u>	<u>431,946</u>
MINORITY INTERESTS	24	<u>(1,604)</u>	<u>(1,463)</u>	<u>(1,941)</u>
		<u>291,698</u>	<u>318,856</u>	<u>430,005</u>
RESERVES				
General Fund		226,811	253,934	321,254
Specific Reserve		2,591	2,132	2,612
Revaluation Reserve		62,296	62,790	106,139
TOTAL EQUITY		<u>291,698</u>	<u>318,856</u>	<u>430,005</u>

Lena Wilson
Accountable Officer
25 June 2010

BALANCE SHEET

as at 31 March 2010

	Notes	2010 £000	2009 £000	2008 £000
NON-CURRENT ASSETS				
Property, plant and equipment	7	102,617	98,400	143,838
Intangible assets	8	-	39	40
		<u>102,617</u>	<u>98,439</u>	<u>143,878</u>
Financial assets				
Other investments	10	64,060	55,251	41,934
Other non-current receivables	12	53,265	55,967	71,908
TOTAL NON-CURRENT ASSETS		<u>219,942</u>	<u>209,657</u>	<u>257,720</u>
CURRENT ASSETS				
Trade and other receivables	15	22,032	13,755	28,296
Income tax receivable		611	534	139
Cash and cash equivalents	16	93,014	84,759	131,887
Assets classified as held for sale	13	18,015	27,405	24,845
TOTAL CURRENT ASSETS		<u>133,672</u>	<u>126,453</u>	<u>185,167</u>
TOTAL ASSETS		<u>353,614</u>	<u>336,110</u>	<u>442,887</u>
CURRENT LIABILITIES				
Trade and other payables	17	(32,420)	(33,370)	(61,278)
Provisions	19	(1,564)	(4,813)	(22,444)
TOTAL CURRENT LIABILITIES		<u>(33,984)</u>	<u>(38,183)</u>	<u>(83,722)</u>
NON-CURRENT ASSETS PLUS NET CURRENT ASSETS		<u>319,630</u>	<u>297,927</u>	<u>359,165</u>
NON-CURRENT LIABILITIES				
Other payables	17	(5,117)	(1,848)	(9,674)
Retirement benefit obligations	5	(44,526)	(6,271)	43,519
TOTAL NON-CURRENT LIABILITIES		<u>(49,643)</u>	<u>(8,119)</u>	<u>33,845</u>
ASSETS LESS LIABILITIES		<u>269,987</u>	<u>289,808</u>	<u>393,010</u>
RESERVES				
General Reserve		229,725	248,707	322,712
Revaluation Reserve		40,262	41,101	70,298
TOTAL EQUITY		<u>269,987</u>	<u>289,808</u>	<u>393,010</u>

Lena Wilson
Accountable Officer
25 June 2010

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 March 2010

	Notes	2010 £000	2009 £000
Cash flows from operating activities			
Net expenditure after cost of capital and interest		(282,837)	(289,183)
Adjustments for cost of capital charge	1	10,816	12,903
Surplus on disposal of assets	2	(2,680)	(3,549)
Loss/(Surplus) on disposal of investments	2	2,331	(411)
Share of profit/(loss) in equity accounted investees		(34)	(297)
Interest received		(1,142)	(4,685)
Dividends received	2	(242)	(282)
Depreciation and assets written off		3,769	5,396
Transfer of interests in equity accounted investees		852	599
Retirement benefit scheme net charges		404	(5,399)
Decrease in provision for future liabilities	19	(3,414)	(17,631)
Income tax expense		(226)	(640)
Appropriations paid		(313)	(551)
(Increase)/Decrease in trade and other receivables		(10,026)	12,392
(Increase) in inventories		(25)	(13)
(Decrease) in trade payables		(866)	(35,575)
Increase in investment provision and write off		11,486	11,955
Property revaluation deficit		6,981	21,159
Investment revaluation surplus		(112)	-
Net cash outflow from operating activities		<u>(265,278)</u>	<u>(293,812)</u>
Cash flows from investing activities			
Interest received		1,142	4,685
Dividends received	2	242	282
Distributions received from equity accounted investees		164	-
Purchase of property, plant and equipment	7	(8,490)	(16,441)
Purchase of intangible assets	8	-	(18)
Purchase of financial assets		(23,894)	(26,412)
Proceeds of disposal of property, plant and equipment		18,924	15,363
Proceeds of disposal of financial assets		170	2,230
Repayments of other investments		1,749	1,878
Net cash outflow from investing activities		<u>(9,993)</u>	<u>(18,433)</u>
Cash flows from financing activities			
Decrease in finance lease liabilities	18	(30)	(27)
Grants from Scottish Government		281,450	257,738
Net cash inflow from financing activities		<u>281,420</u>	<u>257,711</u>
Net increase/(decrease) in cash and cash equivalents in the period		6,149	(54,534)
Cash and cash equivalents at the beginning of the period		101,504	156,038
Cash and cash equivalents at the end of the period	16	<u>107,653</u>	<u>101,504</u>

GROUP STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

for the year ended 31 March 2010

	<i>General Fund £000</i>	<i>Specific Reserve £000</i>	<i>Revaluation Reserve £000</i>	<i>Total £000</i>
Balance at 1 April 2008	321,254	2,612	106,139	430,005
Net expenditure during the year	(286,701)	(480)	-	(287,181)
Non-cash charges - notional cost of capital	11,135	-	-	11,135
Arising on transfer of retirement benefits	2,872	-	-	2,872
Actuarial losses in retirement benefit scheme	(58,061)	-	-	(58,061)
Surpluses on revaluation of investments	-	-	699	699
Surpluses / (deficits) on revaluation of property, plant and equipment	5,697	-	(44,048)	(38,351)
Total recognised income and expense for year to 31 March 2009	<u>(325,058)</u>	<u>(480)</u>	<u>(43,349)</u>	<u>(368,887)</u>
Grant in Aid from Scottish Government	257,738	-	-	257,738
Balance at 31 March 2009	<u>253,934</u>	<u>2,132</u>	<u>62,790</u>	<u>318,856</u>
Net expenditure during the year	(283,234)	459	-	(282,775)
Non-cash charges - notional cost of capital	10,120	-	-	10,120
Actuarial losses in retirement benefit scheme	(37,851)	-	-	(37,851)
Surpluses on revaluation of investments	-	-	1,199	1,199
Surpluses / (deficits) on revaluation of property, plant and equipment	2,392	-	(1,693)	699
Total recognised income and expense for year to 31 March 2010	<u>(308,573)</u>	<u>459</u>	<u>(494)</u>	<u>(308,608)</u>
Grant in Aid from Scottish Government	281,450	-	-	281,450
At 31 March 2010	<u>226,811</u>	<u>2,591</u>	<u>62,296</u>	<u>291,698</u>

The General Fund is the accumulated surplus on grant in aid funded activity of Scottish Enterprise. Since the incorporation of Scottish Enterprise in 1991 the aggregate amount of grant in aid provided is £7,618m (2009: £7,337m). The grant in aid provision of £281m for 2009-10 included £78.6m in respect of net capital expenditure.

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

Revaluation Reserve is the cumulative unrealised balance arising on revaluation adjustments to assets. Included within the Revaluation Reserve total of £62m (2009: £63m) is £58m (2009: £60m) attributable to net unrealised surpluses on Land and Buildings.

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

for the year ended 31 March 2010

	<i>General Reserve</i> £000	<i>Revaluation reserve</i> £000	<i>Total</i> £000
Balance at 1 April 2008	322,712	70,298	393,010
Net expenditure during the year	(292,051)	-	(292,051)
Non-cash charges - notional cost of capital	10,817	-	10,817
Arising on transfer of retirement benefits	2,872	-	2,872
Actuarial losses in retirement benefit scheme	(58,061)	-	(58,061)
Surpluses on revaluation of investments	-	1,100	1,100
Surpluses / (deficits) on revaluation of property, plant and equipment	4,680	(30,297)	(25,617)
Total recognised income and expense for year to 31 March 2009	<u>(331,743)</u>	<u>(29,197)</u>	<u>(360,940)</u>
Grant in Aid from Scottish Government	257,738	-	257,738
Balance at 31 March 2009	<u>248,707</u>	<u>41,101</u>	<u>289,808</u>
Net expenditure during the year	(273,620)	-	(273,620)
Non-cash charges - Notional cost of capital	9,388	-	9,388
Actuarial losses in retirement benefit scheme	(37,851)	-	(37,851)
Surpluses on revaluation of investments	-	667	667
Surpluses / (deficits) on revaluation of property, plant and equipment	1,651	(1,506)	145
Total recognised income and expense for year to 31 March 2010	<u>(300,432)</u>	<u>(839)</u>	<u>(301,271)</u>
Grant in Aid from Scottish Government	281,450	-	281,450
Balance at 31 March 2010	<u>229,725</u>	<u>40,262</u>	<u>269,987</u>

Included within the Revaluation Reserve total of £40m (2009: £41m) is £37m (2009: £38m) attributable to net unrealised surpluses on Land and Buildings.

STATEMENT OF ACCOUNTING POLICIES

1. Basis of preparation

The Group and Scottish Enterprise 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 Group and Scottish Enterprise accounts have been prepared in accordance with the Financial Reporting Manual (FReM) issued by HM Treasury and the Companies Act 2006 applicable to entities reporting under IFRS. The accounting policies contained in the FReM follow generally accepted accounting practice for companies (GAAP) to the extent that it is meaningful and appropriate to the public sector.

Where the FReM permits a choice of accounting policy, the accounting policy that has been judged to be most appropriate to the particular circumstances of Scottish Enterprise for the purpose of giving a true and fair view has been selected.

The accounting policies have, unless otherwise stated, been applied consistently for all periods presented in the Group and Scottish Enterprise accounts and in preparing an opening IFRS balance sheet, in accordance with the FReM, at 1 April 2008, in dealing with items that are considered material in relation to the accounts.

Scottish Enterprise is preparing its accounts in accordance with IFRS under the FReM for the first time and consequently has applied IFRS1. An explanation of how the transition to IFRS under the FReM affected the previously reported financial positions and financial performance of the Scottish Enterprise Group is provided in Note 27.

The preparation of accounts in conformity with the FReM requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below in "Critical accounting estimates and key judgements".

The Group and Scottish Enterprise accounts are prepared under the historical cost convention except that the following assets and liabilities are stated at fair value:

- Land and property (Note 7)
- Financial assets (Note 10)
- Assets classified as held for sale (Note 13)
- Other borrowings (Note 18)

The board and Accountable Officer have considered the Resource Budget for 2010-11, comprising the availability of Grant in Aid and 'non-cash' budget provision, and consider that Scottish Enterprise has adequate resources to continue in operational existence for the foreseeable future. The accounts are therefore prepared on a going concern basis. Further details of Scottish Enterprise's Resource Budget for 2010-11 are given in the Management Commentary. Details of the liquidity position are given in Note 25.

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. Scottish Equity Partnership's financial year end was 30 September each year. Consolidation of the partnership's results for the year to 31 March 2009 was based on interim accounts. The partnership agreement ended on 30 September 2009 and the assets have been distributed to the partners in accordance with the terms of the partnership agreement.

No Net Expenditure Account is presented for Scottish Enterprise as permitted by s408 of the Companies Act 2006 and with the approval of the Scottish Ministers.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control over their financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

On consolidation, inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary and material to ensure consistency with the policies adopted by the Group.

STATEMENT OF ACCOUNTING POLICIES (continued)

(b) Associates and jointly controlled entities

Associates are entities over which the Group has significant influence but not control. Companies whose business is compatible with the objectives of the Group, in which the holdings are intended to be retained as long term investments and in which the Group has active management involvement are treated as associated undertakings. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreements and requiring unanimous consent for strategic financial and operational decisions.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Group accounts include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies of those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(c) Other

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.

Scottish Enterprise has an interest in four urban regeneration companies, which are also registered charities. The results of these companies are not consolidated in these Group accounts on the basis that the annual surplus and net assets, on an IFRS basis, are not material to the financial position reported by the Group.

3. Funding

Scottish Enterprise receives Grant in Aid from the Scottish Ministers on an annual basis coincident with the Group's financial year 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.

4. Property, plant and equipment

(a) Land

Land held for or under development, or for the Group's own use, is held at fair value and is valued annually in accordance with the Valuation Standards issued by The Royal Institution of Chartered Surveyors on the basis of its existing condition.

Increases in the carrying amount arising on revaluation of land are credited to the Revaluation Reserve. Decreases that offset previous increases on the same asset are charged against the Revaluation Reserve relating to the asset; all other decreases are charged to the Net Expenditure Account. Increases that offset previous decreases charged to the Net Expenditure Account on the same asset are credited to the Net Expenditure Account to the extent of previous decreases and subsequently to the Revaluation Reserve. When land assets are sold, any amounts included in Revaluation Reserve in respect of previously recognised surpluses are transferred to the General Fund.

Land is not depreciated.

(b) Property

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 fair value basis with the exception of the Glasgow Science Centre, which due to the specialist nature of the building, is valued on the basis of depreciated replacement cost.

Buildings held for or under development are held at fair value and are valued annually in accordance with the Valuation Standards issued by The Royal Institution of Chartered Surveyors on the basis of their existing condition and use.

STATEMENT OF ACCOUNTING POLICIES (continued)

Increases in the carrying amount arising on revaluation of buildings are credited to the Revaluation Reserve with the exception of increases that offset previous decreases charged to the Net Expenditure Account on the same asset, which are credited to the Net Expenditure Account to the extent of previous decreases and subsequently to the Revaluation Reserve. Decreases that offset previous increases on the same asset are charged against the Revaluation Reserve relating to the asset; all other decreases are charged to the Net Expenditure Account. The difference between depreciation based on the revalued carrying amount of the asset charged to the Net Expenditure Account and depreciation based on the asset's original cost is transferred from the Revaluation Reserve to the General Fund. When revalued assets are sold, the amounts included in the Revaluation Reserve are transferred to the General Fund.

Depreciation is charged on the revalued amount less their estimated residual value on a straight line basis over their expected useful lives of up to a maximum of 50 years.

The properties' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(c) *Non property assets*

As permitted by the FReM, non property assets are carried at depreciated historic cost. Scottish Enterprise and the Group consider that all of the assets in these categories have short useful lives and the depreciation rates provide a realistic reflection of consumption and reduction in carrying value.

Non property assets are depreciated on a straight line basis over their estimated 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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(d) *Subsequent expenditure*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are charged to the Net Expenditure Account during the financial period in which they are incurred.

(e) *Impairment*

Assets that have an indefinite useful life, for example land, are not subject to depreciation or amortisation and are tested annually for impairment in the annual valuation process. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment losses in respect of land, property, plant and equipment are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Where an asset is not held for the purpose of generating cash flows, value in use is assumed to equal the cost of replacing the service potential provided by the asset, unless there has been a reduction in service potential. Non-financial assets that suffer impairment are reviewed for possible reversal of the impairment at each subsequent reporting date.

5. **Non-current assets held for sale**

Non-current assets are reviewed regularly to ensure that they continue to contribute positively to policy and business objectives. Assets that no longer provide the required level of contribution are considered for disposal by senior management.

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction, the asset is being actively marketed for sale and a sale within a period of 12 months is considered highly probable. Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs of disposal.

Non-current assets held for sale are not depreciated.

STATEMENT OF ACCOUNTING POLICIES (continued)

6. Financial assets

Classification

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

(a) *Loans and receivables*

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

(b) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available for sale financial assets comprise investments in ordinary shares, investments in preference shares which are not classified as held-to-maturity and convertible and other loans for which there is no fixed or determinable repayment terms.

(c) *Held-to-maturity assets*

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and maturities where Scottish Enterprise has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Held-to-maturity financial assets comprise investments in mandatorily redeemable preference shares.

Recognition and measurement

Financial assets are recognised when Scottish Enterprise becomes party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the rights to receive cash flows from the asset have expired or Scottish Enterprise has transferred substantially all risks and rewards of ownership.

(a) *Loans and receivables*

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of loans and receivables is established when there is objective evidence that Scottish Enterprise will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the loan and receivable is impaired. The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the Net Expenditure Account. When a loan or receivable is uncollectible it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited in the Net Expenditure Account.

(b) *Available-for-sale financial assets*

Available-for-sale financial assets are initially recognised and subsequently carried at fair value except in situations where fair value cannot be reliably measured.

Fair value is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

A quoted investment is valued using the bid price on the balance sheet date.

If the market for a financial asset is not active, Scottish Enterprise establishes fair value from external market evidence.

STATEMENT OF ACCOUNTING POLICIES (continued)

The price of recent investment is considered the methodology most appropriate. The costs of the investment itself or the price at which a significant amount of new investment into the company is made by an independent third party will be reliable for a limited period following the date of the transaction. While the price of a subsequent funding round is a guide to fair value, Scottish Enterprise will take account of the circumstance of the funding round and any subsequent events which may imply a change to the valuation.

In the case of an investment in an early stage business, the inability to estimate future earnings or cashflows and the difficulty of estimating the probability and financial impact of success of its discovery or development activities can lead to the conclusion fair value cannot be reliably measured in the absence of a recent investment in the business. In these circumstances the investment is carried at cost less provision for impairment.

Increases in the fair value of financial assets classified as available for sale are recognised in the Revaluation Reserve. When financial assets classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in Revaluation Reserve are included in the Net Expenditure Account.

At each balance sheet date Scottish Enterprise assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the estimated fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current estimated fair value, less any impairment loss on that financial asset previously recognised in the Net Expenditure Account is recognised in the Net Expenditure Account.

(c) *Held-to-maturity assets*

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

7. Intangible assets

(a) *Patents and other similar intellectual property rights*

Externally purchased patents and other similar intellectual property rights are stated at cost and depreciated over the lesser of the patent life or licence term and the length of the research and development programme to which the patent or licence relates.

(b) *Software Licences*

Software licences are stated at depreciated replacement cost. Amortisation is calculated on a straight line basis over a period of three years.

Annual software licences are charged to the Net Expenditure Account in the year in which they are incurred.

8. Assets held by Local Enterprise Companies

Certain property, plant and equipment 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 their fair value, or where fair value cannot be established reliably, at cost less a provision for impairment. 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 as financial assets.

9. Inventories

Inventories, representing the stock of goods for re-sale, are stated at the lower of cost and net realisable value.

10. Income

Income from assets sold is recognised when the significant risks and rewards of ownership have been transferred to a third party. Revenue from services provided is recognised in the period for which the services were 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.

STATEMENT OF ACCOUNTING POLICIES (continued)

Income is stated net of VAT where applicable.

11. European funding

European funding is credited to the Net Expenditure Account on the basis of amounts receivable in respect of expenditure incurred in the accounting period on approved projects.

12. Dividend income

Dividend income is credited to the Net Expenditure Account in the year in which it is receivable.

13. Leasing

Where Scottish Enterprise bears substantially all of the risks and rewards of owning the leased item the lease is accounted for as a finance lease under IAS17 Leases. IAS17 does not set a quantitative test for assessing the transfer of risks and rewards of ownership. Finance leases are capitalised at the start of the lease term at the fair value of the leased asset, or if lower, the present value of the minimum lease payments. Where the fair value of the leased asset is not quantifiable, the present value of future lease payments is used as a proxy for the purposes of the value of the asset and the associated financial liability. Property, plant and equipment and financial liabilities associated with finance leases are recognised and valued on the same basis as other property, plant and equipment and financial liabilities as set out in the relevant accounting policies.

Lease payments are apportioned between the finance charges and the lease liability in order to achieve a constant rate of interest on the remaining balance of the liability. Capitalised leased assets are depreciated over the shorter of the lease term and the estimated useful life of the asset.

Leases where most of the risks and rewards of ownership of the asset remain with the lessor are classified as operating leases. Operating lease payments are recognised in the Net Expenditure Account on a straight line basis over the lease term. The benefit of any lease incentive is recognised as a reduction in rental expense on a straight line basis over the life of the lease.

14. Taxation

Tax on the net expenditure for the year comprises current tax. Tax is recognised in the Net Expenditure Account, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using the rates enacted or subsequently enacted at the balance sheet date in the countries where Scottish Enterprise's subsidiaries operate and generate taxable income, and any adjustment to the tax payable in respect of previous years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions for corporation tax on gains, profits and losses, as computed for tax purposes, arising from business activities on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Grant in Aid received from the Scottish Ministers is allocated in the first instance to non-business expenditures.

15. Employee benefits

(a) Retirement benefits

Scottish Enterprise operates the Scottish Enterprise Pension & Life Assurance Scheme, a defined benefit retirement benefit plan.

The liability recognised in the balance sheet in respect of a defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related liability.

STATEMENT OF ACCOUNTING POLICIES (continued)

The expected return on the plans' assets less the interest cost of the plans' liabilities is recognised in the Net Expenditure Account as Other Finance Income or as Other Finance Charges where the interest cost exceeds the expected return on plan assets. 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 and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to taxpayers' funds in the Statement of Other Comprehensive Income in the period in which they arise.

Past service costs represent the change in the present value of the obligation, in respect of prior periods' service, due to changes in benefit entitlement. Past-service costs are recognised immediately in the Net Expenditure Account, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

A settlement is an early settlement of all or part of the plan obligation. A curtailment occurs when the Group is demonstrably committed to reduce significantly the number of employees in the plan or amends the terms of the plan so that the benefits of future services are reduced or eliminated. Measurement of the obligation does not take into account planned curtailments or settlements until the Group is committed to the curtailment or settlement with no realistic possibility of withdrawal.

(b) Short term employee benefits

A liability and an expense is recognised for holiday days, holiday pay, bonuses and other short-term benefits when the employees render service that increases their entitlement to these benefits. As a result an accrual has been made for holidays earned but not taken. Accruals are recognised for material amounts in respect of holiday days, holiday pay, bonuses and other short term benefits earned but not taken or paid at the balance sheet date.

16. Exchange Gains and Losses

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Group accounts are presented in Pounds Sterling, which is the Scottish Enterprise's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Net Expenditure Account.

17. 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 Net Expenditure Account within Interest payable and similar charges. The notional cost of capital attributable to non business activities is reversed on the Net Expenditure Account and those attributable to the business activities of Property Services and Investment Management are credited to the General Fund.

18. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

19. Financial Liabilities

Classification

Scottish Enterprise classifies its financial liabilities on initial recognition as other financial liabilities.

STATEMENT OF ACCOUNTING POLICIES (continued)

Other financial liabilities are included in current liabilities, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current liabilities. Scottish Enterprise's other financial liabilities comprise trade and other payables in the balance sheet.

Recognition and measurement

Financial liabilities are recognised when Scottish Enterprise becomes party to the contractual provisions of the financial instrument.

A financial liability is removed from the balance sheet when it is extinguished, that is when the obligation is discharged, cancelled or expired.

Other financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

20. Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

21. Critical accounting estimates and judgements

The preparation of the accounts in conformity with IFRS requires the board and Accountable Officer to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Information about critical judgements in applying accounting policies that have the most significant effects on the amounts recognised in the accounts is as follows:

(a) Retirement benefit obligations

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost or income for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of retirement benefit obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement benefit obligations.

The Group also determines the appropriate rate for salary inflation based on consideration of inflation and long term assumptions in respect of salary increases.

Other key assumptions for retirement benefit obligations are based in part on current market conditions. Additional information is disclosed in Note 5.

(b) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using judgement and assumptions that are mainly based on market conditions existing at each balance sheet date.

STATEMENT OF ACCOUNTING POLICIES (continued)

(c) *Held-to-maturity investments*

The Group follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to keep these investments to maturity other than for specific circumstances explained in IAS 39, it will be required to reclassify the whole class as available-for-sale. The investments would then be measured at fair value not amortised cost.

(d) *Impairment of available-for-sale financial assets*

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

NOTES TO THE ACCOUNTS

1. EXPENDITURE

	2010 £000	2009 £000
Operational Expenditure	<u>223,506</u>	<u>232,444</u>
Management Expenditure	<u>88,897</u>	<u>91,750</u>
Expenditure noted above includes:-		
Rentals under operating leases		
Buildings	5,929	6,051
Other	752	1,046
Foreign exchange (gains)/losses	(99)	61
Depreciation	6,906	7,194
Depreciation – finance lease	115	115
Amortisation of intangible assets	67	86
Auditors' remuneration		
- audit of these accounts (i)	176	179
amounts receivable by auditors in respect of:		
- other services relating to taxation	258	53
- services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of Scottish Enterprise or the Group	175	-
- all other services	<u>12</u>	<u>40</u>
	<u>621</u>	<u>272</u>
Amounts paid to other auditors in respect of:		
- audit of subsidiary companies' accounts	98	98
- non-audit fees	<u>105</u>	<u>166</u>
	<u>203</u>	<u>264</u>

- (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.

	2010 £000	2009 £000
Interest Payable and Similar Charges		
Share of equity accounted investees interest	-	17
Notional cost of capital	10,816	12,903
Notional cost of capital (reversal)	<u>(696)</u>	<u>(1,768)</u>
	<u>10,120</u>	<u>11,152</u>
Other Finance Charges/ (Income)		
Expected return on pension scheme assets	(20,908)	(29,152)
Interest on pension scheme liabilities	<u>23,183</u>	<u>25,198</u>
	<u>2,275</u>	<u>(3,954)</u>

NOTES TO THE ACCOUNTS (continued)**2. INCOME**

	2010 £000	2009 £000
Income from Activities		
Property Services:		
Rents	11,677	11,994
Sundry property income	3,234	347
Surplus on disposal of property	2,680	3,549
Investment Management:		
(Loss)/Surplus on disposal of investments	(2,331)	411
	<u>15,260</u>	<u>16,301</u>
Other Income		
European Funding	7,228	3,477
UK Government funds	3,662	1,225
Contributions and other fees	14,272	17,381
	<u>25,162</u>	<u>22,083</u>
Income from Investments		
Dividends and other investment income	<u>242</u>	<u>282</u>
Interest Receivable	<u>1,959</u>	<u>5,302</u>

3. SEGMENTAL REPORTING

All income and expenditure is attributable to the principal activity of Scottish Enterprise and relates to economic development activity. The Chief Executive and Executive Board monitor expenditure by strategic theme as shown below. Management expenditure, including staff costs, and income are not monitored by strategic theme. A reconciliation of segmental expenditure to net operating expenditure is shown below.

	2010 £000	2009 £000
Operating Expenditure		
Enterprise – Internationalisation	27,253	22,501
Enterprise – Account Management	14,869	13,541
Enterprise – Industry Sectors Support	8,242	8,881
Enterprise – Support Projects	8,639	9,767
Innovation – Commercialisation	3,130	3,453
Innovation – Account Management	15,098	14,524
Innovation – Industry Sectors Support	11,244	15,153
Innovation – IP Generation including ITI Scotland	33,837	45,855
Investment – Business Infrastructure	51,849	40,526
Investment – Investment Funds	14,119	12,766
Investment – Urban Regeneration Companies	12,495	7,190
Investment – Local Regeneration	5,396	4,577
Research and Development expenditure	3,063	4,113
Property Costs	14,272	29,597
Total Segmental Expenditure	<u>223,506</u>	<u>232,444</u>
Management Expenditure		
Management expenditure on staff costs	60,313	52,719
Premises, ICT, business services and other management costs	28,584	39,031
	<u>88,897</u>	<u>91,750</u>
Income	(40,422)	(38,384)
Net Operating Expenditure	<u>271,981</u>	<u>285,810</u>

NOTES TO THE ACCOUNTS (continued)**4. STAFF NUMBERS AND RELATED COSTS**

	2010 £	2009 £
(a) Non Executive Board members		
Fees and remuneration (i)	173,761	171,160
Pension and social security costs	26,264	29,448
Travel and subsistence	3,030	4,510
	<u>203,055</u>	<u>205,118</u>
Chairman's remuneration	<u>38,721</u>	<u>4,716</u>
Former Chairman's remuneration	<u>-</u>	<u>35,597</u>

- (i) Fees and remuneration paid to Non Executive Board Members are detailed in the Remuneration Report.
- (ii) Scottish Enterprise's Chief Executive, Lena Wilson, and previous Chief Executive, Jack Perry, are and were also Members of the Board. Their remuneration is not included above but details are provided in the Remuneration Report.
- (iii) Scottish Enterprise is required to meet the retirement 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 £136,000 (2009: £124,000) within the total retirement benefit liabilities at 31 March 2010, as assessed by the advisers to the Scottish Enterprise Pension & Life Assurance Scheme.
- (iv) The nature of Scottish Enterprise operations and the composition of its board make it 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
Touch EMAS Limited	Crawford Gillies	Chairman	49,345	Grant Funding
			50,000	Loan
Elonics Limited	Fred Hallsworth	Director	30,506	Grant funding
			300,002	Ordinary Shares
			317,045	Loan
Metaforic Limited	Fred Hallsworth	Director	500,000	Loan
Point 35 Microstructures Ltd	Fred Hallsworth	Director	38,179	Grant funding
Yakara PLC	Iain MacDonald	Chairman & Non-Executive Director	16,000	Grant Funding
Rolls-Royce PLC	Jim McDonald	Advisory Board	71,496	Grant funding
Institute of Occupational Medicine	Russel Griggs	Chairman	134,770	Grant funding

- (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
Glasgow Caledonian University	Ian Crawford	Member of Business Advisory Board
Riverside Inverclyde	Ian Crawford	Director
Scottish Institute for Enterprise	Sir Timothy O'Shea	Chairman
University of Edinburgh	Sir Timothy O'Shea	Principal
University of Strathclyde	Jim McDonald	Principal & Vice Chancellor
University of Strathclyde	Jack Perry	Member of General Convocation

NOTES TO THE ACCOUNTS (continued)

Organisation	Board Member	Position
Dumfries & Galloway College	Russell Griggs	Chairman
Festival City Theatres	Iain McLaren	Director of Trust
Heriot-Watt University	Iain McLaren	Member of the Court
Heriot-Watt University	Ray Perman	Member of the Court
Social Investment Scotland	Ray Perman	Chairman
TMRI Limited	Jack Perry	Chairman

(b) Staff costs comprise:

	<i>Permanently employed staff</i> £000	<i>Others</i> £000	<i>2010</i> £000	<i>2009</i> £000
Wages and salaries	51,412	-	51,412	52,619
Social security costs	4,293	-	4,293	4,673
Pension costs	5,880	-	5,880	7,614
Inward seconded and temporary staff costs	-	562	562	378
Travel and subsistence	1,832	-	1,832	1,883
Entertainment	5	-	5	10
Less: recoveries in respect of outward secondments	(1,409)	-	(1,409)	(1,431)
	<u>62,013</u>	<u>562</u>	<u>62,575</u>	<u>65,746</u>
Severance costs	8,126	-	8,126	2,386
	<u>70,139</u>	<u>562</u>	<u>70,701</u>	<u>68,132</u>

(c) Staff costs are included in the Net Expenditure Account as follows:-

	<i>2010</i> £000	<i>2009</i> £000
Operating expenditure	10,388	15,413
Management expenditure on staff costs	60,313	52,719
	<u>70,701</u>	<u>68,132</u>

(d) Severance costs

The number of staff who left or agreed to leave Scottish Enterprise under a voluntary severance in the year to 31 March 2010 amounted to 66 (2009: 17), at a total cost of £8,126,000. This comprises payments to individuals of £4,274,000 for compensation for loss of office and pay in lieu of notice and payments to the Scottish Enterprise Pension & Life Assurance Scheme of £3,852,000 which are based on actuarial calculations in relation to future pension benefits. These costs include a provision of £1,372,000 for the costs 15 staff who have agreed to leave under the severance programme during 2010/11.

(e) Average number of persons employed calculated on a full time equivalent basis

	<i>Permanent staff</i> No.	<i>Others</i> No.	<i>2010</i> No.	<i>Restated 2009</i> No.
Executive board (i)	7	-	7	5
Operations	1,016	-	1,016	1,051
Administration and support function	243	-	243	268
Inward Secondments and temporary staff	-	8	8	6
	<u>1,266</u>	<u>8</u>	<u>1,274</u>	<u>1,330</u>

(i) In May 2010, Linda McDowall, Jim McFarlane, David Smith and Julian Taylor were appointed to the Executive Board. During 2009 -10 these individuals regularly attended Executive Board meetings. In line with the FReM and in light of their role in strategic decision making it is considered appropriate to include them in the Executive Board numbers for the year to 31 March 2010.

NOTES TO THE ACCOUNTS (continued)

5. RETIREMENT BENEFIT SCHEME

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

On 1 April 2008, staff previously employed in Scottish Enterprise's Skills & Learning and Careers Scotland functions transferred to The Skills Development Scotland Co. Limited. The Trustees of the Scottish Enterprise Pension and Life Assurance Scheme, Scottish Enterprise (as principal employer) and Skills Development Scotland (as participating employer) entered into an agreement effective from 1 April 2008, whereby employees of Skills Development Scotland, who were previously Skills & Learning employees of Scottish Enterprise, continued to participate in the Scottish Enterprise Pension and Life Assurance Scheme in accordance with the Deed of Agreement and Trust and other governing documentation of the Scheme.

The Deed of Participation admitting Skills Development Scotland as a participating employer to the Scheme does not address how the assets and liabilities of the Scheme relating to Skills Development Scotland's employees former participation in the Scheme, as employees of Scottish Enterprise, should be determined and accounted for. In the absence of an agreement, for the purposes of IAS19 Employee Benefits, as at 31 March 2010, Scottish Enterprise continues to account for all assets and liabilities of the Scheme as at 31 March 2008, including those relating to staff who transferred to Skills Development Scotland at that date.

Subsequent to the balance sheet date, but prior to approval of these accounts, Skills Development Scotland informed their staff, including those former Skills & Learning employees of Scottish Enterprise, that they intended to consolidate retirement benefits in the Strathclyde Pension Fund during 2010/11. Scottish Enterprise does not believe that any future transfer of assets and liabilities of the Scottish Enterprise Pension and Life Assurance Scheme to the Strathclyde Pension Fund as a consequence of this decision will have any impact on the net assets of Scottish Enterprise as at 31 March 2010.

	2010 £000	2009 £000
Present value of funded defined benefit obligations	(481,836)	(327,642)
Fair value of plan assets	437,310	321,371
Recognised deficit in the scheme	<u>(44,526)</u>	<u>(6,271)</u>

Movements in the present value of defined benefit obligations

	2010 £000	2009 £000
At 1 April 2009	(327,642)	(465,042)
Transferred to Skills Development Scotland	-	86,489
Current service cost	(5,718)	(7,095)
Past service cost	(3,818)	(329)
Interest cost	(23,183)	(25,198)
Actuarial gains	(133,264)	71,445
Benefits paid	14,218	14,491
Contributions by members	(2,429)	(2,403)
	<u>(481,836)</u>	<u>(327,642)</u>

NOTES TO THE ACCOUNTS (continued)**Movements in the present value of defined scheme benefits**

	2010	2009
	£000	£000
At 1 April 2009	321,371	508,561
Transferred to Skills Development Scotland	-	(83,617)
Expected return on plan assets	20,908	29,152
Actuarial gains / (losses)	95,413	(129,506)
Contributions by the employer	11,407	8,869
Contributions by members	2,429	2,403
Benefits paid by the plan	(14,218)	(14,491)
	<u>437,310</u>	<u>321,371</u>

Expense recognised in the net expenditure account

	2010	2009
	£000	£000
Current service cost	5,718	7,095
Past service cost	3,818	329
Expected return on retirement benefit scheme assets	(20,908)	(29,152)
Interest on retirement benefit scheme obligations	23,183	25,198
Total retirement benefit scheme expense	<u>11,811</u>	<u>3,470</u>

The expense is recognised in the following lines in the Net Expenditure Account

	2010	2009
	£000	£000
Management Expenditure	9,536	7,424
Other Finance Income	2,275	(3,954)
	<u>11,811</u>	<u>3,470</u>

The total loss amount recognised in the statement of other comprehensive income in respect of actuarial gains and losses is £37,851,000 (2009: £58,061,000 (loss)).

Cumulative actuarial gains and losses recognised in the statement of other comprehensive income since 1 April 2002 are net losses of £88,341,000 (2009: £50,490,000 (losses))

The fair value and the expected rates of return on scheme assets at 31 March 2010 were as follows:

		2010		2009
	<i>Long term return</i>	<i>Value £m</i>	<i>Long term return</i>	<i>Value £m</i>
Equities	7.50%	311.8	7.20%	205.4
Corporate Bonds	5.50%	52.0	6.70%	37.6
Gilts	4.50%	18.4	4.20%	22.5
Property	5.50%	43.3	5.20%	36.0
Cash	4.00%	11.8	4.00%	19.9
Total fair value of assets	6.80%	<u>437.3</u>		<u>321.4</u>

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

NOTES TO THE ACCOUNTS (continued)

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

	2010 % per annum	2009 % per annum
Discount rate	5.50%	7.10%
Expected rate of return on plan assets	6.84%	6.51%
Future salary increases	5.10%	5.00%
Rate of increase in retirement benefits	3.60%	3.50%
Price inflation	3.60%	3.50%

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

	2010 Years	2009 Years
Male – at the current retirement age of 60	25.6	25.5
Male – future retiree	27.6	27.5
Female – at the current retirement age of 60	28.2	28.1
Female – future retiree	30.1	30.0

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

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Fair value of plan assets	437,310	321,371	508,561	502,125	457,022
Present value of defined benefit obligation	(481,836)	(327,642)	(465,042)	(510,471)	(470,186)
Surplus / (deficit)	(44,526)	(6,271)	43,519	(8,346)	(13,164)
Experience adjustments on scheme assets	95,413 21.8%	(129,327) (40.2%)	(50,444) (9.9%)	(965) (0.2%)	70,727 15.5%
Experience adjustments on scheme liabilities	6,500 1.3%	28,234 8.6%	560 0.1%	(958) (0.2%)	15,764 3.4%
Total actuarial gains/(losses) on obligation	(133,265) (27.7%)	71,306 21.8%	96,415 20.7%	786 0.2%	(57,030) (12.1%)

A reduction in the net discount rate will increase the value of scheme liabilities. The overall effect of a change in the net discount rate of 0.1% would increase / decrease scheme liabilities by approximately 2% (£9.6m) at March 2010. The effect of increasing the assumed life expectancies by one year would be to increase the value of liabilities by approximately 2% (£9.6m) at 31 March 2010.

During the year to 31 March 2011, Scottish Enterprise estimates that contributions of £6.8m will be paid to the Scottish Enterprise Pension & Life Assurance Scheme.

6. TAXATION

	2010 £000	2009 £000
UK Corporation tax @ 28%	148	366
Corporation tax over provided in previous years	(77)	(146)
	<u>71</u>	<u>220</u>
Share of equity accounted investees' tax	-	24
Total current tax	<u>71</u>	<u>244</u>

NOTES TO THE ACCOUNTS (continued)

Factors affecting current tax charge:

	2010 £000	2009 £000
Net expenditure after cost of capital and interest	282,837	289,183
Current tax @ 28%	(79,194)	(80,971)
Effect of:		
Non-taxable income and disallowed expenditure	79,342	81,715
Capital allowances	-	(354)
Tax over provided in previous years	(77)	(146)
Current tax charge	<u>71</u>	<u>244</u>

7. PROPERTY, PLANT AND EQUIPMENT

GROUP

	<i>Land</i> £000	<i>Buildings</i> £000	<i>Transport Equipment</i> £000	<i>Plant and Equipment</i> £000	<i>Information Technology</i> £000	<i>Furniture & Fittings</i> £000	<i>Leasehold Improvement</i> £000	<i>Total</i> £000
Cost and valuation								
At 1 April 2008	142,604	101,723	162	28,186	5,307	7,454	2,263	287,699
Additions	8,489	6,997	35	582	94	61	182	16,440
Disposals	(3,009)	(4,168)	(26)	(2,655)	(224)	54	(1,208)	(11,236)
Transfer to Held for Sale	(9,393)	(9,485)	-	-	-	-	-	(18,878)
Written off	-	-	-	-	-	(5,502)	-	(5,502)
Revaluation	(40,053)	(15,342)	-	-	-	-	-	(55,395)
At 31 March 2009	<u>98,638</u>	<u>79,725</u>	<u>171</u>	<u>26,113</u>	<u>5,177</u>	<u>2,067</u>	<u>1,237</u>	<u>213,128</u>
At 1 April 2009	98,638	79,725	171	26,113	5,177	2,067	1,237	213,128
Additions	6,683	-	92	290	1,035	390	-	8,490
Disposals	(4,061)	(1,323)	(59)	(6,132)	(1,792)	(47)	(174)	(13,588)
Transfer from Held for Sale	1,690	2,920	-	-	-	-	-	4,610
Written off	-	-	-	-	-	-	-	-
Revaluation	(4,425)	(1,487)	-	-	-	-	-	(5,912)
At 31 March 2010	<u>98,525</u>	<u>79,835</u>	<u>204</u>	<u>20,271</u>	<u>4,420</u>	<u>2,410</u>	<u>1,063</u>	<u>206,728</u>
Depreciation								
At 1 April 2008	-	1,320	87	15,685	4,328	3,762	1,493	26,675
Charge for year	-	3,950	42	2,337	525	316	139	7,309
Written off	-	-	-	-	-	(1,926)	-	(1,926)
Revaluation	-	(3,722)	-	-	-	-	-	(3,722)
Disposals	-	(1,330)	(13)	(1,903)	(219)	(54)	(995)	(4,514)
At 31 March 2009	<u>-</u>	<u>218</u>	<u>116</u>	<u>16,119</u>	<u>4,634</u>	<u>2,098</u>	<u>637</u>	<u>23,822</u>
At 1 April 2009	-	218	116	16,119	4,634	2,098	637	23,822
Charge for year	-	3,684	48	2,184	644	379	82	7,021
Revaluation	-	(3,619)	-	-	-	-	-	(3,619)
Disposals	-	(283)	(44)	(1,280)	(1,659)	(771)	(77)	(4,114)
At 31 March 2010	<u>-</u>	<u>-</u>	<u>120</u>	<u>17,023</u>	<u>3,619</u>	<u>1,706</u>	<u>642</u>	<u>23,110</u>
Net book value								
At 31 March 2010	<u>98,525</u>	<u>79,835</u>	<u>84</u>	<u>3,248</u>	<u>801</u>	<u>704</u>	<u>421</u>	<u>183,618</u>
At 31 March 2009	<u>98,638</u>	<u>79,507</u>	<u>55</u>	<u>9,994</u>	<u>543</u>	<u>(31)</u>	<u>600</u>	<u>189,306</u>
At 1 April 2008	<u>142,604</u>	<u>100,403</u>	<u>75</u>	<u>12,501</u>	<u>979</u>	<u>3,692</u>	<u>770</u>	<u>261,024</u>

NOTES TO THE ACCOUNTS (continued)

	<i>Land</i> £000	<i>Buildings</i> £000	<i>Transport Equipment</i> £000	<i>Plant and Equipment</i> £000	<i>Information Technology</i> £000	<i>Furniture & Fittings</i> £000	<i>Leasehold Improvement</i> £000	<i>Total</i> £000
Asset financing								
Owned	98,525	79,835	84	3,248	801	704	421	183,618
Net book value								
At 31 March 2010	98,525	79,835	84	3,248	801	704	421	183,618

Included within Land & Buildings is land on long leasehold (over 50 years) with a value of £2.6m (2009: £4.6m).

Land & Buildings held for industrial and commercial use were valued at 31 March 2010 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 total value of £178m (2009: £178m).

Within Land & Buildings is a building that has been revalued by James Barr, Chartered Surveyors on the basis of depreciated replacement cost representing the gross replacement cost discounted for consumption of assets to date. The building is depreciated over a period of 25 years.

At 31 March 2010 the net carrying value of leased equipment was £1.2m (2009: £1.3m). The related financial obligations are set out in Note 18.

SCOTTISH ENTERPRISE

	<i>Land</i> £000	<i>Buildings</i> £000	<i>Transport Equipment</i> £000	<i>Plant and Equipment</i> £000	<i>Information Technology</i> £000	<i>Furniture & Fittings</i> £000	<i>Leasehold Improvement</i> £000	<i>Total</i> £000
Cost and valuation								
At 1 April 2008	99,295	40,848	113	740	1,844	5,623	-	148,463
Additions	8,738	6,129	-	-	-	-	-	14,867
Disposals	(2,689)	-	(12)	-	-	-	-	(2,701)
Inter-group transfer	-	-	-	746	234	1,505	-	2,485
Transfer to Held for Sale	(6,580)	(8,852)	-	-	-	-	-	(15,432)
Written off	-	-	-	-	-	(5,502)	-	(5,502)
Revaluation	(27,132)	(11,835)	-	-	-	-	-	(38,967)
At 31 March 2009	71,632	26,290	101	1,486	2,078	1,626	-	103,213
At 1 April 2009	71,632	26,290	101	1,486	2,078	1,626	-	103,213
Additions	7,067	-	56	-	814	389	-	8,326
Disposals	(3,466)	(270)	(47)	-	-	-	-	(3,783)
Inter-group transfer	-	-	-	-	260	222	527	1,009
Transfer from Held for sale	530	2,920	-	-	-	-	-	3,450
Written off	-	-	-	-	-	-	-	-
Revaluation	(4,584)	993	-	-	-	-	-	(3,591)
At 31 March 2010	71,179	29,933	110	1,486	3,152	2,237	527	108,624

NOTES TO THE ACCOUNTS (continued)

	<i>Land</i>	<i>Buildings</i>	<i>Transport</i>	<i>Plant and</i>	<i>Information</i>	<i>Furniture &</i>	<i>Leasehold</i>	<i>Total</i>
	£000	£000	Equipment	Equipment	Technology	Fittings	Improvement	£000
			£000	£000	£000	£000	£000	£000
Depreciation								
At 1 April 2008	-	-	58	728	1,799	2,040	-	4,625
Inter-group transfer	-	-	-	700	216	1,176	-	2,092
Charge for year	-	747	25	-	-	-	-	772
Disposals	-	-	(3)	-	-	-	-	(3)
Revaluation	-	(747)	-	-	-	-	-	(747)
Written off	-	-	-	-	-	(1,926)	-	(1,926)
At 31 March 2009	-	-	80	1,428	2,015	1,290	-	4,813
At 1 April 2009	-	-	80	1,428	2,015	1,290	-	4,813
Inter-group transfer	-	-	-	-	235	222	248	705
Charge for year	-	786	28	58	335	103	-	1,310
Disposals	-	-	(35)	-	-	-	-	(35)
Revaluation	-	(786)	-	-	-	-	-	(786)
Written off	-	-	-	-	-	-	-	-
At 31 March 2010	-	-	73	1,486	2,585	1,615	248	6,007
Net book value								
At 31 March 2010	71,179	29,933	37	-	567	622	279	102,617
At 31 March 2009	71,632	26,290	21	58	63	336	-	98,400
At 1 April 2008	99,295	40,848	55	12	45	3,583	-	143,838
Asset financing								
Owned	71,179	29,933	37	-	567	622	279	102,617
Net book value								
At 31 March 2010	71,179	29,933	37	-	567	622	279	102,617

Included within Land & Buildings is land on long leasehold (over 50 years) with a value of £2.6m (2009: £4.6m).

Land & Buildings held for industrial and commercial use were valued at 31 March 2010 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 total value of £101m (2009: £98m).

NOTES TO THE ACCOUNTS (continued)**8. INTANGIBLE ASSETS**

Intangible assets comprise patents & other intellectual property rights and software licences.

GROUP

	<i>Patents and other rights £000</i>	<i>Software Licences £000</i>	<i>Total £000</i>
Cost			
At 1 April 2008	908	854	1,762
Additions	17	1	18
As at 31 March 2009	<u>925</u>	<u>855</u>	<u>1,780</u>
At 1 April 2009	925	855	1,780
Additions	-	-	-
As at 31 March 2010	<u>925</u>	<u>855</u>	<u>1,780</u>
Amortisation			
At 1 April 2008	812	815	1,627
Charge for year	85	1	86
As at 31 March 2009	<u>897</u>	<u>816</u>	<u>1,713</u>
At 1 April 2009	897	816	1,713
Charge for year	28	39	67
As at 31 March 2010	<u>925</u>	<u>855</u>	<u>1,780</u>
Net book value at 31 March 2010	<u>-</u>	<u>-</u>	<u>-</u>
Net book value at 31 March 2009	<u>28</u>	<u>39</u>	<u>67</u>
Net book value at 1 April 2008	<u>96</u>	<u>39</u>	<u>135</u>

SCOTTISH ENTERPRISE

	<i>Patents and other rights £000</i>	<i>Software Licences £000</i>	<i>Total £000</i>
Cost			
At 1 April 2008	633	846	1,479
Additions	-	-	-
As at 31 March 2009	<u>633</u>	<u>846</u>	<u>1,479</u>
At 1 April 2009	633	846	1,479
Additions	-	-	-
As at 31 March 2010	<u>633</u>	<u>846</u>	<u>1,479</u>
Amortisation			
At 1 April 2008	633	806	1,439
Charge for year	-	1	1
As at 31 March 2009	<u>633</u>	<u>807</u>	<u>1,440</u>
At 1 April 2009	633	807	1,440
Charge for year	-	39	39
As at 31 March 2010	<u>633</u>	<u>846</u>	<u>1,479</u>
Net book value at 31 March 2010	<u>-</u>	<u>-</u>	<u>-</u>
Net book value at 31 March 2009	<u>-</u>	<u>39</u>	<u>39</u>
Net book value at 1 April 2008	<u>-</u>	<u>40</u>	<u>40</u>

NOTES TO THE ACCOUNTS (continued)

9. EQUITY ACCOUNTED INVESTEEES

Summarised financial information for Scottish Enterprise's investments in equity accounted investees, on a combined basis, is presented below:

	<i>Current Assets</i> £000	<i>Non current assets</i> £000	<i>Total Assets</i> £000	<i>Current Liabilities</i> £000	<i>Non Current Liabilities</i> £000	<i>Total Liabilities</i> £000	<i>Revenue</i> £000	<i>Expenses</i> £000	<i>Profit / (Loss)</i> £000
At 1 April 2008	70,043	6,789	76,832	(13,504)	(56,945)	(70,449)	8,922	(9,934)	(1,012)
At 31 March 2009	48,046	14,979	63,025	(7,477)	(59,376)	(66,853)	21,668	(22,846)	(1,178)
At 31 March 2010	48,379	13,262	61,641	(11,421)	(57,435)	(68,856)	3,142	(4,579)	(1,437)

Movements in carrying amount of investment in equity accounted investees:

	£000
Carrying amount at 1 April 2008	5,356
Contributions to associates	3,121
Share of net profit before interest and taxation	9
Share of interest and taxation	28
Revaluation of investment properties since date of acquisition	(2,861)
Carrying amount at 31 March 2009	<u>5,653</u>
Carrying amount at 1 April 2009	5,653
Transfer of interest in equity accounted investee	(852)
Share of net profit	34
Distributions received	(164)
Carrying amount at 31 March 2010	<u>4,671</u>

10. FINANCIAL ASSETS – OTHER INVESTMENTS

	2010	2009	Group 2008	2010	2009	Scottish Enterprise 2008
	£000	£000	£000	£000	£000	£000
Held to Maturity Investments	1,324	2,638	3,563	1,290	2,532	3,377
Available for sale financial assets	49,160	38,916	29,045	44,902	35,196	24,038
Loans and other receivables	17,939	17,700	15,187	17,868	17,523	14,519
	<u>68,423</u>	<u>59,254</u>	<u>47,795</u>	<u>64,060</u>	<u>55,251</u>	<u>41,934</u>

The above financial assets have been funded as follows:

	2010	2009	Group 2008	2010	2009	Scottish Enterprise 2008
	£000	£000	£000	£000	£000	£000
Grant in Aid	67,997	58,576	45,533	63,634	54,573	40,664
Voted Loans	412	614	2,180	412	614	1,188
Public Dividend Capital	14	64	82	14	64	82
	<u>68,423</u>	<u>59,254</u>	<u>47,795</u>	<u>64,060</u>	<u>55,251</u>	<u>41,934</u>

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

NOTES TO THE ACCOUNTS (continued)

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 Net Expenditure Account and amounted to £109,000 (2009: £Nil).

Listed Investments

Stock Exchange investments included in the above at 31 March 2010 are valued £4,920,000 (2009: £3,565,000) which includes unrealised surpluses on valuation of £753,000 (2009: £158,000). Income from listed investments in the year to 31 March 2010 was £61,000 (2009: £64,000).

The schedule of main invested companies is given in Note 28.

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 (i)	Communications infrastructure	100
Co-operative Development Scotland Limited	Assisting new and emerging co-operative businesses	100
Optocap Limited (ii)	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 Investment Bank Limited (incorporated 8 September 2009)	Dormant	100
Scottish Development Finance Limited	Dormant	100
Scottish Development Overseas Limited	Dormant	100
Limited by guarantee	Nature of Business	% of Membership
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 (iii)	Provision of a clean room facility	67
Euroinfocentre Limited	Dormant	100
Traction Test Facility Limited (in liquidation)	Dormant	100
General Partner	Nature of Business	% of Membership
Scottish Equity Partnership (Limited Partnership)(iv)	Venture capital fund	50

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

- (i) Scottish Enterprise disposed of the shares in Atlas Connect Limited on 9 March 2010.
- (ii) Scottish Enterprise disposed of the shares in Optocap Limited on 2 June 2009.
- (iii) Scottish Enterprise and Scottish Enterprise Edinburgh & Lothian resigned as members of SSTRIC Limited in April 2009.
- (iv) Scottish Equity Partnership was wound up on 30 September 2009 in accordance with the terms of the partnership agreement.

NOTES TO THE ACCOUNTS (continued)

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
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
The Loch Lomond Trust	Dormant

NOTES TO THE ACCOUNTS (continued)**Equity accounted investees**

Limited by shares	Nature of Business	% of Voting rights
East Dunbartonshire Development Company Limited	Property development	27.70
Ardrossan Saltcoats Stevenston Enterprise Properties Limited (i)	Property development	33.33
Discovery Quay Developments Limited	Property development	33.33
The Kelvin Institute	Commercialisation of research	28.70
Ravenscraig Limited	Property development	33.33
Katalyst Projects Limited	Property development	25.00
AMCET Limited	Promotion of commercialisation of technology	26.00
Limited by guarantee	Nature of Business	% of Membership
Renfrewshire Investment Fund Limited	Investment fund	50.00
Design Dundee Limited (dormant)	Advancement of cultural facility	20.00
Dunbartonshire Enterprise Fund Limited	Investment fund	50.00
Scottish Health Innovations Limited	Commercialisation of intellectual assets	50.00
Scottish Intellectual Asset Management Limited	Commercialisation of intellectual assets	50.00
Headstart Capital Fund	Investment Fund	50.00
Innovation Centres (Scotland) Limited (ii)	Business development and property management services	50.00
Joint arrangement	Nature of Business	% of Interest
SE Forth Valley / Kemfine UK	Property development	60.00

- (i) The liquidation of Ardrossan Saltcoats Stevenston Enterprise Properties Limited was completed and the company was dissolved on 16 January 2010.
- (ii) SE Renfrewshire's interest in Innovation Centres (Scotland) Limited was sold on 20 April 2010.

11. REVALUATIONS TO FAIR VALUE AND IMPAIRMENTS

Revaluations to fair value and impairment charges for year comprise:-

GROUP

	<i>Net expenditure account</i>	<i>Revaluation reserve</i>	<i>Total</i>	<i>Total</i>
	<i>2010</i>	<i>2010</i>	<i>2010</i>	<i>2009</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Revaluations to fair value				
Property, plant and equipment	-	3,316	3,316	1,651
Financial assets	112	1,199	1,311	699
	<u>112</u>	<u>4,515</u>	<u>4,627</u>	<u>2,350</u>
Impairments				
Property plant and equipment	2,993	2,616	5,609	53,324
Assets classified as held for sale	370	-	370	4,861
Financial assets	11,486	-	11,486	11,955
	<u>14,849</u>	<u>2,616</u>	<u>17,465</u>	<u>70,140</u>

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

	<i>Net expenditure account 2010 £000</i>	<i>Revaluation reserve 2010 £000</i>	<i>Total 2010 £000</i>	<i>Total 2009 £000</i>
Revaluations to fair value				
Property, plant and equipment	-	2,621	2,621	1,316
Financial assets	112	667	779	1,100
	<u>112</u>	<u>3,288</u>	<u>3,400</u>	<u>2,416</u>
Impairments				
Property plant and equipment	2,953	2,473	5,426	39,536
Assets classified as held for sale	370	-	370	4,861
Financial assets	11,151	-	11,151	11,469
	<u>14,474</u>	<u>2,473</u>	<u>16,947</u>	<u>55,866</u>

12. OTHER NON-CURRENT RECEIVABLES

	<i>2010 £000</i>	<i>2009 £000</i>	<i>Group 2008 £000</i>	<i>2010 £000</i>	<i>2009 £000</i>	<i>Scottish Enterprise 2008 £000</i>
Assets and investments held by Local Enterprise Companies	-	-	-	45,119	48,111	63,802
Subsidiary undertakings	-	-	-	6,152	6,152	6,152
Other receivables	1,994	1,704	1,954	1,994	1,704	1,954
	<u>1,994</u>	<u>1,704</u>	<u>1,954</u>	<u>53,265</u>	<u>55,967</u>	<u>71,908</u>

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>2010 £000</i>	<i>2009 £000</i>	<i>Scottish Enterprise 2008 £000</i>
Land	35,236	37,830	52,299
Investments	9,814	10,212	11,179
Other	69	69	324
	<u>45,119</u>	<u>48,111</u>	<u>63,802</u>

Local Enterprise Companies were 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.

NOTES TO THE ACCOUNTS (continued)**13. ASSETS CLASSIFIED AS HELD FOR SALE****GROUP**

	<i>Land and buildings £000</i>	<i>Other £000</i>	<i>Total £000</i>
At 1 April 2008	25,005	-	25,005
Transfers to/(from) assets held for sale	18,878	150	19,028
Gain or Losses recognised on re-measurement	(4,861)	-	(4,861)
Disposals for non-current assets held for sale	(8,747)	-	(8,747)
As at 31 March 2009	<u>30,275</u>	<u>150</u>	<u>30,425</u>
At 1 April 2009	30,275	150	30,425
Transfers to/(from) assets held for sale	(4,610)	-	(4,610)
Gain or Losses recognised on re-measurement	(370)	-	(370)
Disposals for non-current assets held for sale	(6,620)	(150)	(6,770)
As at 31 March 2010	<u>18,675</u>	<u>-</u>	<u>18,675</u>

SCOTTISH ENTERPRISE

	<i>Land and buildings £000</i>	<i>Total £000</i>
At 1 April 2008	24,845	24,845
Transfers to/(from) assets held for sale	15,432	15,432
Gain or Losses recognised on re-measurement	(4,860)	(4,860)
Disposal of non-current assets held for sale	(8,012)	(8,012)
As at 31 March 2009	<u>27,405</u>	<u>27,405</u>
At 1 April 2009	27,405	27,405
Transfers to/(from) assets held for sale	(3,450)	(3,450)
Gain or Losses recognised on re-measurement	(370)	(370)
Disposal of non-current assets held for sale	(5,570)	(5,570)
As at 31 March 2010	<u>18,015</u>	<u>18,015</u>

Land and buildings deemed to be available for sale and where the sale is anticipated to complete within one year are included as current assets. Despite difficult market conditions the assets are being actively marketed with a view to completion of the sales in the coming year.

The gross value of assets no longer classified for sale and reclassified as land and buildings (Note 7), at 31 March 2010 is £9,340,000. These assets are no longer held for sale due to a combination of the economic conditions and changing strategic priorities.

Assets held for sale by the Group and Scottish Enterprise at 31 March 2010 include assets with a value of £15.18m which are the subject of ongoing negotiations over their disposal to a joint venture partner in order to maximise development opportunities and are expected to be sold early in year to 31 March 2011.

NOTES TO THE ACCOUNTS (continued)

14. INVENTORIES

	2010	2009	Group	2010	2009	Scottish Enterprise
	£000	£000	2008	£000	£000	2008
			£000			£000
Finished Goods	110	85	72	-	-	-

15. TRADE AND OTHER RECEIVABLES

	2010	2009	Group	2010	2009	Scottish Enterprise
	£000	£000	2008	£000	£000	2008
			£000			£000
Local Enterprise Companies	-	-	-	737	785	10,980
Other Subsidiary undertakings	-	-	-	63	34	151
Other receivables	16,223	7,920	17,450	14,058	5,654	11,959
Prepayments	2,685	4,049	4,220	2,456	3,180	3,516
Accrued income	6,926	4,129	6,469	4,718	4,102	1,690
	25,834	16,098	28,139	22,032	13,755	28,296

(i) Provisions for impairments

Trade and other receivables above are shown net of provisions for impairment as follows:

GROUP

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

	At 1 April 2009	Utilised during year	Movements in Provisions	At 31 March 2010
	£000	£000	£000	£000
Other receivables	7,024	(19)	126	7,131

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	At 1 April 2008	Utilised during year	Movements in Provisions	At 31 March 2009
	£000	£000	£000	£000
Other non-current receivables	183	-	(183)	-
Other receivables	2,515	(336)	768	2,947
	2,698	(336)	585	2,947

	At 1 April 2009	Utilised during year	Movements in Provisions	At 31 March 2010
	£000	£000	£000	£000
Other receivables	2,947	(19)	127	3,055

NOTES TO THE ACCOUNTS (continued)**(ii) Public Sector balances**

Included within trade and other receivables are balances due from other public sector organisations as follows:

	<i>2010</i>	<i>2009</i>	<i>Group</i>	<i>2010</i>	<i>2009</i>	<i>Scottish</i>
	<i>£000</i>	<i>£000</i>	<i>2008</i>	<i>£000</i>	<i>£000</i>	<i>Enterprise</i>
			<i>£000</i>			<i>2008</i>
						<i>£000</i>
Central Government	470	1,591	6,771	431	1,543	5,881
Local Authorities	650	584	1,003	636	561	792
	<u>1,120</u>	<u>2,175</u>	<u>7,774</u>	<u>1,067</u>	<u>2,104</u>	<u>6,673</u>

NOTES TO THE ACCOUNTS (continued)**16. CASH AND CASH EQUIVALENTS**

	2010	2009	Group	2010	2009	Scottish Enterprise
	£000	£000	2008	£000	£000	2008
			£000			£000
Balance at 1 April 2009	101,504	156,038	95,868	84,759	131,887	63,968
Net change in cash and cash equivalent balances	6,149	(54,534)	60,170	8,255	(47,128)	67,919
	<u>107,653</u>	<u>101,504</u>	<u>156,038</u>	<u>93,014</u>	<u>84,759</u>	<u>131,887</u>

	2010	2009	Group	2010	2009	Scottish Enterprise
	£000	£000	2008	£000	£000	2008
			£000			£000
Scottish Enterprise	24,285	36,633	74,237	24,285	36,633	74,237
Scottish Co-Investment Fund	68,729	48,126	57,650	68,729	48,126	57,650
Local Enterprise Companies	4,412	5,272	12,632	-	-	-
Other subsidiary undertakings	10,227	11,473	11,519	-	-	-
	<u>107,653</u>	<u>101,504</u>	<u>156,038</u>	<u>93,014</u>	<u>84,759</u>	<u>131,887</u>

The balances at 31 March were held at:

Commercial banks and cash in hand	<u>107,653</u>	<u>101,504</u>	<u>156,038</u>	<u>93,014</u>	<u>84,759</u>	<u>131,887</u>
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The Scottish Co-Investment Fund is operated by Scottish Enterprise, but is part funded by the European Union and is intended to finance direct investment activity in association with private sector partners.

17. TRADE AND OTHER PAYABLES**Amounts falling due within one year**

	2010	2009	Group	2010	2009	Scottish Enterprise
	£000	£000	2008	£000	£000	2008
			£000			£000
Other taxation and social security	1,160	1,195	2,126	896	944	2,135
Local Enterprise Companies	-	-	-	1,742	1,824	626
Other subsidiary undertakings	-	-	-	2,134	3	203
Trade payables	11,658	15,384	37,134	11,204	13,227	33,791
Other payables	1,900	2,710	1,552	1,692	1,481	824
Accrued charges	21,484	15,331	18,298	13,514	9,284	12,807
Prepaid revenue	1,578	2,496	6,143	1,129	6,607	10,341
Treasury appropriations	109	-	551	109	-	551
	<u>37,889</u>	<u>37,116</u>	<u>65,804</u>	<u>32,420</u>	<u>33,370</u>	<u>61,278</u>

Amounts falling due after more than one year

	2010	2009	Group	2010	2009	Scottish Enterprise
	£000	£000	2008	£000	£000	2008
			£000			£000
Other payables and accrued charges	213	969	456	-	-	-
Deferred income (i)	29,803	33,942	42,365	1,720	1,848	4,576
EU Funding for Scottish Co-investment Fund	3,365	-	5,098	3,365	-	5,098
EU Funding for Scottish Venture Fund	32	-	-	32	-	-
	<u>33,413</u>	<u>34,911</u>	<u>47,919</u>	<u>5,117</u>	<u>1,848</u>	<u>9,674</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 trade and other payables are balances due to other public sector organisations as follows:

	2010	2009	Group	2010	2009	Scottish Enterprise
	£000	£000	2008	£000	£000	2008
			£000			£000
Central Government	1,432	1,980	3,843	1,110	1,097	3,378
Local Authorities	1,646	4,295	3,603	1,636	4,295	3,603
	<u>3,078</u>	<u>6,275</u>	<u>7,446</u>	<u>2,746</u>	<u>5,392</u>	<u>6,981</u>

18. OTHER BORROWINGS

Obligations under finance leases are as follows:-

	2010	2009	Group	2010	2009	Scottish Enterprise
	£000	£000	2008	£000	£000	2008
			£000			£000
Current liabilities						
Finance lease obligations	<u>32</u>	<u>30</u>	<u>27</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-current liabilities						
Finance lease obligations	<u>540</u>	<u>572</u>	<u>602</u>	<u>-</u>	<u>-</u>	<u>-</u>

Finance lease obligations are payable as follows:

GROUP	Minimum	Interest	Principal	Minimum	Interest	Principal
	Lease			Lease		
	Payments			Payments		
	2010	2010	2010	2009	2009	2009
	£000	£000	£000	£000	£000	£000
Less than one year	84	52	32	84	54	30
Between one and five years	336	174	162	337	188	149
More than five years	505	127	378	588	165	423
Finance lease obligations	<u>925</u>	<u>353</u>	<u>572</u>	<u>1,009</u>	<u>407</u>	<u>602</u>

Scottish Enterprise has no finance lease obligations.

NOTES TO THE ACCOUNTS (continued)**19. PROVISIONS****GROUP**

	<i>Future severance costs £000</i>	<i>Retirement benefit contributions £000</i>	<i>Car scheme buy out £000</i>	<i>Other £000</i>	<i>Total £000</i>
Balance at 1 April 2008	21,644	800	-	-	22,444
Provided in the year	701	-	3,417	165	4,283
Provisions not required written back	(200)	(422)	-	-	(622)
Provisions utilised in the year	(21,127)	-	-	-	(21,127)
Balance at 1 April 2009	1,018	378	3,417	165	4,978
Provided in the year	1,372	79	-	-	1,451
Provisions not required written back	(178)	(153)	-	-	(331)
Provisions utilised in the year	(727)	(225)	(3,417)	(165)	(4,534)
Balance at 31 March 2010	1,485	79	-	-	1,564

SCOTTISH ENTERPRISE

	<i>Future severance costs £000</i>	<i>Retirement benefit contributions £000</i>	<i>Car scheme buy out £000</i>	<i>Total £000</i>
Balance at 1 April 2008	21,644	800	-	22,444
Provided in the year	701	-	3,417	4,118
Provisions not required written back	(200)	(422)	-	(622)
Provisions utilised in the year	(21,127)	-	-	(21,127)
Balance at 1 April 2009	1,018	378	3,417	4,813
Provided in the year	1,372	79	-	1,451
Provisions not required written back	(178)	(153)	-	(331)
Provisions utilised in the year	(727)	(225)	(3,417)	(4,369)
Balance at 31 March 2010	1,485	79	-	1,564

Amounts are expected to be paid in respect of all provisions in the year ending 31 March 2011 and therefore the liabilities recognised have not been discounted.

A provision is recognised for the cost of severance payments not yet settled, including payments of £Nil (2009: £182,000) required to augment retirement 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 retirement benefits to alternative retirement benefit schemes following the restructuring of Scottish Enterprise.

20. CAPITAL COMMITMENTS**GROUP AND SCOTTISH ENTERPRISE**

Contracted commitments at 31 March for which no provision has been made:

	<i>2010 £000</i>	<i>2009 £000</i>
Financial Assets	2,142	2,230

NOTES TO THE ACCOUNTS (continued)**21. CONTINGENT LIABILITIES****GROUP AND SCOTTISH ENTERPRISE**

Contingent liabilities existing at 31 March for which no provision has been made:

	<i>2010</i> <i>£000</i>	<i>2009</i> <i>£000</i>
Rental guarantees (i)	-	2,305
Contingent liabilities arising from legal actions	-	-
Other contingent liabilities (ii) (iii) (iv)	3,165	3,015

- (i) All rental guarantees were discharged during the year to 31 March 2010.
- (ii) A bank guarantee of £1,015,000 for Social Investment Scotland was provided in March 2005 and remains in place.
- (iii) Scottish Enterprise has a potential £2,000,000 liability to meet the costs of addressing coastal defence and erosion problems at the site of Fife Energy Park.
- (iv) On 31 March 2010, Scottish Enterprise provided a guarantee of up to £150,000 to Social Investment Scotland in respect of a loan provided to Glencraft (Aberdeen) Limited.

22. COMMITMENTS UNDER LEASES**OPERATING LEASES**

The total of future minimum lease payments under non-cancellable operating leases are noted in the table below, analysed according to the period in which the lease expires.

	<i>2010</i> <i>£000</i>	<i>2009</i> <i>£000</i>	<i>Group</i> <i>2008</i> <i>£000</i>	<i>2010</i> <i>£000</i>	<i>2009</i> <i>£000</i>	<i>Scottish</i> <i>Enterprise</i> <i>2008</i> <i>£000</i>
Obligations under operating leases comprise:						
Land and buildings:						
within one year	6,396	7,143	10,347	5,206	5,587	8,967
after one year but not more than five years	22,860	23,129	33,494	19,154	19,931	30,930
After more than five years	14,697	19,795	46,817	12,916	17,271	45,734
	<u>43,953</u>	<u>50,067</u>	<u>90,658</u>	<u>37,276</u>	<u>42,789</u>	<u>85,631</u>
Other:						
within one year	29	263	1,335	-	58	753
after one year but not more than five years	35	61	509	-	-	300
After more than five years	-	-	-	-	-	-
	<u>64</u>	<u>324</u>	<u>1,844</u>	<u>-</u>	<u>58</u>	<u>1,053</u>

NOTES TO THE ACCOUNTS (continued)

23. SUMMARY OF LOSSES AND AMOUNTS WRITTEN OFF

	<i>No. of cases</i>	<i>£000</i>
Claims abandoned or waived	<u>32</u>	<u>2,051</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 2010, balances in excess of £250,000 written off were as follows:-

			<i>2010 £000</i>
Cameron Linn Ltd	Pref/CCPR Shares	Company in Liquidation	<u>635</u>
Mixipix Ltd	Ord Shares/Convertible Loan Notes	Company in Liquidation	<u>381</u>

24. MINORITY INTERESTS

	<i>2010 £000</i>	<i>2009 £000</i>	<i>Group 2008 £000</i>
Share of profits carried forward	1,463	1,941	2,645
Share of post tax (loss)/profit for year	454	(478)	837
Share of partnership appropriations	(313)	-	(1,541)
	<u>1,604</u>	<u>1,463</u>	<u>1,941</u>

25. FINANCIAL INSTRUMENTS

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

Liquidity risk
Credit risk
Market risk

This note presents information about the Group and Scottish Enterprise's exposure to each of the above risks. Further quantitative disclosures are included throughout these accounts.

The executive board has overall responsibility for the establishment and oversight of the company's risk management framework. The audit committee oversees how management monitors compliance with Scottish Enterprise's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to risks faced by Scottish Enterprise.

The Group and Scottish Enterprise have no derivative financial assets or liabilities.

Liquidity risk

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

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

NOTES TO THE ACCOUNTS (continued)

The table below details the contractual maturities of financial liabilities.

GROUP

	2010	2010	2010	2010
	<i>Carrying Amount</i>	<i>Contractual Cashflows</i>	<i>Within one year</i>	<i>After more than one year</i>
	£000	£000	£000	£000
Financial liabilities				
Trade and other payables	35,255	35,255	35,042	213
Finance lease obligations	572	925	32	540
	<u>35,827</u>	<u>36,180</u>	<u>35,074</u>	<u>753</u>

SCOTTISH ENTERPRISE

	2010	2010	2010	2010
	<i>Carrying Amount</i>	<i>Contractual Cashflows</i>	<i>Within one year</i>	<i>After more than one year</i>
	£000	£000	£000	£000
Financial liabilities				
Trade and other payables	26,410	26,410	26,410	-
	<u>26,410</u>	<u>26,410</u>	<u>26,410</u>	<u>-</u>

GROUP

	2009	2009	2009	2009
	<i>Carrying Amount</i>	<i>Contractual Cashflows</i>	<i>Within one year</i>	<i>After more than one year</i>
	£000	£000	£000	£000
Financial liabilities				
Trade and other payables	34,394	34,394	33,425	969
Finance lease obligations	602	1,009	30	572
	<u>34,996</u>	<u>35,403</u>	<u>33,455</u>	<u>1,541</u>

SCOTTISH ENTERPRISE

	2009	2009	2009	2009
	<i>Carrying Amount</i>	<i>Contractual Cashflows</i>	<i>Within one year</i>	<i>After more than one year</i>
	£000	£000	£000	£000
Financial liabilities				
Trade and other payables	23,992	23,992	23,992	-
	<u>23,992</u>	<u>23,992</u>	<u>23,992</u>	<u>-</u>

GROUP

	2008	2008	2008	2008
	<i>Carrying Amount</i>	<i>Contractual Cashflows</i>	<i>Within one year</i>	<i>After more than one year</i>
	£000	£000	£000	£000
Financial liabilities				
Trade and other payables	57,440	57,440	56,984	456
Finance lease obligations	629	1,093	27	602
	<u>58,069</u>	<u>58,533</u>	<u>57,011</u>	<u>1,058</u>

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

	2008	2008	2008	2008
	<i>Carrying Amount</i>	<i>Contractual Cashflows</i>	<i>Within one year</i>	<i>After more than one year</i>
	£000	£000	£000	£000
Financial liabilities				
Trade and other payables	47,422	47,422	47,422	-
	<u>47,422</u>	<u>47,422</u>	<u>47,422</u>	<u>-</u>

The Group and Scottish Enterprise have no outstanding borrowings at 31 March 2010 (2008, 2009: £nil).

Credit risk

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

Credit risk arising from the Group and Scottish Enterprise's normal operations, including holding non-current financial assets (other investments, is controlled by individual business unit and companies operating in accordance with policies and procedures.

In pursuit of economic growth targets, Scottish Enterprise makes investments in a variety of companies, in part using funds provided by the European Union through the Scottish Co-Investment Fund. Management monitors the performance of all investments and regularly revalues assets available for sale to their fair value and provides, where appropriate, for impairment of assets held to maturity, loans and other materials.

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

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

Scottish Enterprise's exposure to credit risk is likely to have increased in the current economic climate, but management do not consider this to have had a significant impact as the risk is spread across a large number of receivables.

The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet. The maximum exposure to credit risk at 31 March was:-

GROUP	2010	2009	2008
	<i>Carrying Amount</i>	<i>Carrying Amount</i>	<i>Carrying Amount</i>
	£000	£000	£000
Non-current financial assets			
Assets available for sale	49,160	38,916	3,563
Held to maturity assets	1,324	2,638	29,045
Loans and other receivables	17,939	17,700	15,187
Financial assets			
Trade and other receivables	25,143	13,753	23,919
Cash and cash equivalents	107,653	101,504	156,038
	<u>201,219</u>	<u>174,511</u>	<u>227,752</u>

NOTES TO THE ACCOUNTS (continued)

SCOTTISH ENTERPRISE	<i>2010</i> <i>Carrying</i> <i>Amount</i> <i>£000</i>	<i>2009</i> <i>Carrying</i> <i>Amount</i> <i>£000</i>	<i>2008</i> <i>Carrying</i> <i>Amount</i> <i>£000</i>
Non-current financial assets			
Assets available for sale	44,902	35,196	24,038
Held to maturity assets	1,290	2,532	3,377
Loans and other receivables	17,868	17,523	14,519
Financial assets			
Trade and other receivables	20,770	11,460	15,603
Cash and cash equivalents	93,014	84,759	131,887
	<u>177,844</u>	<u>151,470</u>	<u>189,424</u>

The ageing of trade and other receivables at 31 March was:-

GROUP	<i>2010</i>		<i>2009</i>		<i>2008</i>	
	<i>Gross</i> <i>£000</i>	<i>Impairment</i> <i>£000</i>	<i>Gross</i> <i>£000</i>	<i>Impairment</i> <i>£000</i>	<i>Gross</i> <i>£000</i>	<i>Impairment</i> <i>£000</i>
Not past due	13,245	-	9,540	-	19,308	-
Past due 0 to 30 days	10,297	-	2,486	-	1,847	-
Past due 31 to 120 days	742	-	437	-	2,414	-
Past due more than 120 days	7,990	(7,131)	8,314	(7,024)	2,919	(2,569)
	<u>32,274</u>	<u>(7,131)</u>	<u>20,777</u>	<u>(7,024)</u>	<u>26,488</u>	<u>(2,569)</u>

SCOTTISH ENTERPRISE	<i>2010</i>		<i>2009</i>		<i>2008</i>	
	<i>Gross</i> <i>£000</i>	<i>Impairment</i> <i>£000</i>	<i>Gross</i> <i>£000</i>	<i>Impairment</i> <i>£000</i>	<i>Gross</i> <i>£000</i>	<i>Impairment</i> <i>£000</i>
Not past due	9,360	-	8,070	-	12,436	-
Past due 0 to 30 days	9,971	-	1,949	-	1,237	-
Past due 31 to 120 days	637	-	303	-	1,583	-
Past due more than 120 days	3,857	(3,055)	4,085	(2,947)	2,862	(2,515)
	<u>23,825</u>	<u>(3,055)</u>	<u>14,407</u>	<u>(2,947)</u>	<u>18,118</u>	<u>(2,515)</u>

Movements in impairment of trade and other receivables is shown in note 15. Impairment provisions are used to record impairment losses unless the Group and Scottish Enterprise is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off directly against the financial asset.

NOTES TO THE ACCOUNTS (continued)**Market risk**

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

Interest rate risk

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

GROUP	<i>2010 Carrying Amount £000</i>	<i>2009 Carrying Amount £000</i>	<i>2008 Carrying Amount £000</i>
Fixed rate instruments			
Financial assets	22,850	20,594	15,784
Financial liabilities	(572)	(602)	(629)
	<u>22,278</u>	<u>19,992</u>	<u>15,155</u>
Variable rate instruments			
Cash and cash equivalents	107,653	101,504	156,038
	<u>107,653</u>	<u>101,504</u>	<u>156,038</u>
SCOTTISH ENTERPRISE	<i>2010 Carrying Amount £000</i>	<i>2009 Carrying Amount £000</i>	<i>2008 Carrying Amount £000</i>
Fixed rate instruments			
Financial assets	21,767	19,834	14,961
	<u>21,767</u>	<u>19,834</u>	<u>14,961</u>
Variable rate instruments			
Cash and cash equivalents	93,014	84,759	131,887
	<u>93,014</u>	<u>84,759</u>	<u>131,887</u>

Interest receivable by the Group and Scottish Enterprise from cash and cash equivalents is subject to variation based on movements in the Bank of England base rate and associated interest rates. Assuming that all other variables remain constant a change of 100 basis points in interest rates at the reporting date would have increased /decreased net operating costs as follows:

	<i>Group 100 basis points change £000</i>	<i>Scottish Enterprise 100 basis points change £000</i>
Cash and cash equivalents		
31 March 2008	1,270	979
31 March 2009	1,298	1,083
31 March 2010	1,046	889

Currency risk

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

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

NOTES TO THE ACCOUNTS (continued)**Fair values**

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

GROUP	<i>2010</i>	<i>2010</i>	<i>2009</i>	<i>2009</i>	<i>2008</i>	<i>2008</i>
	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Financial assets available for sale (i)	49,160	49,160	38,916	38,916	29,045	29,045
Financial assets held to maturity	1,324	1,324	2,638	2,638	3,563	3,563
Loans and other receivables	17,939	17,939	17,700	17,700	15,187	15,187
Trade and other receivables	25,143	25,143	13,753	13,753	23,919	23,919
Cash and cash equivalents	107,653	107,653	101,504	101,504	156,038	156,038
Trade and other payables	(35,255)	(35,255)	(34,394)	(34,394)	(57,440)	(57,440)
Other borrowings	(572)	(572)	(602)	(602)	(629)	(629)
	165,392	165,392	139,515	139,515	169,683	169,683
SCOTTISH ENTERPRISE	<i>2010</i>	<i>2010</i>	<i>2009</i>	<i>2009</i>	<i>2008</i>	<i>2008</i>
	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Financial assets available for sale (i)	44,902	44,902	35,196	35,196	24,038	24,038
Financial assets held to maturity	1,290	1,290	2,532	2,532	3,377	3,377
Loans and other receivables	17,868	17,868	17,523	17,523	14,519	14,519
Trade and other receivables	20,770	20,770	11,460	11,460	15,603	15,603
Cash and cash equivalents	93,014	93,014	84,759	84,759	131,887	131,887
Trade and other payables	(26,410)	(26,410)	(23,992)	(23,992)	(47,422)	(47,422)
	151,434	151,434	127,478	127,478	142,002	142,002

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

Fair value hierarchy

Group and Scottish Enterprise financial assets and liabilities that are valued at fair value are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (i.e. unobservable market inputs).

All material Group and Scottish Enterprise financial assets and liabilities are defined as level 3 instruments, with the exception of Stock Exchange investments carried at fair value of £4,920,000 (2009: £3,565,000) at 31 March.

NOTES TO THE ACCOUNTS (continued)

Estimation of fair values

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

Financial assets available for sale	The fair value is based on market value, where this exists, or the last known purchase price
Assets held to maturity	The fair value is based on amortised cost using the effective interest rate method, less any provision for impairment
Loans and other receivables	The fair value is based on amortised cost using the effective interest rate method, less any provision for impairment
Trade and other receivables	The fair value is deemed to be the same as book value, less any provision for impairment
Cash and cash equivalents	The fair value is deemed to be the same as book value
Trade and other payables	The fair value is deemed to be the same as book value
Other borrowings	The fair value is deemed to be equal to the net present value of future lease payments

26. RELATED PARTY TRANSACTIONS

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

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

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

NOTES TO THE ACCOUNTS (continued)**27. FIRST TIME ADOPTION OF IFRS****TAXPAYERS' EQUITY**

The Group and Scottish Enterprise are preparing its accounts in accordance with adopted IFRSs for the first time and consequently have applied IFRS1. This note explains how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group and Scottish Enterprise.

The nature of each adjustment is explained at the end of this note.

GROUP

	<i>General Fund £000</i>	<i>Specific Reserve £000</i>	<i>Revaluation Reserve £000</i>	<i>Total £000</i>
Taxpayers' equity at 31 March 2008 under UK GAAP	325,367	2,612	102,763	430,742
Adjustments for 2008:				
IAS16 Property, Plant & Equipment	(68)	-	2,381	2,313
IAS 39 Financial Instruments : Recognition and Measurement	(519)	-	995	476
IAS 35 Intangible Assets	96	-	-	96
IAS 19 Employee Benefits	(1,442)	-	-	(1,442)
IAS 17 Leases	(2,180)	-	-	(2,180)
Taxpayers' equity at 1 April 2008 under IFRS	<u>321,254</u>	<u>2,612</u>	<u>106,139</u>	<u>430,005</u>
Taxpayers' equity at 31 March 2009 under UK GAAP	266,249	2,132	53,032	321,413
Adjustments for 2009:				
IAS16 Property, Plant & Equipment	(1,799)	-	2,381	582
IAS 39 Financial Instruments : Recognition and Measurement	(1,676)	-	2,825	1,149
IAS 35 Intangible Assets	28	-	-	28
IAS 19 Employee Benefits	(1,531)	-	-	(1,531)
IAS 17 Leases	(1,989)	-	-	(1,989)
IAS 5 Non-Current Assets Held for Sale	(5,348)	-	4,552	(796)
Taxpayers' equity at 1 April 2009 under IFRS	<u>253,934</u>	<u>2,132</u>	<u>62,790</u>	<u>318,856</u>

SCOTTISH ENTERPRISE

	<i>General Reserve £000</i>	<i>Revaluation Reserve £000</i>	<i>Total £000</i>
Taxpayers' equity at 31 March 2008 under UK GAAP	326,771	66,922	393,693
IFRS Adjustments for 2008:			
IAS 16 Property Plant & Equipment	(68)	2,381	2,313
IAS 39 Financial Instruments : Recognition and Measurement	(519)	995	476
IAS 19 Employee Benefits	(1,368)	-	(1,368)
IAS 17 Leases	(2,104)	-	(2,104)
Taxpayers' equity at 31 March 2008 under IFRS	<u>322,712</u>	<u>70,298</u>	<u>393,010</u>
Taxpayers' equity at 31 March 2009 under UK GAAP	260,441	31,343	291,784
IFRS Adjustments for 2009:			
IAS 16 Property Plant & Equipment	(1,799)	2,381	582
IAS 39 Financial Instruments : Recognition and Measurement	(1,676)	2,825	1,149
IAS 19 Employee Benefits	(1,426)	-	(1,426)
IAS 17 Leases	(1,976)	-	(1,976)
IAS 5 Non-Current Assets Held for Sale	(4,857)	4,552	(305)
Taxpayers' equity at 31 March 2009 under IFRS	<u>248,707</u>	<u>41,101</u>	<u>289,808</u>

NET EXPENDITURE

NOTES TO THE ACCOUNTS (continued)

	<i>Group</i>	<i>Scottish</i>
	<i>2009</i>	<i>Enterprise</i>
	<i>£000</i>	<i>2009</i>
		<i>£000</i>
Net Expenditure for the year to 31 March 2009 under UK GAAP	278,979	284,376
Adjustments for:		
IAS 16 Property Plant & Equipment	1,731	1,731
IAS 39 Financial Instruments : Recognition and Measurement	1,157	1,157
IAS 35 Intangible Assets	68	-
IAS 19 Employee Benefits	89	58
IAS 17 Leases	(191)	(128)
IAS 5 Non Current Assets held for sale	<u>5,348</u>	<u>4,857</u>
Net Expenditure for the year to 31 March 2009 under IFRS	<u>287,181</u>	<u>292,051</u>

The adjustments are explained below:

IAS 16 Property, Plant and Equipment introduces the concept of fair value as a basis of determining the revalued amount. It defines fair value as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Under IFRS an organisation is not permitted to report negative revaluation balances in respect of individual assets while these were permitted under UK GAAP when they were expected to reverse in the short term. A number of negative balances were written off against the general fund.

IAS 39 Financial Instruments: Recognition and Measurement states that the fair value of assets acquired from a third party can be estimated reliably. IAS 39 also states that these type of assets should be measured at its cost, subject to impairment where this is not possible. In addition, although assets are regarded as being "held for sale", the standard states that this is the category that should be used for any non-marketable financial asset that does not fall into the other three categories defined by the standard. This is the case for most of the investments held by Scottish Enterprise and resulted in investments in the share capital of unlisted companies (where they do not qualify as either associates or subsidiaries) being restated at fair value.

Recognition of intangible assets under IAS 35 Intangible Assets is broadly similar to UK GAAP with the exception of intellectual property. Review of intellectual property generated by ITI Scotland Limited resulted in recognition of additional non-current intangible assets.

IAS 19 Employee Benefits applies to the accounting for employee benefits, including a requirement for entities to recognise the expected cost of short term accumulated compensated absences. Scottish Enterprise has carried out an exercise to evaluate the amount of holiday entitlement owed to staff at the end of each financial year. To recognise these costs an accrual is recognised in the balance sheets.

Under IAS 17 Leases, accounting for leases is very similar to UK GAAP. Both require leases to be classed as finance leases or operating leases. However, IAS 17 does not provide a quantitative test of whether a lease is a finance lease. Instead it provides additional guidance on when a lease should be classified as a finance lease. Following a review of material contracts, an adjustment has been made to the accounts to reflect contracts that have been reclassified from operating leases to finance leases.

IFRS 5 Non-current assets held for sale and discontinued operations require that non-current assets held for sale are valued at fair value and any impairment charged to the Net Expenditure Account. No upward valuation is permitted. Assessment of the value on non current assets held for sale by the Group resulted in impairment at 31 March 2009.

NOTES TO THE ACCOUNTS (continued)

28. SCHEDULES OF INVESTMENTS AT 31 MARCH 2010

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 equity accounted investees which are disclosed in Note 9. 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>
Advanced Microwave Technologies Limited Microwave treatment and purification of animal blood	26.9	350	27
Airframe Components Europe Limited Maintenance solutions to the aviation industry	20.0	24 116 (P)	173
Alivox Limited Development of language recognition software	20.3	120	50
Ambicare Limited Medical technology	28.8	1,464	-
Amoebics Limited Development of anti bacteria measures	22.8	272	-
Amphotonix Limited Design of semiconductor optical amplifiers	24.5	410	-
Antoxis Limited Design and synthesis of therapeutic antioxidants	24.4	277	-
B1 Medical Limited Orthopaedics	29.2	760	150
Biofilm Limited Medical technology	30.0	336	1,664
Bioppta Limited Services to the biotechnology industry	28.9	692	10
BlueSky Telemetry Limited Radio tracking solutions for the wildlife & agricultural research markets	29.9	126	-
Caboodl Limited Software	20.0	100	-
Calnex Solutions Limited Development of next generation test equipment	27.4	575	-
Centeo Biosciences Limited Design and supply instrumentation which improves the R&D process	29.99	550	-
CiQual Limited Software solutions for Wireless Service Providers to understand and interpret the needs users	26.8	584	-
Cloudsoft Corporation Limited Software development	22.2	300	-
Compound Semiconductors Technologies Global Design, development, and manufacture of discrete and integrated III-V opto-electronic devices	29.0	1,350	-
Critical Blue Limited Development of electronic automation design software	20.8	1,500	-
Cytosystems Limited Development of laboratory based diagnostic tests	21.0	714	-
DEM Solutions Limited Provider of engineering software and consultancy	21.0	600	125

NOTES TO THE ACCOUNTS (continued)

	<i>% of Voting rights</i>	<i>Shares £000</i>	<i>Loans £000</i>
Design Led Products Limited Design and development of light guide technology	22.2	137	-
Dimensional Imaging Limited Services to the medical industry	23.4	261	55
Elonics Limited Semi-conductor company specialising in radio-frequency (RF) wireless silicon devices	26.7	1,425 25 (P)	317
Energyflo Construction Technologies Limited Clean technology company	26.5	850	-
Essential Viewing Systems Limited Software development	32.3	947	30
Exterity Limited Design and sale of audio visual technology	23.7	749	-
Extramed Limited Healthcare software	20.3	250	50
Factonomy Limited Technology partner for the agile and flexible development of web- enabled business solutions	25.2	380	-
Gas Sensing Solutions Limited Development of gas sensing device	29.9	671	-
Helixion Limited Developing a new direction for Mobility device security in next generation Convergence networks	20.6	200	-
Hubdub Limited Designed and implemented software to run information markets	23.4	378	-
iCs2 Limited Cable industry	21.1	103 37 (P)	-
Indigovision Group Plc Manufacturer of complete end to end IP video & alarm management security solutions	23.4	6,128	-
Kerchoonz Limited Internet-based multi media portal for free music and video downloads	20.4	195	-
Kowalski TV Limited TV content production, specialising in factual entertainment, specialist factual series and documentaries	25.0	75	50
Lamellar Biomedical Limited Development and manufacture of synthetic lamellar bodies	29.9	623	95
Leading Software Limited Software development	22.1	622	50
LUX Innovate Limited Development of light based detection solutions	26.7	474	-
Microstencil Limited Designs for micro electronic packaging industry	20.1	500	-
Mobile Sport Limited Software developer & systems provider	29.8	438	-
Mobiqa Limited Solution reliable wireless transmission of tickets and coupons to mobile phones	23.9	1,548	210
Money Dashboard Holdings Limited Software	23.1	518	-
Mpathy Medical Devices Limited Developing a range of innovative low impact surgical solutions to restore pelvic health to women	27.9	2,050	-
Nandi Proteins Limited Sales, marketing IP & licensing	22.8	464	-

NOTES TO THE ACCOUNTS (continued)

	<i>% of Voting rights</i>	<i>Shares £000</i>	<i>Loans £000</i>
Ncimb Limited Maintains the National Collections of Industrial, Marine and Food Bacteria	21.2	252	-
NXVision Limited Facilitates TV anytime - anywhere	29.8	514	190
Ocutec Limited Medical Technology Devices - Ophthalmogy	24.7	800	-
Outerlight Limited Development of computer games	20.6	315 100 (P)	-
Pincer Vodka Limited Functional Drinks supplier / inventor	26.7	100	-
PSI Electronics Limited Development of cable fault detection equipment	28.2	300	15
Pufferfish Limited Design, develop and sell experiential AV products	29.4	369	-
Pwb Health Limited Developing and marketing a range of innovative personal wellbeing products designed for home use	21.2	1,147	-
Pyreos Limited Development of infrared sensor technology	24.6	1,400	-
Quantum Filament Technology Limited Design of high quality flat screen displays	24.0	501	125
Rapid Mobile Media Limited Software development for mobile phones	27.6	1,250	-
Reactec Limited Noise and vibration control solutions through products, consultancy and design services	26.4	460	-
Red Spider Oil and gas product design and service delivery	100	250 50 (P)	200
Reisswolf Scotland Document security business	29.9	200	-
RSK Tech Limited Providing IT advice to T-shirt printing / garment decoration companies	21.4	57 43 (P)	25
Seewhy Holdings Limited Software product that provides management information in real time	21.9	1000	-
Sentinent Medical Developing a miniature Middle Ear Implant (MEI)	26.3	204	-
SFX Technologies Limited Innovative speaker technology	24.0	930	-
Smarter Grid Solutions Limited Grid solution to renewable generators and network operators	29.9	250	-
Spaceright Europe Limited Specialist provider of noticeboards, display equipment and school dining furniture	29.7	366	170
Spiral Gateway Limited Development of novel processor architecture platform technology	24.1	460	-
TalentNation Plc On-line social networking site	20.0	1,000	-
Tayside Flow Technology Limited Development of medical devices	29.4	1,604	120
Traak Systems Limited Developing intelligent self-learning radio frequency identification ('RFID') and sensor network products	28.9	172	10
Verisim Limited Software development for financial services sector	30.0	979	50

NOTES TO THE ACCOUNTS (continued)

	<i>% of Voting rights</i>	<i>Shares £000</i>	<i>Loans £000</i>
Visible Ink Limited Media	21.4	100	-
Volo Limited In-train entertainment systems	27.2	981	123
Total of items listed		47,422	4,084

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>
3D Diagnostics Imaging Plc Health care technology	29.5	1,221	-
Amor Group Limited Business technology solutions	4.7	23	1,977
Aquamarine Power Limited Marine energy	7.2	2,511	-
Big DNA Limited Biotechnology	19.4	1,750	-
Cyclacel Pharmaceuticals Inc. Drug development Registered in USA & quoted on NASDAQ	2.2	5,000	-
Enigmatec Corporation Limited Policy-Driven automation solutions for resource management	10.6	2,000	-
Forth Photonics Limited Medical device	11.9	1,600	-
GC Holdings Inc Fibre optical communications	7.4	2,000	-
Intense Limited Optoelectronics	12.6	2,770	564
LAB901 Limited Pharmaceutical and biotechnology	17.4	2,000	-
Metaforic Limited Software development	18.5	500	500
MMIC Solutions Limited Low cost packaging for high frequency MMIC's	17.9	1,035	-
Nessco Group Holdings Limited Telecoms network support - oil & gas	17.2	137	1,112
Netidme Limited Software - Identity Verification	18.9	542	565
Novabiotics Limited Biotechnology – anti infectives for disease treatment	12.1	948	453
Pelamis Limited Generation of renewable energy from ocean waves	4.2	2,000 (P)	-
Prismtech Limited Supply of computer middleware platform solutions	8.4	1,500	-
Sigma Offshore Limited Oil and Gas extraction	17.1	334 664 (P)	1,000
Survivex Limited Oil and Gas industry training	15.0	500	1,500
City of Edinburgh Council Development of visitor attraction conference facility	-	-	6,969

NOTES TO THE ACCOUNTS (continued)

	<i>% of Voting rights</i>	<i>Shares £000</i>	<i>Loans £000</i>
Glasgow Harbour Limited	-	-	4,000
Property development			
Total of items listed		<u>29,035</u>	<u>18,640</u>

	<i>Shares £000</i>	<i>Loans £000</i>	<i>Total £000</i>
Total of items listed – Note 28A	47,422	4,084	51,506
Total of items listed – Note 28B	29,035	18,640	47,675
	<u>76,457</u>	<u>22,724</u>	99,181
Other shares and loans			25,503
Total cost of shares and loans before provisions			<u>124,684</u>

ACCOUNTS DIRECTION



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 2010, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) 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. Additional disclosure requirements are set out in Schedule 1 attached.
4. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 14 December 2005 is hereby revoked.

Mary McAllan
Signed by the authority of the Scottish Ministers

Dated 10 June 2010

SCHEDULE 1

ADDITIONAL DISCLOSURE REQUIREMENTS

1. The notes to the accounts shall include:
 - 1.1 A schedule of all investments showing:
 - I) In respect of companies in which Scottish Enterprise 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 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 Scottish Enterprise:
 - Total number of companies involved
 - Total amount invested
 - Total amount of loans given
 - Total amount of any other commitments

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