SCOTTISH ENTERPRISE

ANNUAL REPORT AND ACCOUNTS

For the year ended 31 March 2013

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.

MANAGEMENT COMMENTARY
for the year ended 31 March 2013

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.

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), an up-date of which was published in October 2011. 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.

As an economic development agency, Scottish Enterprise makes a distinctive contribution to the goals of the Government Economic Strategy, which we set out in our 2012-15 Business Plan, showing the contribution Scottish Enterprise makes to the National Outcomes and Purpose Targets of the National Performance Framework used to track progress against the Government's goals and targets.

Our Business Plan sets out our priorities, which took account of the challenges faced in terms of the difficult economic conditions and the need to accelerate growth. The 2012-15 Business Plan had the aim of helping Scotland become more globally competitive, and outlined what Scottish Enterprise will deliver, in three key areas:

- **Growth Companies** – support for companies that can have the greatest impact on the economy.
- **Growth Sectors** – support for the sectors in Scotland that have the greatest opportunities to improve productivity and competitiveness and to create jobs. These include established sectors where Scotland has developed strong competitive advantages such as in food and drink and oil and gas. It also involves establishing a leading position for Scotland in new industries such as renewable energy.
- **Growth Markets** – making the most of Scotland's opportunities in global markets by growing our international trade and attracting significant new investment. This involves increasing the number of Scottish companies that can compete effectively in global markets and working with sectors where Scotland has advantages that can be exploited. Important to this is building a world class business environment which supports growth and attracts investment.

We outlined five key priorities in our 2012-15 Business Plan:

- **Renewables –** helping to realise Scotland's massive potential in offshore renewables, where Scotland already has significant competitive advantage. Working with partners, we aim to help to create a world class renewable energy cluster, supporting innovation systems and the supply chains necessary to build the offshore renewables industry in Scotland.

- **International Trade and Investment** – boosting international trade and investment and improving Scotland's global business connectivity. Through our overseas expertise and international networks we help Scottish companies to increase trade in international markets and attract new foreign investment into Scotland. Through this, we make a significant contribution to achieving the Scottish Government's ambitious export target, delivering against Scotland's Trade and Investment Strategy 2011-15, a joint publication with Scottish Government and Highlands & Islands Enterprise.

- **Growth Companies** – working intensively with Scottish companies that have the biggest growth potential. These companies provide the most immediate positive response to the challenging economic climate and can make a significant impact on the economy and jobs, driving productivity and growth through continued innovation and investment. The companies we work most closely with account for around 300,000 jobs in Scotland and an estimated total turnover of £75 billion. A higher proportion of these companies are still projecting growth and taking on more employees than across the wider business base in Scotland.

- **Innovation** – the development of innovative products and processes, increased business expenditure on R&D and improved outputs from the commercialisation of university research are all significant drivers of competitiveness and growth. Our support to Scottish companies will also help improve innovation, concentrating on those sectors with the potential for achieving growth and contributing to jobs and the growth of the economy.

- **Transition to a Low Carbon Economy** – a major new economic opportunity for Scotland where we have some significant competitive advantages; this is also an important priority in the Government Economic Strategy, which encourages sectors and companies to take advantage of emerging 'green' opportunities. Scottish Enterprise has sought to weave this activity through everything in our Business Plan.

MANAGEMENT COMMENTARY (continued)

In our work, we focus on industry sectors identified by the Government Economic Strategy as offering the opportunity to strengthen Scotland's competitive advantage through achieving critical mass and boosting productivity:

- **Energy** – *Renewables*, *Oil and Gas and clean technologies*
- **Life Sciences** – *stem cells, translational medicines*
- **Enabling Technologies** – *infomatics, advanced manufacturing and engineering*
- **Tourism** – *Key destinations, golf, business tourism*
- **Food & Drink** – *whisky, premium products, food health innovation*
- **Financial Services** – *asset management, insurance, banking*
- **Universities** – *higher education institutes, research institutes*
- **Creative Industries** – *digital media, games*

An important action during the last year has been, along with the Scottish Government, to increase the level of active engagement though the *Industry Leadership Groups,* involving active participation of companies, individuals and organisations that can play a major role in developing these sectors, collaborating on a shared agenda and acting as important catalysts for change and initiative.

We also have active engagement in a number of other important industries, including:

- Aerospace, Marine & Defence
- Chemical Sciences
- Construction
- Forestry and Timber
- Textiles

To complement this activity, and to achieve the aspirations set out in the Government Economic Strategy, Scottish Enterprise also works closely with 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 pursues this nationally through its role in the Scottish Government's Strategic Forum with other partners and locally via Community Planning Partnerships.

We continue to play a leading role in the management of programme areas operating across all of Scotland (including the HIE area), these being:

- Inward investment and overseas market development via Scottish Development International, operating as a joint venture with Scottish Government and HIE;
- Major grants programmes, including Regional Selective Assistance (RSA), R&D and SMART grants;
- the Scottish Investment Bank (SIB);
- the Scottish Manufacturing Advisory Service (SMAS); and
- Co-operative Development Scotland (CDS).

REVIEW OF CURRENT YEAR DEVELOPMENTS AND PERFORMANCE

Overall, Scottish Enterprise has successfully achieved the goals of its business plan for 2012/13. Despite some very testing economic conditions, we have successfully achieved all of our annual targets on our published measures for the financial year. Most of the milestones in our plan have been realised. This reflects progress towards the achievement of the ambitions of our plan and an important contribution to the goals of the Government Economic Strategy.

The following are the main operational highlights for financial year 2012/13:

- We have seen progress on our strategies in some of our leading industry sectors. For example, in Food and Drink, the £5 billion export target for the sector has been achieved six years ahead of schedule and consequently a new target has been set to increase exports to £7.1 billion by 2017. We have seen strong early results in the new Strategy established for the Oil and Gas sector, with results in terms of company growth, exports and inward investment reflecting the opportunities developing in international markets.

- In response to difficulties in the market for investment and finance we have taken action to unlock investment and 'access to finance' for companies, helping to secure £60m of growth finance through the Scottish Investment Bank and assisting 460 companies ensure their readiness for attracting funding. We have put in place new investment vehicles for renewables and life sciences, and have helped secure £134m of investment in Research & Development, and £216m of capital investment through Regional Selective Assistance (RSA).

MANAGEMENT COMMENTARY (continued)

- We have contributed to the achievement of the goals of the Scottish International Trade and Investment Strategy with over 2,000 High Value planned jobs in inward investment projects. Despite a very challenging world trading climate, we have helped 348 Scottish companies towards increasing their exports in key target markets – with 229 projecting sales growth of over £1m. Over 4,000 companies have been supported to develop their export capacity through initiatives like our Smart Exporter programme which aims to help companies develop the capability to compete effectively in export markets.

- At a time when opportunities for growth are limited, we continue to work with our client companies to improve their competitiveness helping them to achieve growth, and through this to generate impact on the economy. This year our portfolio of account managed firms increased their sales by £1 billion overall. We helped our customers generate business efficiencies estimated to be worth £86m in the next three years, and supported innovation by companies estimated to deliver an additional turnover value of £103m within three years. We worked with 286 of our account managed companies to improve their leadership. These results illustrate a major contribution to Scotland's economy reflected in increased jobs and competitiveness.

- We have also made progress on exploiting Scotland's leading position in relation to Low Carbon by developing the competitive advantage we have in Offshore Renewables and the transition to making Scotland one of the world's leading low carbon economies. At a time when the overall investment market for the renewables sector has been subject to considerable financial and regulatory uncertainty we have made some significant investments both in wave and tidal power. We have developed strategic partnerships with some of the world's leading players in offshore renewables such as Mitsubishi, Gamesa, Samsung, Scottish Power and Scottish & Southern Energy (SSE). We have also seen progress on developing the infrastructure to support Scotland's competitive position in renewables particularly in relation to our port infrastructure and in the development of the International Technology and Renewable Energy Zone (ITREZ) in Glasgow with the University of Strathclyde.

- By the end of the 2012/13, over 8,000 jobs have been created, and over 5,000 jobs safeguarded from projects supported by Regional Selective Assistance (RSA) over the last five years representing tangible outcomes in terms of employment and growth. Reflecting the challenges Scotland faces in terms of employment among young people we have implemented a programme to encourage increased youth employment from all of our services and projects. This included an extension to the coverage of our *Talent Scotland Graduate Placement Programme*, support for account managers to consider the recruitment of young people, and the introduction of *Community Development Clauses* on the employment of young people within major infrastructure projects such as the Edinburgh BioQuarter and in the construction of District 10 in Dundee. This also included direct action by Scottish Enterprise as an employer with a new Apprenticeship Programme and a sponsored Undergraduate Programme. In conjunction with our partners Skills Development Scotland, we have helped develop detailed Skills Investment Plans for all of the priority sectors identified in the Government Economic Strategy to help ensure our industries have access to the skills and talented people they need to compete effectively in global markets.

- A new strategy, "Tourism Scotland 2020", was developed during 2012/13 to address the major opportunities for growth by building on Scotland's competitive advantages in tourism. The development of this new strategy was industry led and co-ordinated by the Scottish Tourism Alliance and sets a vision of achieving overnight visitor spend of £5.5-£6.5bn by 2020, generating an additional £1 billion. This includes actions by Scottish Enterprise to address growth opportunities in key markets such as golf and business tourism, as well as support for the new Scottish Tourism Alliance.

- We saw the launch of a new strategy to support the growth of Scotland's Oil and Gas sector during 2012/13. To support this sector Scottish Enterprise has increased the resources devoted to supporting the growth of International Trade and Investment from this sector with new overseas offices opened to target opportunities in Norway and Brazil, and promotional actions taken targeting markets such as West Africa, Australia and the Americas. The actions included identifying 30 additional companies to be targeted for account management support and a further 75 companies for export support, and a call for major innovation projects to be supported with R&D funding.

An independent survey by MORI showed significant improvement in the ratings of Scottish Enterprise by Members of the Scottish Parliament (MSPs) across all parties: rating on *familiarity* was up 5 points from the previous survey, to 90%; *favourability* was up 11 points to 56%; *advocacy* was up 14 points to 44%; in contrast, *unfavourability* reduced by 5 points to 9%. This represents a significant improvement in our continued efforts to build understanding across all of our partners and stakeholders.

MANAGEMENT COMMENTARY (continued)

The following results can be highlighted, against the five priorities of our Business Plan:

Renewables

Interest from potential commercial investors remains strong with a number of prospective deals being developed through the National Renewable Investment Fund.

This work has focused on the development of the necessary port infrastructure to support this major growth sector, in key locations like Leith, Rosyth, Hunterston and Dundee. This work aims to create the best environment for attracting significant private-sector investment to build a significant manufacturing and testing sector based on Scotland's significant competitive advantages in terms of offshore wind and marine energy. We are also seeking to build a competitive position for Scotland in relation to the important area of Carbon-Capture and Storage (CCS) with the development of new facilities in Peterhead that take advantage of Scotland's existing strengths derived from the oil and gas sector.

In terms of the attraction of inward investment and the progression of private-sector investment in offshore some progress was made in 2012/13, although this has been constrained by the prevailing market conditions. Progress is also being made on the development of the International Technology & Renewable Energy Zone (ITREZ) in Glasgow with construction of the facilities and effective engagement with industry.

There has been a marked increase in the number of companies we are working with in the Renewable Energy sector. There are currently 92 companies being account managed by Scottish Enterprise in the sector, up from 67 at the start of the year.

We have also formulated a new delivery plan to build Scotland's position in relation to the major opportunities we have in relation to low carbon technologies, such as in low-carbon transport, 'clean' technology, and *Low Carbon Built Environment* – the development of more resource-efficient techniques in the construction industry.

International Trade and Investment

All of our international targets have been met despite the continuing difficult global conditions. We continue to see strong demand from Scottish companies seeking to internationalise and recent successes suggest we are maintaining our competitiveness.

International Trade activities remain high with Scottish delegations at major sector events in India (life sciences), Australia and Brazil (oil and gas). This involved the opening of new Scottish Development International (SDI) offices in Hyderabad in India and in Brazil. Promotional events have included Scotland Week in North America, the European Seafood Exposition in Brussels and the Offshore Technology Conference in Houston in the United States of America.

Increasingly we are intensifying our drive to increase internationalisation in all of our activities. For instance, our surveys of account managed companies showed that 60% of our client companies say they are exporters. Forty percent of the account-managed companies engaged in exporting have more than half of their sales from export markets with Europe the main export market for almost two-thirds of these companies.

On **Inward investment** a number of significant projects have been secured during 2012/13, including several projects landed during an exceptional last quarter of the year namely:

- **Capgemini UK Plc** – expanding their operations centres in Nairn and Inverness, with 500 new jobs
- **Daktari Diagnostics** (USA) - medical products company opening a manufacturing base in Inverness, creating up to 126 posts, producing cartridges for hand-held HIV monitoring devices.
- **Wipro Limited** (India) – are expanding their software development site in Aberdeen, with 100 high value jobs;
- **Europa Support Services** – business services company announced 120 jobs in Glasgow.

While larger projects continue to play an important part in the delivery of our targets on inward investment, in recent years the trend has been towards increasing numbers of projects: we secured 83 projects this year – the highest number seen in the last five years.

We are also seeking to embed internationalisation more deeply into our engagement with growth companies by improving how we help companies develop their competitiveness in international markets, both through our work to help companies raise their ambitions by improving their leadership and their strategy, and by ensuring a strong international dimension to our work on issues like innovation and business efficiency.

MANAGEMENT COMMENTARY (continued)

Growth Companies

Our work with companies with ambition and growth potential continues to progress well with all of our key targets achieved, including turnover growth by account managed firms and the number of companies being assisted to improve their efficiency.

Other signs of progress can be seen in relation to our account-managed company activities with an overall increase in the size of the portfolio and an increase in the number of high-growth firms within the portfolio.

Our work to help companies develop their leadership continues to progress, including a successful leadership learning journey to London. As this work progresses the focus is shifting from activities, i.e. the number of individuals and companies participating in the programme, towards measures of outcome such as leveraged investment in leadership development and impacts such as enhanced leadership capability, and demonstrations of impact such as increased innovation, exports and growth by the companies supported.

We are also developing our approach to manufacturing, building on the results of an evaluation completed during 2012/13 of Scottish Enterprise's approach to improving business efficiency, including the work of the Scottish Manufacturing Advisory Service (SMAS). This evaluation suggested the service was delivering considerable benefits to companies and through this was generating economic impact.

Although we have reasons to be satisfied with the progress that was made on all aspects of our work to stimulate greater investment – in our investments through the Scottish Investment Bank (SIB), Regional Selective Assistance (RSA) and our R&D support programmes – we will not relent on the efforts we are making on this issue. Increasingly, the focus of this work will shift from putting in place new funds like Renewable Energy Investment Fund (REIF) and the Rock Spring Ventures (RSV) Scottish Life Sciences Fund and the drive to increase 'finance readiness' among our client firms towards the actually delivery of investment into companies and sectors, and into issues like low carbon.

Scottish Investment Bank

2012/13 saw the completion of a large volume of deals and specialist financial readiness advice being given to companies with Scottish Investment Bank (SIB) expenditure up by over a third on the previous year. This illustrates the continued market reliance on SIB co-investment and the ongoing challenges faced by companies trying to secure scarce private sector funding.

To respond to the significant challenges in relation to the 'access to finance' issue additional financial and staffing resources were diverted towards the Scottish Investment Bank (SIB) to support operational delivery and to help maintain the increased activity. Key developments included the progress of new funding vehicles, including:

- **Renewable Energy Investment Fund (REIF)** – five deals completed during 2012/13, across four companies/ organisations.
- **Scottish Loan Fund** – eight deals completed in 2012/13, taking the overall total to 10 with a further deal at diligence stage projecting completion early in the new financial year.
- Launch and first close of **RSV Scottish Life Sciences Fund**
- Increased allocation from Scottish Government (£1.3m) to the **Scottish Plastics Loan Fund**, with work progressing to extend recycling scope.
- A notable improvement has been the uplift in activity relating to the **Scottish Venture Fund**, which has supported investment of £9m, positively contributing to securing a full draw-down of European Regional Development Fund (ERDF) funding.

The Scottish Investment Bank has secured income of £12.6m from the sale of shares, loan repayments and from dividends and interest against an initial 2012/13 target of £7.5m.

Throughout the year there has been a strong focus on demand and deal stimulation through our Access to Finance programme across all our funds, but particularly through the Financial Readiness programme, which completed the year above its target range. This work included significant efforts to engage with banks and other finance providers.

Regional Selective Assistance (RSA) and other Grants

In the year to 31 March 2013 there were 118 accepted RSA offers totalling £43.3 million for projects expected to create/safeguard 4,766 jobs. 82% of accepted offers were to SMEs and 71% of accepted offers were to indigenous firms. The average cost per job, based on grant paid and new and safeguarded jobs created, in 2012/13 was £6,930.

MANAGEMENT COMMENTARY (continued)

Innovation

Significant action was taken during 2012/13 to accelerate the take-up of innovation and R&D support by companies. This sought to stimulate additional investment by companies in R&D and other innovation related activities in the prevailing economic conditions. This included working to increase the conversion of potential R&D projects into actual projects, increasing our intervention rates and accelerating payments.

Action at the sector level, produced some success during 2012/13 in developing targeted "calls" for R&D funding (directed at priority areas such as oil and gas and in relation to the growth area of low-carbon technology).

We have completed the integration of the Intellectual Assets Centre into SE's mainstream operations, reducing operating costs from £980,000 to £120,000, while increasing the number of businesses supported by 50% to over 500 companies.

A highlight for 2012/13 was the announcement of a major life sciences license in biosensing, along with R&D grant support for an investment of up to £20m by Swedish healthcare company Molnlycke with operations to be located in Building Nine in the Edinburgh BioQuarter.

This year has seen the development of a new policy framework developed for innovation as part of the European Union (EU) Structural Funding Programme for 2014-20 with Scotland Europa leading the innovation workstream that involves a wide range of partners and stakeholder bodies. An important element of this relates to another Business Plan milestone: securing significant R&D funding from the EU's FP7 programme, by developing stronger collaboration with HIE, the Scottish Funding Council and Scotland's universities.

We have made further progress with key companies previously supported through our commercialisation activities, including Celtic Renewables and Albatern in renewables and Sphinx Medical and Integrated Magnetic Systems in life sciences. We have continued to stimulate a strong project pipeline on the Proof of Concept programme. The Life Science Proof of Concept assessment panel selected projects for £1.8m of funding from Glasgow, St Andrews and Edinburgh Universities.

We engaged 49 companies though our High Growth Start-Up Unit, including fifteen from University research programmes and the Edinburgh BioQuarter. Four companies supported by the High Growth Start-Up Unit (Helix Power, Inquisitive Systems, Taragenyx /RRG Coatings and GSI) successfully secured funding of £6.2m.

Activity in 2012/13 included taking forward our contribution to the Scottish Government's entrepreneurship policy, supporting 12 companies from Scotland to attend the Massachusetts Institute of Technology (MIT) Entrepreneurial Development Programme in Boston, a new series of Entrepreneurship Masterclasses to support our high growth company development and the new Scottish EDGE programme, which awarded £540k to 17 companies, to support early stage entrepreneurial businesses.

The Transition towards a Low-Carbon Economy

Our Low Carbon Implementation Plan seeks to build on the key areas of innovation, investment and resource efficiency – including faster development and up-take of low carbon (cost-reducing) products and services. This includes taking forward specific opportunities in relation to the *Built Environment*, *Water* and *Waste*.

Among developments of note:

- Approval of R&D grant funding of £1.2m towards a strategic collaborative R&D to be undertaken by **Alexander Dennis**, **Axeon**, **Scottish & Southern Energy** and **BAE Systems**, on a project to achieve zero emission electric bus vehicle operation within cities by developing an inductive recharge hybrid demonstration bus and associated charging infrastructure.
- A highly successful learning journey to Copenhagen on **District Heating** with 28 Scottish developers, power companies, local authorities and public sector support organisations to learn from current best practice. Enterprise Europe Network Scotland arranged 88 one-to-one meetings between companies resulting in potential collaborations and future projects in Scotland and Denmark. Renewable heat and waste heat (including district heating) is one of our ten low carbon priorities.
- Two new innovation funding calls for waste heat recovery and distributed heat or power technologies. This includes businesses developing technology to supply local electricity or heat, or to facilitate decentralised production.
- A study into the options for the promotion of low carbon vehicles in Scotland. This includes the launch of a hydrogen bus demonstration project in Aberdeen, funded by the Scottish Government, Scottish Enterprise and the European Union, running vehicles on "green" hydrogen produced from water using electricity.

MANAGEMENT COMMENTARY (continued)

Industry Sectors

We have also seen progress across our key sectors. For example, in food and drink, the £5 billion export target for the sector has been achieved six years ahead of schedule with a new ambition adopted set to increase exports to £7.1 billion by 2017. A mid-term review of industry performance in relation to our Food and Drink Strategy shows the sector continues to deliver a strong performance in relation to exports and turnover growth. Our future strategy in this area is targeting established markets such as the United States, Canada and the European Union but increasingly focusing on the major new opportunities in markets such as China, Korea, Singapore and the Middle East.

We have seen strong early results in the new Strategy established this year for the oil and gas sector reflecting the opportunities developing in international markets with significant results in terms of company growth, international trade and inward investment. This has involved targeting significant new market opportunities in areas such as Africa, Norway, Australia, Asia and the Americas. We are also targeting opportunities in relation to R&D and innovation support with a successful call for proposals in the oil and gas sector.

Our overall approach to sector development continues to develop with a stronger industry leadership focus in our sector strategies and our operational activities. This year has seen further improvements in the role played by our Industry Leadership Groups to build clearer strategies and to formulate stronger actions to address the major opportunities and the competitive advantage that we have across our sectors.

This has been particularly evident in the tourism sector with the launch of a new Tourism Strategy, which reflects the industry's collective ambition to be a destination of first choice for a high quality, value for money and memorable customer experience, delivered by skilled and passionate people. This strategy has a mission to achieve an overnight visitor spend of between £5.5bn and £6.5bn by 2020, generating in excess of an additional £1billion.

An important feature of this industry leadership is the development of Skills Investment Plans for each industry sector, developed by our strategic partner Skills Development Scotland, reflecting the key challenges faced by industries in Scotland in developing a skilled workforce and nurturing the talent need to achieve international success. We have developed a similar collaborative approach with the Scottish Funding Council and HIE in terms of developing the infrastructure to support innovation and commercialisation including the development of a new network of Technology Innovation Centres in our leading Universities. A critical element of this is the launch of the Applied Photonics Fraunhofer Centre at Strathclyde University in Glasgow.

We continue to address the need to improve the access to investment for our leading sectors with new investment vehicles established for the renewables and life sciences sectors. We have also been working with a number of finance providers such as banks in important sectors such as creative industries.

The returns in terms of sector activity in relation to innovation were strong with significant take up of sector market intelligence in sectors like tourism and food and drink. In financial services, Scotland continues to attract new investment, such as Capgemini and JP Morgan.

In life sciences, we are seeing significant developments in relation to the Edinburgh BioQuarter with significant company activity being attracted to the new Building Nine facility including some leading-edge firms attracted to the new incubation and acceleration facilities.

MANAGEMENT COMMENTARY (continued)

PERFORMANCE MEASURES

As a public agency, we need to be able to demonstrate the impact we achieve from our investment. Recognising the inter-connected nature of what we do we apply a comprehensive measurement framework that shows how our activities feed through to the achievement of our objectives, are reflected in the impact we have on the Scottish economy and are focussed on the longer-term strategic goal of the Government Economic Strategy – to raise Scotland's long-term sustainable economic growth rate.

We also make a direct contribution to the objectives reflected in the National Performance Framework that supports the Government Economic Strategy – with a direct or indirect contribution to 14 of the 50 National Indicators:

SE CONTRIBUTION TO NATIONAL PERFORMANCE FRAMEWORK	
Indicators with a direct SE contribution	**Indicators where SE makes an indirect contribution**
• Increase exports • Improve Scotland's reputation • Increase Research & Development spending • Improve knowledge exchange from university research • Reduce Scotland's carbon footprint • Reduce waste generated • Increase renewable electricity production	• Increase the number of businesses • Improve digital infrastructure • Improve the skill profile of the population • Increase the proportion of young people in learning, training or work • Increase the proportion of graduates in positive destinations • Improve people's perceptions of the quality of public services • Widen use of the internet

The measurement of overall economic impact is complex given the long-term nature of what is involved and the significant contributions made by partners and customers. Scottish Enterprise uses a variety of techniques to assess the contribution we make including tracking measures of progress, benchmarking, evaluation, modelling and customer surveys.

In recent years we have sought to enhance the evidence that underpins our operations and our plans. This is reflected in a stronger evidence of impact and cost-effectiveness drawn from evaluation of some of our key programmes, from appraisal of major investments and from wider economic research. Among the evaluations completed this year was a review of our approach to Business Efficiency (including SMAS).

We use the evidence derived from this work to shape our priorities and activities, to show how our work contributes to the economy and the goals of the Government Economic Strategy.

We also seek to measure the effectiveness of our operations, to track progress against objectives and improve our performance. In 2012/13, using a range of milestones and measures we tracked our progress towards our longer-term objectives. The measures are more complex in nature in that some cover in year outputs and some cover longer timeframes.

The table below presents a summary of the target ranges and actual performance for 2012/13, together with the related actual performance from 2011/12 (where appropriate).

Of our 26 individual published measures, 8 have landed in the top half of the range, with 9 landing above the target range and 7 are in the bottom half of their target ranges. Two measures associated with investment in offshore renewables (both three-year measures) are reported as being 'at risk', but these are attributable to the prevailing market conditions and – as the report shows – there are encouraging signs in terms of interest from potential investors and operational agreements that have been secured with key companies.

MANAGEMENT COMMENTARY (continued)

RESULTS AGAINST PERFORMANCE INDICATORS

Key

Milestone Progress

★ 'Achieved'
● 'Not yet due but on track to achieve'
● 'Good progress but not yet achieved'
● 'Not achieved'

Target Range Results

▲ 'Exceeded'
◄► 'Achieved'
▼ 'Not achieved'
◆ 'Target not yet due – on track'
◆ 'Target not yet due – not yet on track'
◆ 'No target range set'

Priority 1: **RENEWABLES**

Develop a globally competitive offshore renewables (wind and marine) sector in Scotland by 2015.

While there has been some significant progress made, two of the milestones – and two of the measures – on this priority are reported as slipping, largely due to market and regulatory uncertainties. The milestone of creating an investment funding vehicle for the renewables sector was achieved, with funding secured and deals being progressed.

- In 2012/13, build on Scotland's advantages in Renewable Energy through significant progress on the National Renewables Infrastructure Fund (NRIF) ●
- In 2012/13, secure **3** major offshore wind manufacturing investments in NRIF projects ●
- In 2012/13, consider and ensure implementation of appropriate mechanisms to attract significant investment funding for the Renewables sector in Scotland ★

2011/12 Actual	**Measure description**	***Target Range Result***	**2012/13 Actual**
£10m	1.1 Over 2012-15, achieve leverage of £300 million to £350 million of additional private investment into offshore renewables,	◆	£93m (to 2012/13)
Work in progress	including £130 million to £150 million of additional private investment through NRIF	◆	£10m (to 2012/13)
-	1.2 By 2014-15, attract £25 million to £30 million additional R&D investment through the International Technology and Renewable Energy Zone (ITREZ)	◆	£17m (to 2012/13)
-	1.3 By 2014-15 achieve 7-10 major funding awards supporting significant R&D investments, prototypes or demonstration projects in Offshore Renewables	◆	3 awards (to 2012/13)

MANAGEMENT COMMENTARY (continued)

Priority 2: **INTERNATIONAL TRADE AND INVESTMENT**

Stimulate the globally competitive position of Scotland's companies and sectors in line with the ambitions of Scotland's Trade and Investment Strategy, 2011-15.

All targets on this priority were achieved with those relating to International Trade running ahead of schedule. The milestone of a significant new export drive in the Food and Drink and Oil and Gas sectors was successfully achieved. Reflecting difficult world trading markets, the milestone relating to international sales by our account managed companies was not achieved. Similarly, while smaller investments are being attracted, the significant private-sector investment envisaged for the Edinburgh BioQuarter has not yet been secured. On attracting new investment to the tourism sector, an alternative solution is being taken forward, in line with the new Tourism Strategy.

- 2012/13 increase by **10%** the turnover growth generated in international markets by account managed companies
- Deliver a programme targeted at new markets to promote exports in Food and Drink with a strong emphasis on increasing food exports.
- Launch a major drive to increase Scotland's exports from the Oil and Gas sector, targeting new opportunities in key growth markets
- 2012/13, attract significant company investment to help establish the Edinburgh Bio Quarter as an internationally significant centre for Life Sciences
- 2012/13, deliver a new funding programme to attract major hotel and resort investments in support of the Scottish tourism sector

2011/12 Actual	**Measure description**	***Target Range Result***	**2012/13 Actual**
-	2.1 By 2015, achieve a £1.2 billion to £1.7 billion increase in international sales from supported businesses		Being progressed (to 2012/13)
-	2.2 In 2012-13, 200-300 companies projecting significant turnover growth from exporting,		348 companies
191	including 130 to 190 projecting turnover growth of £1 million+		229 companies
-	2.3 By 2015, 8,000 to 10,000 companies assisted to develop their capacity for exporting through initiatives like Smart Exporter		4,274 companies (to 2012/13)
-	2.4 By 2015, 25,000-35,000 planned jobs through the attraction of foreign investment –		14,533 jobs (to 2012/13)
-	of which between 8,000 and 12,000 planned high value jobs		3,945 HV jobs (to 2012/13)
1,800	2.5 In 2012-13, 1,800-2,500 planned high value jobs from inward investment		2,145 HV jobs

MANAGEMENT COMMENTARY (continued)

Priority 3: **GROWTH COMPANIES**

Support increased growth from the companies and sectors we work with

All milestones and targets for 2012/13 were successfully achieved or on target under this priority with 6 measures out of 8 ending the year either in the top half of the target range or exceeding it. Reflecting the difficulties of the current investment climate, the achievement of £60m leveraged investment through the Scottish Investment Bank and £215m of leveraged capital investment through RSA grants represent particular successes. The strong results on 'Financial Readiness' programme reflects the drive to address the issue of "Access to Finance" by helping to unlock significant new investment into growth companies.

- By 2014/15, Increase the number account-managed companies achieving 'High Growth' status to **200** ●
- 2012/13, secure equity and debt finance for **75** growth and exporting companies ★
- 2012/13, establish a new investment vehicle to attract significant investment funding for the Life Sciences sector in Scotland ★
- In 2012/13, to support business tourism in Scotland, complete the expansion of the EICC in Edinburgh and the new Scottish Hydro Arena in Glasgow ●
- 2012/13, introduce a new programme of support to enable the tourism sector in Scotland fully capitalise on opportunities arising from Scotland's hosting of the Commonwealth Games and the Ryder Cup in 2014 ★

2011/12 Actual	**Measure description**	***Target Range Result***	**2012/13 Actual**
£1.2bn	3.1 In 2012-13, £800 million to £1.2 billion turnover growth achieved by account-managed firms	◄►	£1.0bn
-	3.2 By 2014-15, increase the size of our account management portfolio by 10 to 20%	◆	3.9% (to 2012/13)
-	3.3 In 2012-13, help 250 to 350 account-managed companies develop their leadership and strategy	◄►	296 companies
£57m	3.4 In 2012-13, achieve £60 million to £75 million of leveraged investment from funding provided through the Scottish Investment Bank	◄►	£60m
-	3.5 In 2012-13, help 350-400 companies secure growth finance by improving their Financial Readiness	▲	460 companies
£215m	3.6 In 2012-13, deliver £150 million to £250 million of additional capital investment in planned projects supported by Regional Selective Assistance (RSA) grants	◄►	£216m
484	3.7 In 2012-13, 400 – 500 companies achieving significant productivity and efficiency improvements,	◄►	453 companies
-	which over the next three years will be worth at least £60 million to £75 million	▲	£86m

MANAGEMENT COMMENTARY (continued)

Priority 4: **INNOVATION**

Improve the operational efficiency and competitiveness of companies and sectors through the exploitation of new ideas.

All four targets and milestones achieved successfully or on track under this priority with four out of six measures exceeding their target ranges. The successful achievement of the milestones relating to European Union funding support and the development of the Technology Innovation Centres represent significant indicators of progress in terms of advancing Scotland's strengths in research.

- In 2012/13, increase by **10%** the revenue that our account-managed companies generate from innovation activity ★
- 2012/13, implement a programme of activity with HIE, Scottish Funding Council and Scottish Government to maximise the contribution to innovation and R&D from EU funding support ★
- In 2012/13, implement new integrated approach to innovation and Commercialisation, in partnership with Universities and Scottish Funding Council ●
- 2012/13, work with, and in support of, the Scottish Funding Council to establish a network of mini Technology Innovation Centres ●

2011/12 Actual	**Measure description**	***Target Range Result***	**2012/13 Actual**
427	4.1 In 2012-13, 350 to 400 companies completing innovation projects	▲	425 companies
-	which will result in turnover of £60 million-£100 million over the next 3 years	▲	£103m
2,861	4.2 In 2012-13, 3,500 to 4,000 companies accessing key sector market intelligence initiatives	▲	5,871 companies
£56m	4.3 In 2012-13, secure £55 million to £75 million of additional business R&D investment from SE-assisted projects	◄ ►	£58m
£48m	4.4 In 2012-13, secure £50 million to £75 million of collaborative R&D funding leveraged from other sources	▲	£76m
-	4.5 By 2014-15, generate 15-21 entrepreneurial companies capable of achieving £5 million turnover growth within five years of trading, or attracting £10 million investment	◆	5 companies (to 2012/13)

Priority 5: **THE TRANSITION TO A LOW-CARBON ECONOMY**

Increase economic impact of reduced CO_2 emissions across all aspects of our operations.

The success of the drive to embed the issue of low carbon across SE's entire operations is reflected in the successful achievement of both the milestones and measure target range. This is complemented by an effort to expand the focus to include more opportunities for 'green growth' across different sectors.

- Significant Low Carbon efficiencies and opportunities being progressed in every Sector ●
- Increased coverage of SE funding of Low Carbon activity through major grants schemes and investment ●

2011/12 Actual	**Measure description**	***Target Range Result***	**2012/13 Actual**
31,609	5.1 In 2012-13, secure between 40,000-50,000 tonnes of CO_2 savings arising from SE company support that improves productivity	▲	50,912 tonnes

Note: The mix of work we carry out may shift over time. Some areas will increase while others may decrease as we modify the range of activities we undertake to increase our impact. As a result, our measures also shift over time. Some of the prior year comparatives are on slightly different bases but are provided for information.

MANAGEMENT COMMENTARY (continued)

FINANCIAL PERFORMANCE

Financial Overview

The results for the year ended 31 March 2013 are contained in the attached accounts, prepared in accordance with Section 30(1) of the Enterprise and New Towns (Scotland) Act 1990 and the Accounts Direction from 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 Resource Budget is intended to cover capital and revenue expenditure (on an accruals basis) net of in-year income from sources such as European Union funding, and 'non-cash' costs, including depreciation. A further budget allocation for Annually Managed Expenditure is made by the Scottish Government to cover volatile costs such as provisions and write downs which by their nature are not necessarily capable of being controlled to the same extent as items charged to the Resource Budget.

The approved Resource Budget for 2012/13, after in year adjustments, amounted to £242m. This comprised a grant in aid provision of £235m and a non-cash allocation of £7m. During the year Scottish Enterprise was allocated £6m to cover costs designated as Annually Managed Expenditure.

The Resource Budget for 2013/14 amounts to £259m, including £231m of grant in aid and a ring fenced non-cash budget provision of £28m. As noted previously, the Resource Budget is supplemented by income generated and applied against expenditure incurred during the year. In addition, further transfers of budget from the Scottish Government are anticipated through the normal operation of the Scottish Government's Budget revision process.

Summary of Resource Outturn

Scottish Enterprise successfully achieved its main financial objective for the year which is to ensure that the financial outturn for the year is within the Resource Budget allocated by the Scottish Ministers. Scottish Enterprise's net underspend of £2.032m against its funding provision for the year to 31 March 2013 is stated after including recoverable VAT of £1.307m relating to prior years which was agreed by HM Revenue & Customs after the financial year end, and is detailed as follows:

	£000	*£000*
Operational Delivery Costs		
Supporting Globally Competitive Businesses	104,297	
Supporting Globally Competitive Sectors	13,820	
Globally Competitive Business Environment	77,021	
		195,138
Support Costs		
Staff costs, including customer facing staff	54,886	
Marketing, research & stakeholder engagement	7,495	
Premises, information services and other support costs	30,491	
		92,872
		288,010
Less: Income		51,905
		236,105
Funded by		
Grant-in-Aid	235,391	
Net investment by the Scottish Co – Investment and Scottish Loan Funds	2,746	
		238,137
Net underspend		2,032

Scottish Enterprise's outturn against the elements of the budget allocation from the Scottish Government was as follows:-

	Outturn £000	*Budget £000*
Grant in Aid	233,359	235,391
Non –cash costs including depreciation	4,615	7,000
Total resource budget	237,974	242,391
Annually managed expenditure	3,293	5,850

MANAGEMENT COMMENTARY (continued)

Cash Balances

Due to the nature of its business and activities, Scottish Enterprise requires to retain cash balances. As at 31 March 2013 these amounted to £92m (2012: £93m).

A significant element of the total cash balance, amounting to £56m (2012: £61m), relates to the activities of the Scottish Co-Investment Fund and the Scottish Loan Fund. These balances cannot be applied to fund any business activity other than that relating to the delivery and management of the Funds.

Income from the European Union

European Union funds amounting to £14m (2012: £14m) were receivable in support of the operations of the Scottish Enterprise Group, including the activities of the Scottish Co-Investment and Scottish Loan Funds.

Non-Current Assets

During the year ended 31 March 2013, expenditure on non-current assets and investments and proceeds from disposal were:

	Expenditure		*Disposals*	
	2013	*2012*	*2013*	*2012*
	£m	*£m*	*£m*	*£m*
Property, plant and equipment	19	15	3	4
Investments, including loan repayments	36	31	10	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 2013 and is included in the accounts at £187m (2012: £189m). In addition, property classified as held for sale was valued at £2m (2012: £4m).

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 2013, Scottish Enterprise paid 77% (2012: 82%) of suppliers' invoices within the revised standard. The average number of days taken to pay valid invoices during the year was 9.7 days (2012: 8.3 days).

FUTURE DEVELOPMENTS

Our Business Plan for 2013-16 sets out what we are doing to achieve our ambition to help make Scotland more globally competitive. The plan sets out how we will stimulate investment and action through a balance of short, medium and long term activity to help us to focus our efforts on the areas which can promise the biggest economic return for Scotland.

The rolling nature of Scottish Enterprise's business plan allows us to build continuity into our operational activity and at the same time, reflect changes in the economy and new market opportunities. As such, we will continue to concentrate on our strategic priorities and maintain a firm focus on the framework provided by the Government Economic Strategy with its emphasis on growth sectors, growth companies and growth markets.

Global growth continues to be weak, compounded by continuing uncertainties caused by the eurozone crisis, cuts in government spending, rising commodity prices and difficulties in accessing finance. As a small open economy, Scotland is not immune to these global trends and there is no doubt that economic conditions remain tough. However, we have seen enough successes over the past few years to know that Scotland can respond to whatever new challenges emerge and ensure that the Scottish economy remains competitive. At the start of 2013, there are also signs of a more promising picture emerging with exports increasing and sectors such as food and drink, energy and life sciences all showing signs of growth.

That does not mean we are not alive to the challenges that still exist, especially around business and consumer confidence, which is holding back investment and recruitment decisions. Unemployment in particular is still at high levels compared to pre-recession levels and around 20% of Scottish 16-24 year-olds out of work. Now, more than ever,

MANAGEMENT COMMENTARY (continued)

we need to help companies to invest in new growth projects that will help to sustain and create employment and respond to new opportunities that will improve their long term competitiveness.

Through programmes such as Regional Selective Assistance and through our work with growth companies we have a direct opportunity to encourage companies to consider recruitment and employment, particularly among young people, as part of their growth plans and ensure their business is ready to respond when the global economy improves.

To help us respond to these conditions we will continue to focus on growth over the next three years in areas where Scotland has competitive advantage and where we know we can have the biggest impact, both in the short and longer term.

In responding to the economic challenge and in order to meet the aims of the Government Economic Strategy, two key areas of work form the core of our Business Plan for 2013-16:

- **Support the development of more globally competitive companies** by offering an integrated business support model where companies with ambitions to grow can access the right type of support at the right stage of their growth.

- **Support the development of Scotland's growth sectors** by supporting positive and transformational change in sectors and providing opportunities for Scotland in global markets.

This dual focus is our primary response to the current business challenges of reduced demand, slow forecast global growth and constrained investment whilst simultaneously, pushing the development of more bold and longer term sector interventions to potentially transform the economy. To help us realise the potential that exists amongst our companies and sectors we also need to help create a **supportive business environment** in which they can thrive.

Working with partners, we will help to ensure that our infrastructure and connectivity is smart enough and competitive enough to ensure the long term sustainability of Scotland as a place to do business and that individuals and companies across Scotland benefit from the jobs and opportunities we help to create from our investment.

The Scottish Enterprise Business Plan for 2013-16 can be found on our web-site at www.scottish-enterprise.com.

CORPORATE GOVERNANCE

Codes of Conduct

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

Risk Management

Scottish Enterprise has a Risk Management Policy and operates an internal control assessment framework to complement its risk management and internal audit arrangements. The framework requires Executive Leadership Team 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 Governance Statement. Reference is also made to risk management in the Resources and Risk section of this commentary.

Board Members

The members of the Scottish Enterprise Board, with the exception of the Chief Executive, 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:

MANAGEMENT COMMENTARY (continued)

		Audit	Investment	Economic Policy	Nominations / Governance	Remuneration	Urgent Approvals
Crawford Gillies	Chairman				C		C
Lena Wilson	Chief Executive		M	M	M		M
Melfort Campbell	With effect from 1 January 2013						
Ian Crawford	Retired 31 December 2012		M		M	M	
Russel Griggs				M			
Jim McDonald			M	M			
John McGlynn			M	M			
Iain McLaren		C			M	M	M
Jeremy Peat			M	C			M
Grahame Smith		M		M			
Linda Urquhart		M	C				M
Graeme Waddell		M			M	C	
Gillian Watson	With effect from 1 January 2013						

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 and Governance Committee, which reviews the organisation's governance structure and leadership; an Urgent Approvals Committee; and an Economic Policy Committee which monitors Scottish economic performance.

Executive Leadership Team

The Executive Leadership Team 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 Leadership Team. Executive Leadership Team members who held office during the year were as follows:

Lena Wilson	Chief Executive
Paul Lewis	Managing Director Operations – Sectors and Commercialisation
Anne MacColl	Managing Director Operations - Scottish Development International
Linda McDowall	Business Networks and Communications Executive Director
Jim McFarlane	Managing Director Operations – Company Growth, Innovation and Infrastructure
Iain Scott	Chief Financial Officer
Carolyn Stewart	People Services Executive Director
Julian Taylor	Strategy and Economics Executive Director

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

At Scottish Enterprise we recognise that our role in developing a globally competitive Scotland is dependent upon the performance of our people and their ability to work better, smarter and innovatively in response to prevailing economic conditions. Performance management and reward are at the heart of our people policies, in particular alignment to the Scottish Enterprise Business Plan. We ensure that all of our people have a clear understanding of their roles and objectives, that they have the skills and knowledge to deliver to the highest standard and that they are recognised for their contributions. This approach is evidenced by our accreditation as a Gold level Investor in People employer. We also seek opportunities to collaborate with partners in the public and private sectors, share services with other public sector organisations and benchmark ourselves against others on key performance indicators for people and programmes.

MANAGEMENT COMMENTARY (continued)

Recognising that our own people are a major source of competitive advantage in delivering more for Scotland, our robust approach to employee communication and engagement is designed to increase productivity, reduce absence, foster wellbeing and improve customer and partner relationships, facilitating the achievement of our ambitious targets.

We are committed to open, timely and effective employee communication and to becoming an employer of choice through our ‘Great Place to Work’ engagement programme. This includes a full survey every two years ensuring we understand how our people feel, measuring levels of engagement and providing feedback to inform and improve our communication and engagement activities to fully involve our people in delivering our business. Our people’s wellbeing is important to us, evidenced by our recent Healthy Working Lives gold award which contributes to our programme of health, lifestyle and wellbeing advice and support. Through our community engagement programme, we seek to give something back to the communities in which we live and work. This is achieved by employer supported volunteering activities and our employee funded charity fund.

Through our comprehensive people strategy, we develop and deliver programmes and services reflecting the needs of the organisation and our people to ensure that we continue to attract, retain and motivate talented people to deliver for Scotland. In particular, to ensure we have the necessary skills to deliver our objectives, we manage employee and industrial relations policies and issues; develop policies related to performance management and recruitment; and develop and manage learning and development programmes, including future career planning and a structured people management academy. Where appropriate, our development programmes are externally accredited. In addition, we manage workforce planning by aligning headcount and skills requirements with the future business plan.

Through the implementation of practices which recognise the diversity of our people, and in line with our public sector duties under race, disability, gender and age, we offer a working environment which values the creativity, talents, energies and working styles of all present and potential employees. At Scottish Enterprise, we value and recognise individuals' contributions regardless of age, colour, disability, ethnic origin, gender, marital status, religion or sexual orientation, and embrace a culture based on fair treatment. To reinforce the awareness of these programmes and related policy changes, we require all of our people to review and acknowledge changes online. We hold “Scottish Living Wage”, “Two Tick” and “Age Positive” standards for our employment practices and are recognised as an employer for supporting diversity.

Sickness Absence

The absence record for Scottish Enterprise employees for the year to end March 2013 was 5,422 (2012: 5,612) sick days out of a possible 225,348 (2012: 223,904) working days representing a lost time through sickness absence of 2.41% (2012: 2.51%).

Estate management

Scottish Enterprise acquires, invests in and manages a portfolio of property and land assets. The objective in maintaining and developing this portfolio 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.

After an extensive review of our assets, a 3 year Action Plan (2013/16) is to be implemented for the disposal of non strategic assets. All strategic assets will be held or enhanced to facilitate key sectoral developments.

As Scottish Enterprise holds its property portfolio for economic development purposes, the majority of property and land sales are for business use. Where appropriate a use restriction is applied which can be enforced in the event of a future change of use to a higher value land use, such as retail, residential, hotel and leisure etc. Where a site is sold for an alternative use, the sale price reflects market value for the alternative land use.

Valuations of the estate are prepared annually by external valuers based on Fair Value as defined in the Valuation Standards 2012 (Red Book) 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 and incorporating an element of hope value where appropriate.

MANAGEMENT COMMENTARY (continued)

Risks

Scottish Enterprise has a standard approach to risk management which is described in more detail in the Governance Statement. 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 Leadership Team.

Data Loss

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

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 embedded in our mainstream operational activities as an intrinsic part of our approach to building globally competitive companies, sectors and business environment.

Environmental Matters

Scottish Enterprise supports the Government's agenda of sustainable economic growth. Our Low Carbon Implementation Plan demonstrates our support for a low-carbon economy, including achievements for 2012/13 and actions for the year ahead. We have set an ambitious target to reduce our internal carbon emissions by 42% by 2020 from a 2009/10 baseline. Our progress for 2012/13 is reported in our Sustainability Report which can be found on our website, along with the Low Carbon Implementation Plan, at

http://home.scottishenterprise.net/document-details.htm?cid=160518

Social and Regional Equity

Reflecting the approach set out in the Government Economic Strategy, Scottish Enterprise recognises that differences in income, participation and growth across Scotland act as a drag on our economic performance and potential and that this is being exacerbated during the current low growth in the economy.

In response to this we have re-focused our work and have defined the following objective:

To maximise our contribution to the Government's cohesion target through an approach which will see Scottish Enterprise invest in activity and provide support which improves regional equity where it also increases our ability to significantly enhance Scotland's sustainable economic growth, productivity and participation.

Our progress will be measured annually using qualitative and quantitative indicators and success will be dependent on the continued support of our key stakeholders.

We recognise there is a strong business case for this work which ensures Scottish Enterprise's focus on sustainable economic growth enables all areas to maximise their contribution. We carried out a number of activities which have helped to support this ambition over the last year including:

- The continued role of Regional Selective Assistance in stimulating investment and jobs in disadvantaged areas,
- Consideration of regional equity in project and sector planning, including the application of Community Benefit Clauses in infrastructure projects,
- Sharing intelligence with local and regional partners to increase awareness of opportunities for businesses and people in their areas.

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. It is recognised that this generates significant benefits for communities and the Scottish economy. The Scottish Government is committed to increasing the role of social enterprise in design and delivery of public services.

MANAGEMENT COMMENTARY (continued)

Key aspects of our work during 2012/13:

- working with stakeholders and partners to raise awareness and engagement of social enterprises with business and investment support
- contribution to national policy on third sector and social enterprise business and investment support
- increased emphasis on aspects of social enterprise support including international trade

Equal Opportunities

We embed equality in the work of Scottish Enterprise by addressing the following objective:

Help to realise Scotland's full economic potential by mainstreaming equal opportunities within the Organisation's policies and practices as an employer and service provider.

We believe that diversity benefits every colleague and business in the country and we ensure that our activities will be provided to individuals regardless of their:

- age
- gender
- religion or belief
- race
- marriage and civil partnership
- disability
- pregnancy and maternity
- sexual orientation
- gender reassignment

Our wish is to see business and industry embracing equality and realising the business benefits that this can bring. We have also been pro-active in developing our approach on human rights with companies trading or locating overseas and have also carried out equality impact assessments on a number of projects and HR policies.

We are committed to complying with the Equality Act 2010 and an internal audit was carried out in 2011/12 which confirmed that we are adhering to the requirements of the legislation through giving due regard to eliminating discrimination, advancing equality of opportunity and fostering good relations between different groups.

In addition we comply with the Equality Act 2010 (Specific Duties) (Scotland) Regulations 2012 and we will be publishing our mainstreaming report shortly. This outlines our activity to date, presents equality outcomes for the coming four years, details work on procurement and provides workforce data including our gender pay gap and statement on equal pay.

AUDITORS

The accounts of Scottish Enterprise are audited by auditors appointed by the Auditor General for Scotland and the Auditor General appointed Audit Scotland to be the auditors of Scottish Enterprise. Fees payable for audit services provided by the appointed auditors for the year ended 31 March 2013 were £151,000 (2012: £159,000). There were no fees payable to Audit Scotland for non-audit services in the year ended 31 March 2013.

As 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 herself aware of any relevant audit information and to establish that Scottish Enterprise's auditors are aware of that information.

Lena C Wilson
Accountable Officer
28 June 2013

REMUNERATION REPORT

for the year ended 31 March 2013

This report explains the remuneration policy of Scottish Enterprise for Board Members and for the senior management team, the Executive Leadership Team, and provides details of members' remuneration for the year ended 31 March 2013.

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 an initial period of three years and four months. In April 2012, the Scottish Government announced that the Chairman had been re-appointed for a further term which will run until 30 June 2015. 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 Leadership Team

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

The Chief Executive and other Executive Leadership Team members are on standard Scottish Enterprise contracts of employment. Their contracts provide for a notice period of up to 12 months. For 2012/13 there was no bonus scheme operated in Scottish Enterprise.

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

Remuneration Committee

The Remuneration Committee determines, and agrees with the Board, the framework or broad policy for the remuneration of the members of the Executive Leadership Team, 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, if applicable, any 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 Leadership Team.

The members of the Remuneration Committee who served during the year to 31 March 2013 were:-

Graeme Waddell	Chair
Ian Crawford (retired 31 December 2012)	
Iain McLaren	

In April 2013, Linda Urquhart was appointed to the Remuneration Committee.

Executive Leadership Team Remuneration

As part of the Scottish Enterprise performance management system, each Executive Leadership Team member agrees with the Chief Executive, personal performance objectives which will have a significant impact on the performance of the organisation. These objectives, and the Chief Executive's appraisal of performance against them, are subject to review by the Remuneration Committee.

REMUNERATION REPORT (continued)

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

- enable Scottish Enterprise to attract, retain and motivate high calibre executives;
- remunerate individuals fairly for individual responsibility and contribution; and
- take account of salary policy within the rest of Scottish Enterprise and the relationship that should exist between the remuneration of the Executive Leadership Team and that of other employees.

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.

The Chief Executive has a contractual entitlement to receive an annual performance bonus of up to 10% of basic salary, however this is suspended due to current public sector pay policy.

Executive Leadership Team members are all members of the Scottish Enterprise Pension & Life Assurance Scheme. As ordinary members, they contribute 6% of pensionable salary and during the year Scottish Enterprise contributed 18% of the employees' pensionable salary. This is a defined benefits 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 annually in accordance with the percentage uplift set out in The Pension Increase (Review) Order announced by the United Kingdom Government each year.

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

Remuneration

Remuneration paid to the Chairman and other non-executive board members who served during the year to 31 March 2013 was:-

		2013 Remuneration £	*2012 Remuneration £*
Crawford Gillies	Chairman	38,721	38,721
Melfort Campbell	(appointed 1 January 2013)	3,145	-
Ian Crawford	(retired 31 December 2012)	9,436	12,581
Russel Griggs		13,781	13,781
Jim McDonald		12,581	12,581
John McGlynn		12,581	12,581
Iain McLaren		15,098	15,098
Jeremy Peat		15,098	15,098
Grahame Smith		12,581	12,581
Linda Urquhart		15,098	13,210
Graeme Waddell		15,098	15,098
Gillian Watson	(appointed 1 January 2013)	3,145	-

The disclosure above reflects the net amount of remuneration after recovery of a small number of identified overpayments, due to an administrative error, totalling £3,145.

REMUNERATION REPORT (continued)

Remuneration of the Chief Executive, Lena Wilson, and other Executive Leadership Team members who served during the year to 31 March 2013 was:-

				2013				*2012*
	Salary	*Bonus*	*Other benefits*	*Total*	*Salary*	*Bonus*	*Other benefits*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Lena Wilson (i)	200	-	-	200	200	-	-	200
Paul Lewis	127	-	-	127	130	-	-	130
Anne MacColl (ii) (iv)	106	-	-	106	101	-	11	112
Linda McDowall	118	-	-	118	116	-	-	116
Jim McFarlane	138	-	-	138	142	-	-	142
Iain Scott	123	-	-	123	121	-	-	121
Carolyn Stewart	113	-	-	113	111	-	-	111
Julian Taylor	103	-	-	103	101	-	-	101

(i) In accordance with the Scottish Government's announcement on the performance bonuses payable to senior public sector staff, no bonuses are payable to the Chief Executive for the year 2012/13.

(ii) As previously reported, at the time Anne MacColl's duties in Scotland became non-incidental and her earnings consequently became liable to tax in the United Kingdom as well as in France Scottish Enterprise agreed to settle a tax liability on her behalf. During 2012/13 Scottish Enterprise recovered £2,572 of the French tax previously paid, however a further £2,445 was also settled in respect of French Tax on allowances paid.

(iii) In line with all Scottish Enterprise staff, if they were eligible, Executive Leadership Team members, other than the Chief Executive, received a pay increment with effect from 1 July 2012. Increases varied from 1.25% to 2% depending upon the position of the existing salary in the pay band.

(iv) Anne MacColl's salary increase was effective from 6 January 2013 in line with the agreement made at the time of her appointment to the Executive Leadership Team.

REMUNERATION REPORT (continued)

(v) Retirement benefits of the Executive Leadership Team members for the year to 31 March 2013 are as follows:-

	Accrued Pension at age 60 as at 31 March 2013 and related lump sum £000	*Change in pension net of inflation and related lump sum at age 60 £000*	*Cash Equivalent Transfer Value (a)* At 31 March 2013 £000	*At 31 March 2012 £000*	*Increase/ (decrease) net of members' contributions £000*
Lena Wilson	60 – 65 plus lump sum of 180 - 195	0 – 2.5 plus lump sum of 2.5 – 5.0	1,316	1,257	47
Paul Lewis	40 - 45 plus lump sum of 120 - 135	0 – 2.5 plus lump sum of 0 – 2.5	971	882	81
Anne MacColl	10 - 15 plus lump sum of 30 - 45	0 – 2.5 plus lump sum of 2.5 – 5	235	194	35
Linda McDowall	40 - 45 plus lump sum of 120 - 135	0 – 2.5 plus lump sum of 2.5 – 5.0	1,138	1,078	53
Jim McFarlane	55 - 60 plus lump sum of 165 - 180	0 – 2.5 plus lump sum of 0 – 2.5	1,717	1,575	133
Iain Scott	30 - 35 plus lump sum of 90 - 105	0 – 2.5 plus lump sum of 2.5 – 5	773	688	78
Carolyn Stewart	20 - 25 plus lump sum of 60 - 75	0 – 2.5 plus lump sum of 2.5 – 5	481	445	30
Julian Taylor	25 - 30 plus lump sum of 75 - 90	0 – 2.5 plus lump sum of 2.5 – 5.0	629	555	67

(a) 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 which would be made by a retirement benefit scheme to secure benefits in another scheme or arrangement should a member leave the scheme and choose to transfer the benefits they have accrued in this and any former scheme.

Annual changes in the cash equivalent transfer value are determined by market conditions. The increase in Cash Equivalent Transfer Values is attributable to the routine application of factors which impact on the calculation of retirement benefits, including the reduction in long term interest rates which in turn increases the cost of securing the benefits accrued by scheme members over their total period of service and effect of the passage of time in terms of both additional service and on the time available to generate investment returns prior to retirement.

REMUNERATION REPORT (continued)

Median Pay Multiples

As recommended in the Hutton Review of Fair Pay in the public sector, Scottish Enterprise is now required to disclose the relationship between the remuneration of the highest paid member of the Executive Leadership Team and the median remuneration of the employees of Scottish Enterprise.

	2013 £	2012 £
Total remuneration of the highest paid member of the Executive Leadership Team	200,000	200,000
Median total remuneration of Scottish Enterprise's employees	37,555	37,186
Remuneration ratio	5.3	5.4

The total median remuneration of Scottish Enterprise's employees is based upon the annualised full-time equivalent salary of the employees at 31 March 2013.

Including severance payments, 1 employee (2012: 3 employees) received remuneration in excess of the highest paid member of the Executive Leadership Team.

Graeme Waddell
Remuneration Committee Chair
28 June 2013

Lena C Wilson
Accountable Officer
28 June 2013

STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

for the year ended 31 March 2013

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 Principal Accountable Officer for The Scottish Administration 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 C Wilson
Accountable Officer
28 June 2013

GOVERNANCE STATEMENT

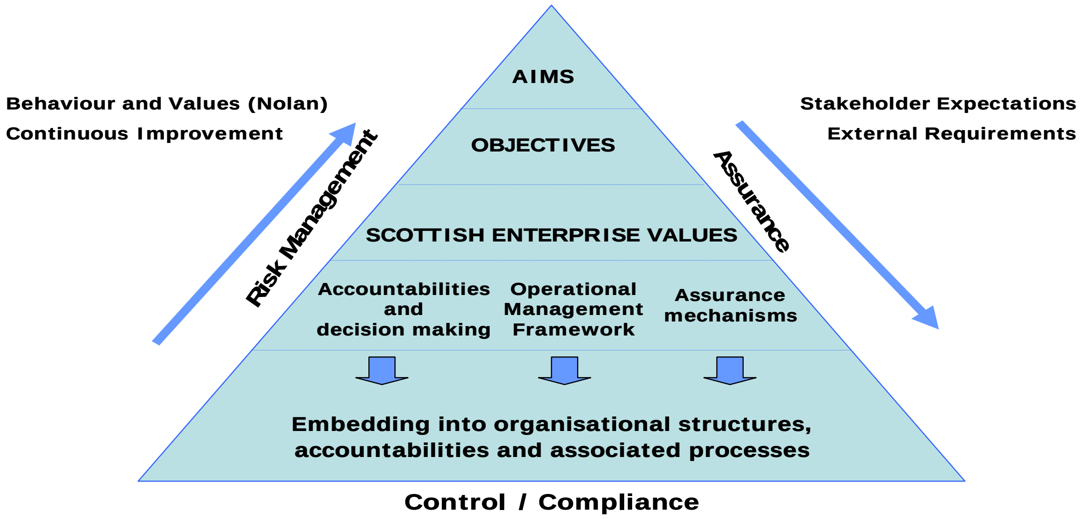
for the year ended 31 March 2013

Introduction

As Accountable Officer, I have responsibility for maintaining a Governance Framework which supports the achievement of the Scottish Enterprise Group's policies, aims and objectives, set by Scottish Ministers, whilst safeguarding the public funds and assets. Based on my own review and independent assurances received, it is my view that Scottish Enterprise has in place effective governance arrangements which are working well.

Scottish Enterprise Governance Framework

Scottish Enterprise's Governance framework incorporates the core principles of good governance and is summarised in the diagram below:



Aims and Objectives

Scottish Enterprise operates within the parameters of the Enterprise and New Towns (Scotland) Act 1990, which defines our purpose, and the Government Economic Strategy which sets out our strategic priorities. Each year, Scottish Enterprise publishes a rolling three year Business Plan which sets out how we will work collaboratively with industry sectors and the rest of the public sector, to make a valuable contribution to addressing the challenges facing the Scottish economy.

Scottish Enterprise Values

Scottish Enterprise Board

Scottish Enterprise Board members comply with the Scottish Government's 'On Board: A Guide for Board Members of Public Bodies in Scotland' which sets out the values and behaviours expected. This is complemented by compliance with the Scottish Enterprise Board's Code of Conduct, which reinforces these values and sets out how these will be applied within Scottish Enterprise.

Management and Staff

Guidance to staff is included in the Staff Handbook and in other key policies such as the Code of Conduct and Equal Opportunities. Scottish Enterprise values people who are "co-operative; driven by results; expert in their field; forward thinking and inspiring with every individual." The importance of how Scottish Enterprise achieves its goals is recognised within the 'i-review' staff performance system through the introduction of a set of five corporate behavioural statements, which are closely linked to Scottish Enterprise's values and against which staff's performance is measured.

Accountabilities and Decision Making

Scottish Enterprise complies with the Scottish Public Finance Manual and the Management Statement, which devolves powers to the Scottish Enterprise Board and the Scottish Enterprise Chief Executive.

Scottish Enterprise Board

The Scottish Enterprise Board is directly accountable to Scottish Ministers and through them to the Scottish Parliament. The Board is responsible for Scottish Enterprise's performance and for ensuring it delivers Scottish Ministers' policies and priorities. The Scottish Enterprise Board has established clear terms of reference and operating practices for itself and its

GOVERNANCE STATEMENT (continued)

six sub-Committees: Economic Policy; Nominations and Governance; Remuneration; Investment; Urgent Approvals and Audit. The Board meets monthly and has introduced agenda items with greater focus on feedback from Committees and further strategic discussions. The Board and its Committee's structure and terms of reference are regularly reviewed. The Board formally assesses its performance, including an assessment of its own effectiveness, on an annual basis. This includes consideration of members' attendance during the year.

Scottish Enterprise Chief Executive

As the Accountable Officer, I am personally accountable to the Scottish Parliament for the proper management of public funds and for ensuring these resources are used efficiently, economically and effectively.

Organisational Model

Scottish Enterprise has developed a single organisational model where there are clear lines of responsibility and accountability linked to budgets.

Operational Management Framework

The delivery of Scottish Enterprise's aims and objectives is supported by an operational framework comprising key corporate business processes and a wide range of control mechanisms, which ensure that: policies and strategies are put in place; values and principles are met; high quality services are delivered; laws and regulations are complied with; processes are in place and complied with; and financial statements and other published information are accurate, timely and comply with relevant standards and best practice.

These form an essential part of the overall system of internal control which is in place. 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. These span Scottish Enterprise's entire range of activities and include:

Strategy and Planning

Sectoral priorities and strategies are the key drivers of Scottish Enterprise's Operations. In developing Scottish Enterprise strategies and the Scottish Enterprise Business Plan, there is a clear framework in which Scottish Enterprise Board members and the Executive Leadership Team (ELT) take a leading role.

Resource Management

The Scottish Enterprise Project Lifecycle incorporates a strong, constructive, independent challenge to increase the quality of the project and programmes which Scottish Enterprise delivers and to ensure that they are driven by industry priorities. The Project Lifecycle also provides a best practice framework for the appraisal, approval and implementation of projects.

Performance Management

The Scottish Enterprise Business Plan sets out Scottish Enterprise priority targets which are monitored on a regular basis.

Budgetary Control

Budgets are approved on an annual basis as part of the Business Planning process. Scottish Enterprise has five main budget headings, which are aligned with the Business Plan. These headings are further analysed into business areas where there is clear accountability for the budget. The ELT and the Scottish Enterprise Board receive monthly reports on expenditure against budget together with an explanation for significant variances and the proposed corrective action.

Human Resources

The Staff Handbook clearly sets out staff responsibilities and the behaviours expected. Scottish Enterprise has maintained accreditation in Investors in People, which improves performance and achieves objectives through the management and development of staff.

Risk Management

The Scottish Enterprise Board has approved a risk management policy, which sets out Scottish Enterprise's approach, and is subject to annual review. In accordance with the policy, the Board determines risk tolerance, and obtains assurance from management that risks are being managed accordingly.

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 ELT 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.

GOVERNANCE STATEMENT (continued)

The Scottish Enterprise Board is made aware of and regularly reviews the key risks for the organisation. The Scottish Enterprise Board approves the Corporate Risk Register and formally discusses risk every two months at Scottish Enterprise Board meetings.

The Audit Committee is responsible for reviewing the effectiveness of the entire approach to risk management within the organisation. It received 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 ELT considers this necessary.

Assurance

Role of Scottish Enterprise Audit Committee

The Scottish Enterprise Board has established an Audit Committee to support them in their responsibilities for issues of risk, control, governance and associated assurance. The Audit Committee seeks assurances from a number of sources mainly via management, internal audit and external audit. This assurance draws attention to the aspects of risk management, governance and internal control that are functioning effectively and those that require attention/improvement. The Audit Committee adds to the value of assurances through challenge and has confidence in their reliability. The Audit Committee prepares an annual report which is considered by the Scottish Enterprise Board.

Management Assurance Statements

As Accountable Officer, I am required to provide a Certificate of Assurance to the Scottish Government on an annual basis. To enable the signing of this Statement, I require assurances on the maintenance and review of internal control systems throughout the organisation. All Scottish Enterprise ELT members and the major trading subsidiaries are required to sign a Certificate of Assurance for their areas of responsibility and accountability. In order to assist with this sign-off they will review their internal control arrangements supported by the completion of an Internal Control Checklist. To enhance assurances further we are currently working with Atos, our IT service provider, to implement an assurance framework and obtain an ISAE 3402 report.

I have confirmed for 2012/13 that controls have been, and are, working well within Scottish Enterprise. There are no significant matters arising which would require to be raised.

Internal Audit

Internal Audit provides independent assurance on the adequacy and effectiveness of the whole system of controls, financial management and others, which have been established to manage Scottish Enterprise business in a proper manner and ensure accountability for public funds. This assurance is mainly based on an extensive risk based programme of audits, which is approved by the Audit Committee.

For 2012/13 the overall conclusion of internal audit work carried out identifies a good level of assurance in the areas reviewed. A number of audit issues were highlighted during the year which were reported to the ELT and Audit Committee. All issues were addressed through an action plan and appropriate action has been taken to mitigate any losses and prevent future occurrence.

During the year Scottish Enterprise identified a fraud carried out by a member of staff. This has been fully investigated by internal audit. The investigation identified losses to SE totalling £26,300, relating to eleven fraudulent payments. The misappropriations were carried out by fraudulently amending the bank account records of several suppliers within BACS payment files prior to their transmission to SE's bank. These misappropriations have then been meticulously concealed using various methods. The Police have been fully informed and their investigation is ongoing.

External Audit

The Auditor General for Scotland is responsible for auditing the Scottish Enterprise consolidated accounts. The Auditor General has appointed Audit Scotland to undertake the statutory audit of Scottish Enterprise. Scottish Enterprise subsidiaries are subject to external audit by KPMG LLP.

The external auditors have given unqualified audit opinions on the accounts for the year ended 31 March 2013 and on the regularity of transactions reflected in the accounts. No further significant issues have been identified as part of their audit process

Lena C Wilson
Accountable Officer
28 June 2013

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

I have audited the financial statements of Scottish Enterprise for the year ended 31 March 2013 under the Enterprise and New Towns (Scotland) Act 1990. The financial statements comprise the Group Statement of Comprehensive Net Expenditure, the Group Statement of Financial Position, the Statement of Financial Position, the Group Statement of Cash Flows, the Group Statement of Changes in Taxpayers' Equity, the Statement of Changes in Taxpayers' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2012/13 Government Financial Reporting Manual (the 2012/13 FReM).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of Accountable Officer and auditor

As explained more fully in the Statement of Accountable Officer's Responsibilities the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements, irregularities, or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- 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 body's affairs as at 31 March 2013 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2012/13 FReM; and
- have been prepared in accordance with the requirements of the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers.

Opinion on regularity

In my opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

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

Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Governance Statement does not comply with guidance from the Scottish Ministers.

I have nothing to report in respect of these matters.

Brian Howarth ACMA CGMA
Assistant Director
Audit Scotland
4th Floor South Suite
The Athenaeum Building
8 Nelson Mandela Place
GLASGOW
G2 1BT

28 June 2013

GROUP STATEMENT OF COMPREHENSIVE NET EXPENDITURE

for the year ended 31 March 2013

	Notes	*2013* *£000*	*2012* *£000*
Expenditure			
Operating expenditure	3	181,673	208,524
Net management expenditure on staff costs	3	56,553	57,606
Other management expenditure, incl. depreciation	3	30,359	31,597
		268,585	297,727
Income			
Income from activities	2	(12,952)	(16,637)
Other Income	2	(34,042)	(30,314)
		(46,994)	(46,951)
Net Operating Expenditure		221,591	250,776
Share of losses in equity accounted investees	9	324	141
Income from investments	2	(298)	(377)
Interest receivable	2	(3,340)	(4,730)
Other finance income	2	(6,698)	(8,564)
Net Expenditure after interest		211,579	237,246
Taxation	6	91	164
Net Expenditure after taxation		211,670	237,410
Minority interests	23	86	(152)
Appropriations	10	379	34
Net Expenditure		212,135	237,292
Other Comprehensive Expenditure/ (Income)			
Net losses on revaluation of property, plant and equipment		3,991	758
Net losses/(gains) on revaluation of property, plant and equipment held by Equity Accounted Investee		41	(462)
Net gains in fair value of available for sale assets		(8,302)	(24,603)
Net actuarial losses/(gains) recognised in retirement benefit scheme		37,906	(15,494)
Other Comprehensive Net Expenditure for the year		33,636	(39,801)
Total Comprehensive Net Expenditure for the year		245,771	197,491

The notes on pages 38 to 82 form part of these accounts.

GROUP STATEMENT OF FINANCIAL POSITION
as at 31 March 2013

	Notes	*2013 £000*	*2012 £000*
NON-CURRENT ASSETS			
Property, plant and equipment	7	193,414	189,898
Intangible assets	8	-	-
		193,414	189,898
Financial assets			
Investments in equity accounted investees	9	8,777	7,716
Other investments	10	151,719	134,487
Total financial assets		160,496	142,203
Retirement benefit scheme	5	25,799	58,516
Other non-current receivables	12	3,315	3,586
TOTAL NON-CURRENT ASSETS		383,024	394,203
CURRENT ASSETS			
Other investments	10	7,555	4,788
Assets classified as held for sale	13	2,350	4,305
Inventories	14	115	101
Income tax receivable		1	68
Trade and other receivables	15	24,799	22,181
Cash and cash equivalents	16	92,119	92,506
TOTAL CURRENT ASSETS		126,939	123,949
TOTAL ASSETS		509,963	518,152
CURRENT LIABILITIES			
Trade and other payables	17	(43,636)	(39,589)
Income tax payable		(95)	(24)
Provisions	18	(7)	(43)
TOTAL CURRENT LIABILITIES		(43,738)	(39,656)
NON-CURRENT ASSETS PLUS NET CURRENT ASSETS		466,225	478,496
NON-CURRENT LIABILITIES			
Other payables	17	(2,989)	(4,966)
TOTAL NON-CURRENT LIABILITIES		(2,989)	(4,966)
ASSETS LESS LIABILITIES		463,236	473,530
MINORITY INTERESTS	23	(1,510)	(1,424)
		461,726	472,106
TAXPAYERS' EQUITY			
General Reserve		381,564	390,810
Specific Reserve		1,705	1,618
Revaluation Reserve		78,457	79,678
TOTAL EQUITY		461,726	472,106

The notes on pages 38 to 82 form part of these accounts.

The accountable officer authorised these financial statements for issue on 28 June 2013.

Lena C Wilson
Accountable Officer
28 June 2013

STATEMENT OF FINANCIAL POSITION
as at 31 March 2013

	Notes	*2013 £000*	*2012 £000*
NON-CURRENT ASSETS			
Property, plant and equipment	7	148,751	143,767
Intangible assets	8	-	-
		148,751	143,767
Financial assets			
Other investments	10	161,762	142,668
Retirement benefit scheme	5	25,799	58,516
Other non-current receivables	12	18,726	19,985
TOTAL NON-CURRENT ASSETS		355,038	364,936
CURRENT ASSETS			
Other investments	10	7,303	4,216
Assets classified as held for sale	13	2,350	4,305
Trade and other receivables	15	22,658	20,112
Income tax receivable		-	-
Cash and cash equivalents	16	84,481	84,867
TOTAL CURRENT ASSETS		116,792	113,500
TOTAL ASSETS		471,830	478,436
CURRENT LIABILITIES			
Trade and other payables	17	(42,630)	(37,759)
Provisions	18	(7)	(43)
TOTAL CURRENT LIABILITIES		(42,637)	(37,802)
NON-CURRENT ASSETS PLUS NET CURRENT ASSETS		429,193	440,634
NON-CURRENT LIABILITIES			
Other payables	17	(2,989)	(4,966)
TOTAL NON-CURRENT LIABILITIES		(2,989)	(4,966)
ASSETS LESS LIABILITIES		426,204	435,668
TAXPAYERS' EQUITY			
General Reserve		367,800	377,607
Revaluation Reserve		58,404	58,061
TOTAL EQUITY		426,204	435,668

The notes on pages 38 to 82 form part of these accounts.

The accountable officer authorised these financial statements for issue on 28 June 2013.

Lena C Wilson
Accountable Officer
28 June 2013

GROUP STATEMENT OF CASH FLOWS
for the year ended 31 March 2013

	Notes	2013 £000	2012 £000
Cash flows from operating activities			
Net expenditure after interest		(211,579)	(237,246)
Adjustments for:			
Depreciation and assets written off		1,522	2,696
Increase in investment provision and write off		9,989	23,014
Property revaluation deficit		6,192	12,096
Investment revaluation deficit		4,498	159
Interest receivable	2	(3,340)	(4,730)
Dividends received	2	(298)	(377)
Retirement benefit scheme net charges		(5,189)	(7,343)
Share of loss in equity accounted investees	9	324	141
Transfer of interests in equity accounted investees		-	188
Surplus on disposal of property, plant and equipment	2	(370)	(2,025)
Surplus on disposal of investments	2	(618)	(2,587)
		(198,869)	(216,014)
Increase in inventories		(14)	(5)
(Increase)/Decrease in trade and other receivables		(1,129)	2,188
Increase/(Decrease) in trade payables		3,728	(2,485)
(Decrease)/Increase in provision for future liabilities		(36)	2
		(196,320)	(216,314)
Income tax expense		47	(171)
Appropriations paid		-	-
Net cash outflow from operating activities		(196,273)	(216,485)
Cash flows from investing activities			
Proceeds of disposal of property, plant and equipment		3,156	3,836
Proceeds of disposal of financial assets		4,319	3,631
Repayments of other investments		5,621	831
Interest received		1,915	1,610
Dividends received		298	377
Distributions received from equity accounted investees	9	-	91
Purchase of property, plant and equipment		(18,789)	(15,190)
Purchase of financial assets		(36,025)	(33,453)
Net cash outflow from investing activities		(39,505)	(38,267)
Cash flows from financing activities			
Grants from Scottish Government		235,391	245,288
Net cash inflow from financing activities		235,391	245,288
Net decrease in cash and cash equivalents in the period		(387)	(9,464)
Cash and cash equivalents at the beginning of the period	16	92,506	101,970
Cash and cash equivalents at the end of the period	16	92,119	92,506

The notes on pages 38 to 82 form part of these accounts.

GROUP STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

for the year ended 31 March 2013

	General Reserve £000	*Specific Reserve £000*	*Revaluation Reserve £000*	*Total £000*
Balance at 1 April 2011	364,642	2,481	57,186	424,309
Net expenditure during the year	(237,013)	(279)	-	(237,292)
Actuarial gains in retirement benefit scheme	15,494	-	-	15,494
Transfer of LEC reserves	591	(591)	-	-
Surpluses on revaluation of investments	99	7	24,497	24,603
Surpluses on revaluation of property, plant & equipment held by Equity Accounted Investees (Note 9)	-	-	462	462
Surpluses / (deficits) on revaluation of property, plant and equipment	1,709	-	(2,467)	(758)
Total recognised income and expense for year to 31 March 2012	(219,120)	(863)	22,492	(197,491)
Grant in Aid from Scottish Government	245,288	-	-	245,288
Balance at 31 March 2012	390,810	1,618	79,678	472,106
Net expenditure during the year	(211,949)	(186)		(212,135)
Actuarial losses in retirement benefit scheme	(37,906)	-	-	(37,906)
Surpluses on revaluation of investments	4,232	273	3,797	8,302
Deficits on revaluation of property, plant & equipment held by Equity Accounted Investees (Note 9)	-	-	(41)	(41)
Surpluses / (deficits) on revaluation of property, plant and equipment	986		(4,977)	(3,991)
Total recognised income and expense for year to 31 March 2013	(244,637)	87	(1,221)	(245,771)
Grant in Aid from Scottish Government	235,391	-	-	235,391
At 31 March 2013	381,564	1,705	78,457	461,726

The General Reserve 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 £8,315m (2012: £8,080m). The grant in aid provision of £235m for 2012/13 included £71.5m 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 £78m (2012: £80m) is £45m (2012: £50m) attributable to net unrealised surpluses on Land and Buildings.

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

for the year ended 31 March 2013

	General Reserve £000	*Revaluation Reserve £000*	*Total £000*
Balance at 1 April 2011	342,432	33,688	376,120
Net expenditure during the year	(225,994)	-	(225,994)
Actuarial gains in retirement benefit scheme	15,494	-	15,494
Surpluses on revaluation of investments	99	24,270	24,369
Surpluses / (deficits) on revaluation of property, plant and equipment	288	103	391
Total recognised income and expense for year to 31 March 2012	(210,113)	24,373	(185,740)
Grant in Aid from Scottish Government	245,288	-	245,288
Balance at 31 March 2012	377,607	58,061	435,668
Net expenditure during the year	(211,851)	-	(211,851)
Actuarial losses in retirement benefit scheme	(37,906)	-	(37,906)
Surpluses on revaluation of investments	4,232	3,798	8,030
Surpluses / (deficits) on revaluation of property, plant and equipment	327	(3,455)	(3,128)
Total recognised income and expense for year to 31 March 2013	(245,198)	343	(244,855)
Grant in Aid from Scottish Government	235,391	-	235,391
Balance at 31 March 2013	367,800	58,404	426,205

Included within the Revaluation Reserve total of £58m (2012: £58m) is £26m (2012: £29m) attributable to net unrealised surpluses on Land and Buildings.

The General Reserve 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 £8,315m (2012: £8,080m). The grant in aid provision of £235m for 2012/13 included £71.5m in respect of net capital expenditure.

STATEMENT OF ACCOUNTING POLICIES

1. Basis of preparation

The Group and Scottish Enterprise accounts are prepared in accordance with Section 30(1) of the Enterprise and New Towns (Scotland) Act 1990 and the Accounts Direction from the Scottish Ministers.

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.

Change in accounting policy and restatement

The accounting policies have been applied consistently for all periods presented in the Group and Scottish Enterprise accounts.

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:

Retirement benefit assets (Note 5)
Land and property (Note 7)
Financial assets (Note 10)
Assets classified as held for sale (Note 13)

The Board and Accountable Officer have considered the Resource Budget for 2013/14, 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 2013/14 are given in the Management Commentary. Details of the liquidity position are given in Note 24.

2. Basis of consolidation

The Group Accounts consolidate the accounts of Scottish Enterprise and all its subsidiary undertakings drawn up to 31 March each year unless otherwise noted.

No Statement of Comprehensive Net Expenditure 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.

(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.

STATEMENT OF ACCOUNTING POLICIES (continued)

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Scottish Enterprise uses the most recent available financial statements in applying the equity method. In cases where the reporting date of the associate differs from Scottish Enterprise, adjustments are made for any significant transactions or events that occur between that date and the date of these financial statements.

The Group's investments include 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 investment holdings taken will be disposed of at the earliest opportunity. Scottish Enterprise's role is to provide funding, primarily alongside venture capital co-investment partners, to individual companies to drive economic growth in Scotland 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 financial and operating policies.

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 Reserve and the net cost of activities funded by Grant in Aid is charged to this reserve.

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 Royal Institution of Chartered Surveyors Valuation Standards 2012 (Red Book) and specifically the basis valuation for IFRS.

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 Statement of Comprehensive Net Expenditure.

Increases that offset previous decreases charged to the Statement of Comprehensive Net Expenditure on the same asset are credited to the Statement of Comprehensive Net Expenditure 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 Reserve.

Land is not depreciated.

(b) Property

A policy of revaluation has been adopted in respect of property assets owned by Scottish Enterprise including any property 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 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.

Assets under construction are shown at cost. Once completed these assets are reclassified into land and buildings and are revalued at fair value. Increases or decreases in value at the time of the first professional revaluation are accounted for on the same basis as other revaluation movements noted below.

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 Statement of Comprehensive Net

STATEMENT OF ACCOUNTING POLICIES (continued)

Expenditure on the same asset. In these cases increases are credited to the Statement of Comprehensive Net Expenditure 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 Statement of Comprehensive Net Expenditure.

When revalued assets are sold, the amounts included in the Revaluation Reserve are transferred to the General Reserve.

Depreciation is charged to the Statement of Comprehensive Net Expenditure on the revalued amount of each property less the 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 the date of each Statement of Financial Position.

The difference between depreciation based on the revalued carrying amount of the asset charged to the Statement of Comprehensive Net Expenditure and depreciation based on the asset's original cost is transferred from the Revaluation Reserve to the General Reserve.

When depreciation has been charged to the Statement of Comprehensive Net Expenditure based on a revalued amount an amount equivalent to the excess depreciation over that which would have been charged on the cost of the asset, is transferred from Revaluation Reserve to the General Reserve.

(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 to allocate their cost to their residual values over their estimated useful lives as follows:-

Transport Equipment	over 4 years
Plant and Equipment	over 4 years
Information Technology	over 3 years
Furniture and Fittings	over 4 years
Leasehold Improvements	over 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the date of each Statement of Financial Position.

(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 Statement of Comprehensive Net Expenditure 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.

STATEMENT OF ACCOUNTING POLICIES (continued)

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.

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 date of the Statement of Financial Position 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 date of each Statement of Financial Position. 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 non-current assets, except for those with maturities less than 12 months after the date of each Statement of Financial Position, which are classified as 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 Statement of Comprehensive Net Expenditure. 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 Statement of Comprehensive Net Expenditure.

STATEMENT OF ACCOUNTING POLICIES (continued)

(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 date of each Statement of Financial Position.

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

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 Statement of Comprehensive Net Expenditure.

At the date of each Statement of Financial Position 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 Statement of Comprehensive Net Expenditure is recognised in the Statement of Comprehensive Net Expenditure.

(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 Statement of Comprehensive Net Expenditure in the year in which they are incurred.

8. Assets held by Local Enterprise Companies

Under the terms of the operating contract with the Local Enterprise Companies all sums arising from the disposal of assets and investments held in their own name but funded by Scottish Enterprise fell to be repaid to Scottish Enterprise.

On 29 March 2012, the Local Enterprise Companies agreed to transfer their property interests and their interest in specified shares and loans to Scottish Enterprise for no consideration. During 2012/13 three Local Enterprise

STATEMENT OF ACCOUNTING POLICIES (continued)

Companies transferred their remaining interest in shares and loans to Scottish Enterprise, also for no consideration.

A small number of financial assets are retained by one of the Local Enterprise Companies pending resolution of outstanding financial or legal matters and the net book value of these investments remains as a balance ultimately due to Scottish Enterprise on realisation.

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.

Income is stated net of VAT where applicable.

11. European funding

European funding is credited to the Statement of Comprehensive Net Expenditure 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 Statement of Comprehensive Net Expenditure 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 Statement of Comprehensive Net Expenditure 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 Statement of Comprehensive Net Expenditure, 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 date of the Statement of Financial Position 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

STATEMENT OF ACCOUNTING POLICIES (continued)

tax rates enacted or substantively enacted at the date of the Statement of Financial Position. 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 asset recognised in the Statement of Financial Position in respect of a defined benefit plan is the fair value of plan assets less the present value of the defined benefit obligation at the date of the Statement of Financial Position, 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.

The expected return on the plan's assets less the interest cost of the plans' obligations is recognised in the Statement of Comprehensive Net Expenditure 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' obligations represents the increase in obligations 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 Statement of Comprehensive Net Expenditure, 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 date of the Statement of Financial Position.

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 Statement of Comprehensive Net Expenditure.

STATEMENT OF ACCOUNTING POLICIES (continued)

17. 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 twelve months or less.

18. Financial Liabilities

Classification

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

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

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 Statement of Financial Position 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.

19. 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.

20. 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.

STATEMENT OF ACCOUNTING POLICIES (continued)

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 the date of each Statement of Financial Position.

(c) Held-to-maturity investments

The Group follows the IAS 39 *Financial Instruments: recognition and measurement* 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.

22. Accounting standards issued not yet adopted

There are a number of new accounting standards have been issued but have not yet been applied by the group in these financial statements. The standards that are considered relevant to the group and the anticipated impact on the consolidated accounts are as follows:

- IAS 1 – Presentation of financial statements (Other Comprehensive Income)
  Mandatory for accounting periods commencing on or after 1 June 2012. The adoption of this standard will result in presentational changes to the consolidated accounts.

- IAS19 – Post-employment benefits (pensions)
  Mandatory for accounting periods commencing on or after 1 January 2013. The adoption of this standard will result in a change to the net expense recognised in the statement of comprehensive net expenditure due to the effective replacement of the expected rate of return on assets with the discount rate on the net interest cost and other changes to the treatment of interest on the service cost and administration expenses. If the amended standard had been adopted for the year ended 31 March 2013 the net expense recognised in the statement of comprehensive net expenditure would have increased by £4.241m with a corresponding decrease in the losses included as other comprehensive expenditure.

- IFRS 9 – Financial Instruments
  Mandatory for accounting periods commencing on or after 1 January 2015. The adoption of this standard could change the classification and measurement of financial assets. The impact on the consolidated accounts has not been determined.

- IFRS 10 – Consolidated Financial Statements
  IFRS 11 – Joint Arrangements
  IFRS 12 – Disclosure of Interests in Other Entities
  IAS 27 – Separate Financial Statements
  IAS 28 – Investments in Associated and Joint Ventures
  Mandatory for accounting periods commencing on or after 1 January 2013. The adoption of these standards affects the consolidation and reporting of subsidiaries, associated and joint ventures. The impact on the consolidated accounts has not been determined.

STATEMENT OF ACCOUNTING POLICIES (continued)

- IFRS 13 – Fair Value Measurement
  Mandatory for accounting periods commencing on or after 1 January 2013. The adoption of this standard could change the measurement techniques used when determining fair value. The impact on the consolidated accounts has not been determined.

NOTES TO THE ACCOUNTS

1. EXPENDITURE

	2013	*2012*
	£000	*£000*
Operating Expenditure	181,673	208,524
Management Expenditure	86,912	89,203
Expenditure noted above includes:		
Rentals under operating leases		
Buildings	4,893	5,229
Other	120	128
Foreign exchange (gains) / losses	(5)	44
Depreciation	5,353	6,360
Auditors' remuneration		
- audit of these accounts (i)	151	159
Amounts paid to other auditors in respect of:		
- audit of subsidiary companies' accounts	65	80
- non-audit fees	112	345
	177	425

(i) The auditors of Scottish Enterprise, appointed by the Auditor General for Scotland, are Audit Scotland.

2. INCOME

	2013	*2012*
	£000	*£000*
Income from Activities		
Property Services:		
Rents	7,753	7,662
Sundry property income	4,211	4,363
Surplus on disposal of property	370	2,025
Investment Management:		
Surplus on disposal of investments and equity accounted investees	618	2,587
	12,952	16,637
Other Income		
European Funding	14,072	14,001
Contributions and other fees	19,970	16,313
	34,042	30,314
Income from Investments		
Dividends and other investment income	298	377
Interest Receivable	3,340	4,730
Other Finance Income/(Charges)		
Expected return on retirement benefit scheme assets	27,557	32,700
Interest on retirement benefit scheme obligations	(20,859)	(24,136)
	6,698	8,564

NOTES TO THE ACCOUNTS (continued)

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 Leadership Team 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.

	2013 *£000*	*2012* *£000*
Operating Expenditure		
Supporting Globally Competitive Businesses		
Account Management & Specialist Advisory Services	18,263	11,833
Innovation and R&D Support	16,129	17,540
Enterprise Support Programme	5,761	6,535
Internationalisation	18,620	14,960
Commercialisation	8,387	9,650
Regional Selective Assistance and SMART Support	36,736	36,122
Supporting Globally Competitive Sectors		
Industry Sector Project Support	13,751	13,057
Globally Competitive Business Environment		
Business Infrastructure Projects	36,894	47,054
Equity Investment & Loans	12,275	23,925
Urban & Local Regeneration	-	12,110
Property Portfolio Operational Costs	7,362	7,217
Marketing, Research and Stakeholder Engagement		
Marketing & Research – Domestic	2,641	2,438
Marketing & Research – Overseas	4,854	6,083
Total Segmental Expenditure	181,673	208,524
Management Expenditure		
Management expenditure on staff costs	56,553	57,606
Premises, ICT, business services and other management costs	30,359	31,597
	86,912	89,203
Income	(46,994)	(46,951)
Net Operating Expenditure	221,591	250,776

4. PEOPLE COSTS AND NUMBERS

		2013 *£*	*2012* *£*
(a)	**Non-executive board members**		
	Remuneration (i)	166,363	173,283
	Pension and social security costs	26,358	26,454
		192,721	199,737
	Chairman's remuneration	38,721	38,721

(i) Remuneration paid to non-executive board members is detailed in the Remuneration Report.

(ii) Scottish Enterprise's Chief Executive, Lena Wilson, is also a member of the board. Her 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 £162,000 (2012: £157,000) within the total retirement benefit liabilities at 31 March 2013, as assessed by Mercer Limited, Scottish Enterprise's advising actuaries.

NOTES TO THE ACCOUNTS (continued)

(iv) During the year the following transactions were conducted between Scottish Enterprise and businesses in which Scottish Enterprise board members had declared 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.

Company	Board Member	Position	£	Description
Standard Life plc	Crawford Gillies	Director	2,467,479	Office Rental and Insurance
Ateeda Limited	Crawford Gillies	Shareholder	263,720	Equity Investment
			59,355	Grant funding
Appshare Limited	Crawford Gillies	Shareholder	65,053	Equity investment
			8,499	Grant funding
Cascade Technologies Limited	Crawford Gillies	Shareholder	63,707	Grant funding
Conjunct Limited	Crawford Gillies	Shareholder	15,109	Grant funding
Ciqual Limited	Crawford Gillies	Shareholder	192,792	Loan
			166,996	Grant Funding
Calcivis Limited	Crawford Gillies	Shareholder	11,000	Grant funding
			265,131	Equity Investment
Design LED Products Limited	Crawford Gillies	Shareholder	11,269	Grant funding
Ectopharma Limited	Crawford Gillies	Shareholder	7,727	Grant funding
Mled Limited	Crawford Gillies	Shareholder	149,821	Equity Investment
			18,340	Grant funding
Powerphotonic Limited	Crawford Gillies	Shareholder	139,910	Equity investment
			30,000	Grant funding
Pufferfish Limited	Crawford Gillies	Shareholder	12,674	Grant funding
			4,510	Supply of equipment
Pyreos Limited	Crawford Gillies	Shareholder	23,003	Grant funding
Touch EMAS Limited	Crawford Gillies	Shareholder	25,767	Grant funding
Vascular Flow Technologies Limited	Crawford Gillies	Shareholder	11,687	Grant funding
Vitrology Limited	Crawford Gillies	Shareholder	1,700	Grant funding
Mitie Group plc	Crawford Gillies	Director	439,391	Cleaning and FM services
ITS Testing Services (UK) Limited (subsidiary of Intertek Group plc)	Lena Wilson	Director (parent company)	6,598	Grant funding
University of Strathclyde	Jim McDonald	Principal and Vice Chancellor	9,324,006	Grant funding and joint project costs
Business & Enterprise Group	Russel Griggs	Director	52,776	Event sponsorship and programme delivery.
Institute of Occupational Medicine	Russel Griggs	Chairman	50,012	Grant funding
The Royal Zoological Society of Edinburgh	Jeremy Peat	Director	41,672	Grant funding
David Hume Institute	Jeremy Peat	Director	2,600	Subscription and sponsorship
Giltech Limited	Gillian Watson	Shareholder	132,220	Grant funding

NOTES TO THE ACCOUNTS (continued)

(v) Scottish Enterprise transacted with the following organisations in which a board member has a non-financial interest:

Organisation	**Board Member**	**Position**
Skills Development Scotland	Graeme Waddell	Non executive director
Glasgow Caledonian University	Graeme Waddell	Member, Business Advisory Board
Edinburgh Military Tattoo	Lena Wilson	Ambassador
Glasgow Airport	John McGlynn	Ambassador
CBI	Linda Urquhart	Board member
Dumfries and Galloway College	Russel Griggs	Chair

(b) Staff costs comprise:

	Permanent staff £000	*Others £000*	*2013 £000*	*2012 £000*
Wages and salaries	46,278	-	46,278	45,582
Social security costs	3,865	-	3,865	3,785
Pension costs	8,466	-	8,466	8,847
Inward seconded and temporary staff costs	-	487	487	465
Travel and subsistence	2,391	-	2,391	2,199
Less: recoveries in respect of outward secondments	(726)	-	(726)	(1,429)
	60,274	487	60,761	59,449
Severance costs	561	-	561	1,770
Total staff costs	60,835	487	61,322	61,219

(c) Staff costs are included in the Statement of comprehensive net expenditure as follows:-

	2013 £000	*2012 £000*
Operating expenditure	5,495	5,042
Management expenditure on staff costs	56,553	57,606
Other Income	(726)	(1,429)
	61,322	61,219

NOTES TO THE ACCOUNTS (continued)

(d) Severance costs

The number of staff who left or agreed to leave Scottish Enterprise under voluntary severance in the year to 31 March 2013 amounted to 3 (2012: 18), at a total cost of £539,908 (2012: £1,712,628). This comprises payments to individuals of £284,108 (2012: £1,120,428) for compensation for loss of office and pay in lieu of notice and payments to the Scottish Enterprise Pension & Life Assurance Scheme of £255,800 (2012: £592,200) which are based on actuarial calculations in relation to future pension benefits. The full cost is included as a provision for staff who have agreed to leave during 2013/14. In addition to the staff leaving under voluntary severance there were a further 3 (2012: 7) individuals who left Scottish Enterprise or a subsidiary company at a cost of £21,202 (2012: £93,086).

Exit package cost band	*Compulsory redundancies No.*	*Other departures agreed No.*	*Total 2013 No.*	*Total 2012 No.*
< £10,000	2	-	2	2
£10,000 - £25,000	1	-	1	8
£25,000 - £50,000	-	-	-	5
£50,000 - £75,000	-	-	-	4
£75,000 - £100,000	-	1	1	-
£100,000 - £150,000	-	-	-	4
£150,000 - £200,000	-	1	1	1
£200,000 - £250,000	-	-	-	-
£250,000 - £300,000	-	1	1	-
£300,000 - £350,000	-	-	-	-
£350,000 - £400,000	-	-	-	-
£400,000 - £450,000	-	-	-	-
£450,000 - £500,000	-	-	-	-
£500,000 - £550,000	-	-	-	1
£550,000 - £600,000	-	-	-	-
	3	3	6	25

Compulsory redundancies occurred on the closure of one of Scottish Enterprise's subsidiary companies, Scottish Stem Cell Network Limited.

The total cost of exit packages in the year to 31 March 2013 amounted to £561,110 (2012: £1,805,714).

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

	Permanent staff No.	*Others No.*	*2013 No.*	*2012 No.*
Executive Leadership Team	8	-	8	8
Operations	968	-	968	941
Administration and support function	297	-	297	305
Inward Secondments and temporary staff	-	9	9	8
	1,273	9	1,282	1,262

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.

A full actuarial valuation of the Scottish Enterprise Pension & Life Assurance Scheme was carried out using membership data at 31 March 2011 and the results of that valuation have been projected to 31 March 2013 by Mercer Limited, qualified independent actuaries. The next formal valuation is due at 31 March 2014.

	2013	*2012*
	£000	*£000*
Present value of funded defined benefit obligations	(522,919)	(427,337)
Fair value of plan assets	548,718	485,853
Recognised surplus in the scheme	25,799	58,516

Movements in the present value of defined benefit obligations

	2013	*2012*
	£000	*£000*
At 1 April	(427,337)	(439,474)
Current service cost	(8,265)	(8,615)
Past service cost	(128)	(464)
Interest cost	(20,859)	(24,136)
Actuarial (losses) / gains	(78,086)	35,015
Benefits paid	14,008	12,555
Contributions by members	(2,252)	(2,218)
	(522,919)	(427,337)

Movements in the present value of defined benefit scheme assets

	2013	*2012*
	£000	*£000*
At 1 April	485,853	475,153
Expected return on plan assets	27,557	32,700
Actuarial gains / (losses)	40,180	(19,521)
Contributions by the employer	6,884	7,858
Contributions by members	2,252	2,218
Benefits paid by the plan	(14,008)	(12,555)
	548,718	485,853

Expense recognised in the Statement of comprehensive net expenditure

	2013	*2012*
	£000	*£000*
Current service cost	8,265	8,615
Past service cost	128	464
Expected return on retirement benefit scheme assets	(27,557)	(32,700)
Interest on retirement benefit scheme obligations	20,859	24,136
Total retirement benefit scheme expense	1,695	515

NOTES TO THE ACCOUNTS (continued)

The expense is recognised in the following lines in the Statement of comprehensive net expenditure

	2013	*2012*
	£000	*£000*
Management Expenditure	8,393	9,079
Other Finance Income	(6,698)	(8,564)
	1,695	515

The total loss amount recognised in the statement of other comprehensive income in respect of net actuarial gains and losses is £37,906,000 (2012: £15,494,000 (gain)).

Cumulative actuarial gains and losses recognised in the statement of other comprehensive income since 1 April 2002 are net losses of £42,992,000 (2012: £5,086,000 (losses))

The fair value and the expected rates of return on scheme assets at 31 March 2013 were as follows:

		2013		*2012*
	Long term return	*Value £m*	*Long term return*	*Value £m*
Equities	5.80%	377.8	6.10%	354.3
Corporate Bonds	2.80%	68.2	4.60%	66.2
Property	4.80%	47.8	5.10%	49.0
Gilts	2.80%	53.5	3.10%	14.5
Cash	2.30%	1.4	2.60%	1.9
Total fair value of assets	5.20%	548.7	5.70%	485.9

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

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

	2013 % per annum	*2012 % per annum*
Discount rate	4.20%	4.90%
Expected rate of return on plan assets	5.20%	5.70%
Future salary increases	3.40%	3.30%
Rate of increase in retirement benefits	2.50%	2.40%
Price inflation	2.50%	2.40%

The assumptions relating to longevity underlying the retirement benefit obligations at the date of the statement of financial position 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:-

	2013 Years	*2012 Years*
Male – at the current retirement age of 60	30.6	30.5
Male – future retiree	31.7	31.6
Female – at the current retirement age of 60	30.0	29.9
Female – future retiree	30.0	29.9

NOTES TO THE ACCOUNTS (continued)

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 periods prior to 2011 is as follows:

	2013 *£000*	*2012* *£000*	*2011* *£000*	*2010* *£000*	*2009* *£000*
Fair value of plan assets	548,718	485,853	475,153	437,310	321,371
Present value of defined benefit obligation	(522,919)	(427,337)	(439,474)	(481,836)	(327,642)
Surplus / (deficit)	25,799	58,516	35,679	(44,526)	(6,271)
Experience adjustments on scheme assets	40,180 7.3%	(19,521) (4.0%)	20,109 4.2%	95,413 21.8%	(129,327) (40.2%)
Experience adjustments on scheme obligations	152 0.0%	(45,012) (10.5%)	3,364 0.7%	6,500 1.3%	28,234 8.6%
Total actuarial (losses) / gains on obligation	(78,086) (14.9%)	35,015 8.2%	47,652 10.8%	(133,265) (27.7%)	71,306 21.8%

A reduction in the net discount rate will increase the value of scheme obligations. The overall effect of a change in the net discount rate of 0.10% would increase / decrease scheme obligations by approximately 2% (£10.9m) at March 2013. The effect of increasing the assumed life expectancies by one year would be to increase the value of obligations by approximately 2% (£11.0m) at 31 March 2013.

During the year to 31 March 2014, Scottish Enterprise estimates that contributions of £7.6m will be paid to the Scottish Enterprise Pension & Life Assurance Scheme.

6. TAXATION

	2013 *£000*	*2012* *£000*
UK Corporation tax @ 24% (2012: 26%)	97	163
Corporation tax under/(over) provided in previous years	(6)	1
	91	164
Share of equity accounted investees' tax	-	-
Total current tax	91	164

Factors affecting current tax charge:

	2013 *£000*	*2012* *£000*
Net expenditure after interest	211,579	237,246
Current tax @ 24% (2012: 26%)	(50,779)	(61,684)
Effect of:		
Non-taxable income and disallowed expenditure	50,876	61,847
Capital allowances		-
Tax under/(over) provided in previous years	(6)	1
Current tax charge	91	164

NOTES TO THE ACCOUNTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT

GROUP

	Land	Buildings	Assets Under Construction	Transport Equipment	Plant and Equipment	Information Technology	Furniture & Fittings	Leasehold Improvement	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost and valuation									
At 1 April 2012	104,726	83,742	295	167	20,230	4,151	3,259	613	217,183
Reclassification	-	(2,801)	-	-	-	-	-	2,801	-
Additions	6,745	692	5,554	30	1,781	21	128	1,801	16,752
Disposals	(650)	(1,210)	-	(37)	(1,953)	(18)	(19)	-	(3,887)
Transfer from/(to) Held for Sale	(725)	650	-	-	-	-	-	-	(75)
Written off	-	-	-	-	-	-	-	-	-
Revaluation	(5,407)	(4,626)	-	-	-	-	-	-	(10,033)
At 31 March 2013	104,689	76,447	5,849	160	20,058	4,154	3,368	5,215	219,940
Depreciation									
At 1 April 2012	-	332	-	106	19,862	4,022	2,545	418	27,285
Reclassification	-	(280)	-	-	-	-	-	280	-
Charge for year	-	4,039	-	40	302	90	390	492	5,353
Revaluation	-	(3,831)	-	-	-	-	-	-	(3,831)
Disposals	-	(260)	-	(32)	(1,953)	(17)	(19)	-	(2,281)
Written Off	-	-	-	-	-	-	-	-	-
At 31 March 2013	-	-	-	114	18,211	4,095	2,916	1,190	26,526
Net book value									
At 31 March 2013	104,689	76,447	5,849	46	1,847	59	452	4,025	193,414
At 31 March 2012	104,726	83,410	295	61	368	129	714	195	189,898
Asset financing									
Owned	104,689	76,447	5,849	46	1,847	59	452	4,025	193,414
Net book value									
At 31 March 2013	104,689	76,447	5,849	46	1,847	59	452	4,025	193,414

Included within Land is land on long leasehold (over 50 years) with a value of £Nil (2012: £Nil).

Land & Buildings held for industrial and commercial use were valued at 31 March 2013 by James Barr, Chartered Surveyors, on a fair value basis as defined in the Valuation Standards 2012 (Red Book) issued by The Royal Institution of Chartered Surveyors and had a total value of £181m (2012: £188m).

Within 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 2013 the net carrying value of leased equipment was £Nil (2012: £Nil).

NOTES TO THE ACCOUNTS (continued)

GROUP

	Land	*Buildings*	*Assets Under Construction*	*Transport Equipment*	*Plant and Equipment*	*Information Technology*	*Furniture & Fittings*	*Leasehold Improvement*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Cost and valuation									
At 1 April 2011	106,011	74,483	9,958	162	19,983	4,493	2,855	888	218,833
Reclassification	-	9,958	(9,958)	-	-	-	-	-	-
Additions	3,601	8,951	295	33	301	131	506	67	13,885
Disposals	(1,507)	(95)	-	(28)	(54)	(473)	(102)	(29)	(2,288)
Transfer to Held for Sale	(80)	-	-	-	-	-	-	-	(80)
Written off	-	-	-	-	-	-	-	(313)	(313)
Revaluation	(3,299)	(9,555)	-	-	-	-	-	-	(12,854)
At 31 March 2012	104,726	83,742	295	167	20,230	4,151	3,259	613	217,183
Depreciation									
At 1 April 2011	-	26	-	88	18,575	4,037	2,255	597	25,578
Charge for year	-	4,103	-	42	1,341	452	392	30	6,360
Revaluation	-	(3,797)	-	-	-	-	-	-	(3,797)
Disposals	-	-	-	(24)	(54)	(467)	(102)	(29)	(676)
Written Off	-	-	-	-	-	-	-	(180)	(180)
At 31 March 2012	-	332	-	106	19,862	4,022	2,545	418	27,285
Net book value									
At 31 March 2012	104,726	83,410	295	61	368	129	714	195	189,898
At 31 March 2011	106,011	74,457	9,958	74	1,408	456	600	291	193,255
Asset financing									
Owned	104,726	83,410	295	61	368	129	714	195	189,898
Net book value									
At 31 March 2012	104,726	83,410	295	61	368	129	714	195	189,898

NOTES TO THE ACCOUNTS (continued)

SCOTTISH ENTERPRISE

	Land	*Buildings*	*Assets Under Construction*	*Transport Equipment*	*Plant and Equipment*	*Information Technology*	*Furniture & Fittings*	*Leasehold Improvement*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Cost and valuation									
At 1 April 2012	100,235	42,752	295	100	1,486	3,257	3,053	44	151,222
Additions	6,745	663	5,554	-	-	-	116	1,777	14,855
Disposals	(650)	(1,210)	-	(21)	-	-	-	-	(1,881)
Transfer from/(to) Held for Sale	(725)	650	-	-	-	-	-	-	(75)
Reclassification	-	(2,801)	-	-	-	-	-	2,801	-
Written off	-	-	-	-	-	-	-	-	-
Revaluation	(5,407)	(1,707)	-	-	-	-	-	-	(7,114)
At 31 March 2013	100,198	38,347	5,849	79	1,486	3,257	3,169	4,622	157,007
Depreciation									
At 1 April 2012	-	332	-	59	1,486	3,178	2,395	5	7,455
Charge for year	-	1,282	-	20	-	40	347	462	2,151
Disposals	-	(260)	-	(16)	-	-	-	-	(276)
Revaluation	-	(1,074)	-	-	-	-	-	-	(1,074)
Reclassification	-	(280)	-	-	-	-	-	280	-
Written off	-	-	-	-	-	-	-	-	-
At 31 March 2013	-	-	-	63	1,486	3,218	2,742	747	8,256
Net book value									
At 31 March 2013	100,198	38,347	5,849	16	-	39	427	3,875	148,751
At 31 March 2012	100,235	42,420	295	41	-	79	658	39	143,767
Asset financing									
Owned	100,198	38,347	5,849	16	-	39	427	3,875	148,751
Net book value									
At 31 March 2013	100,198	38,347	5,849	16	-	39	427	3,875	148,751

Included within Land is land on long leasehold (over 50 years) with a value of £Nil (2012: £Nil).

Land & Buildings held for industrial and commercial use were valued at 31 March 2013 by James Barr, Chartered Surveyors, on a fair value basis as defined in the Valuation Standards 2012 (Red Book) issued by The Royal Institution of Chartered Surveyors and had a total value of £139m (2012: £143m).

NOTES TO THE ACCOUNTS (continued)

SCOTTISH ENTERPRISE

	Land	*Buildings*	*Assets Under Construction*	*Transport Equipment*	*Plant and Equipment*	*Information Technology*	*Furniture & Fittings*	*Leasehold Improvement*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Cost and valuation									
At 1 April 2011	77,830	26,938	9,958	82	1,486	3,137	2,576	315	122,322
Additions	3,601	8,828	295	18	-	120	477	42	13,381
Disposals	(1,427)	(95)	-	-	-	-	-	-	(1,522)
Transfer from Local Enterprise Companies	22,400	3,975	-	-	-	-	-	-	26,375
Transfer to Held for Sale	(80)	-	-	-	-	-	-	-	(80)
Reclassification	-	9,958	(9,958)	-	-	-	-	-	-
Written off	-	-	-	-	-	-	-	(313)	(313)
Revaluation	(2,089)	(6,852)	-	-	-	-	-	-	(8,941)
At 31 March 2012	100,235	42,752	295	100	1,486	3,257	3,053	44	151,222
Depreciation									
At 1 April 2011	-	26	-	34	1,486	2,867	2,077	181	6,671
Charge for year	-	1,339	-	25	-	311	318	4	1,997
Disposals	-	-	-	-	-	-	-	-	-
Revaluation	-	(1,033)	-	-	-	-	-	-	(1,033)
Written off	-	-	-	-	-	-	-	(180)	(180)
At 31 March 2012	-	332	-	59	1,486	3,178	2,395	5	7,455
Net book value									
At 31 March 2012	100,235	42,420	295	41	-	79	658	39	143,767
At 31 March 2011	77,830	26,912	9,958	48	-	270	499	134	115,651
Asset financing									
Owned	100,235	42,420	295	41	-	79	658	39	143,767
Net book value									
At 31 March 2012	100,235	42,420	295	41	-	79	658	39	143,767

NOTES TO THE ACCOUNTS (continued)

8. INTANGIBLE ASSETS

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

GROUP

	Patents and other rights £000	*Software Licences £000*	*Total £000*
Cost			
At 1 April 2011	925	855	1,780
Additions	-	-	-
As at 31 March 2012	925	855	1,780
At 1 April 2012	925	855	1,780
Additions	-	-	-
As at 31 March 2013	925	855	1,780
Amortisation			
At 1 April 2011	925	855	1,780
Charge for year	-	-	-
As at 31 March 2012	925	855	1,780
At 1 April 2012	925	855	1,780
Charge for year	-	-	-
As at 31 March 2013	925	855	1,780
Net book value at 31 March 2013	-	-	-
Net book value at 31 March 2012	-	-	-
Net book value at 1 April 2011	-	-	-

SCOTTISH ENTERPRISE

	Patents and other rights £000	*Software Licences £000*	*Total £000*
Cost			
At 1 April 2011	633	846	1,479
Additions	-	-	-
As at 31 March 2012	633	846	1,479
At 1 April 2012	633	846	1,479
Additions	-	-	-
As at 31 March 2013	633	846	1,479
Amortisation			
At 1 April 2011	633	846	1,479
Charge for year	-	-	-
As at 31 March 2012	633	846	1,479
At 1 April 2012	633	846	1,479
Charge for year	-	-	-
As at 31 March 2013	633	846	1,479
Net book value at 31 March 2013	-	-	-
Net book value at 31 March 2012	-	-	-
Net book value at 1 April 2011	-	-	-

NOTES TO THE ACCOUNTS (continued)

9. EQUITY ACCOUNTED INVESTEES

Scottish Enterprise's investment in Equity Accounted Investees comprises:-

Limited by shares	**Accounting period end**	**Nature of Business**	**% of Voting rights**
Discovery Quay Developments Limited	31 December	Property development	33.33
The Kelvin Institute (in liquidation)	30 June	Commercialisation of research	28.70
Ravenscraig Limited	31 December	Property development	33.33
Katalyst Projects Limited (i)	31 December	Property development	25.00
AMCET Limited	31 July	Promoting technology commercialisation	26.00
SESMOS Limited	31 March	Commercialisation of technology	50.00

Limited by guarantee	**Accounting period end**	**Nature of Business**	**% of Membership**
Design Dundee Limited	31 March	Advancement of cultural facility	20.00
Scottish Health Innovations Limited	31 March	Commercialisation of intellectual assets	50.00
Headstart Capital Fund	31 March	Investment Fund	50.00
7 Stanes Mountain Biking Community Interest Company	31 March	Promotion of tourist activity	50.00

Limited Partnership	**Accounting period end**	**Nature of Business**	**% Interest**
Aberdeen Science Parks LP	31 October	Property management and development	80.00

Joint arrangement	**Nature of Business**	**% Interest**
SE Forth Valley / Kemfine UK	Property development	60.00

(i) Scottish Enterprise's interest in Katalyst Projects Limited was disposed of on 29 June 2012.

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

	Current Assets £000	*Non current assets £000*	*Total Assets £000*	*Current Liabilities £000*	*Non Current Liabilities £000*	*Total Liabilities £000*	*Revenue £000*	*Expenses £000*	*Profit / (Loss) £000*
At 31 March 2012	52,704	4,318	57,022	(5,733)	(51,532)	(57,265)	2,865	(4,347)	(1,482)
At 31 March 2013	52,119	6,560	58,679	(6,239)	(53,298)	(59,537)	3,343	(5,255)	(1,912)

Movements in carrying amount of investment in equity accounted investees:

	£000
Carrying amount at 1 April 2011	4,946
Acquisition	2,540
Share of net losses	(141)
Share of surplus on revaluation	462
Distributions received	(91)
Carrying amount at 31 March 2012	7,716
Carrying amount at 1 April 2012	7,716
Acquisition	1,426
Share of net losses	(324)
Share of deficit on revaluation	(41)
Carrying amount at 31 March 2013	8,777

NOTES TO THE ACCOUNTS (continued)

10. FINANCIAL ASSETS – OTHER INVESTMENTS

	Group		*Scottish Enterprise*	
	2013	*2012*	*2013*	*2012*
	£000	*£000*	*£000*	*£000*
Non-Current Other Investments				
Available for sale financial assets	129,635	107,633	139,872	116,055
Held to Maturity Investments	2,247	3,565	2,247	3,565
Loans and other receivables	19,837	23,289	19,643	23,048
	151,719	134,487	161,762	142,668
Current Other Investments				
Held to Maturity Investments	184	330	184	330
Loans and other receivables	7,371	4,458	7,119	3,886
	7,555	4,788	7,303	4,216
Total Other Investments	159,274	139,275	169,065	146,884

The above financial assets have been funded as follows:

	Group		*Scottish Enterprise*	
	2013	*2012*	*2013*	*2012*
	£000	*£000*	*£000*	*£000*
Grant in Aid	159,061	138,404	168,852	146,013
Voted Loans	211	234	211	234
Public Dividend Capital	2	637	2	637
	159,274	139,275	169,065	146,884

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

Amounts received during the financial year and payable to the Treasury are disclosed as appropriations in the Statement of comprehensive net expenditure and amounted to £378,726 (2012: £33,652).

Listed Investments

Stock Exchange investments included in the above at 31 March 2013 are valued £4,304,574 (2012: £4,642,731) which includes unrealised surpluses on valuation of £956,594 (2012: £937,386). Income from listed investments in the year to 31 March 2013 was £85,824 (2012: £50,512).

The schedule of main invested companies is given in Note 26.

NOTES TO THE ACCOUNTS (continued)

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**
Ayrshire Development Fund Limited	Investment fund	100
Co-operative Development Scotland Limited	Assisting new and emerging co-operative businesses	100
Glasgow Science Centre Limited (i)	Visitor attraction operator	100
Glasgow Science Centre (Trading) Limited (i)	Commercial operations management	100
Katalyst Projects (2005) Limited	Property development	100
Loch Lomond Shores Management Company Limited	Property management	100
Scotland Europa Limited	Business services	100
SCTR Limited	Business incubator	100
SE Conference House Limited	Property letting	100
SE Grampian Investments Limited	Investment fund	100
Tay Euro Fund Limited	Investment fund	100
Enterprise Services Scotland Limited	Dormant	100
GDA Investments Limited	Dormant	100
Scottish Investment Bank Limited	Dormant	100
Scottish Development Finance Limited	Dormant	100
Scottish Development Overseas Limited	Dormant	100

Limited by guarantee	**Nature of Business**	**% of Membership**
Calder Park (Management) Limited	Property management	100
Glasgow Science Centre Charitable Trust	Visitor attraction ownership	100
The Glasgow Science Centre Endowment Fund	Investment fund	66.67
ITI Scotland Limited	Commissioning of research	100
Investors in People Scotland	Training & skills accreditation	50(S)
Scottish Intellectual Asset Management Limited	Commercialisation of intellectual assets	50(S)
Scottish Stem Cell Network Limited (ii)	Promotion and development of stem cell science in Scotland	100
SEBSED Limited	Loan fund	100
SET Development Fund Limited	Local economic development	100
Euroinfocentre Limited	Dormant	100
The Loch Lomond Trust	Dormant	100
Traction Test Facility Limited (in liquidation)	Dormant	100

Companies marked “(S)” are subsidiaries by virtue of control exercised through the board or contractual terms.

(i) Glasgow Science Centre Limited and Glasgow Science Centre (Trading) Limited are subsidiary companies of Glasgow Science Centre Charitable Trust.

(ii) Scottish Stem Cell Network Limited ceased trading on 31 January 2013.

Local Enterprise Companies

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

NOTES TO THE ACCOUNTS (continued)

11. REVALUATIONS TO FAIR VALUE AND IMPAIRMENTS

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

GROUP

	Statement of comprehensive net expenditure 2013 £000	*Revaluation reserve 2013 £000*	*Total 2013 £000*	*Total 2012 £000*
Revaluations to fair value				
Property, plant and equipment	-	433	433	1,249
Equity accounted investees	-	(41)	(41)	462
Financial assets	7	3,797	3,804	24,438
	7	4,189	4,196	26,149
Impairments				
Property plant and equipment	2,210	4,424	6,634	10,306
Assets classified as held for sale	150	-	150	-
Financial assets	9,989	-	9,989	23,821
	12,349	4,424	16,773	34,127

SCOTTISH ENTERPRISE

	Statement of comprehensive net expenditure 2013 £000	*Revaluation reserve 2013 £000*	*Total 2013 £000*	*Total 2012 £000*
Revaluations to fair value				
Property, plant and equipment	-	433	433	1,074
Financial assets	7	3,798	3,805	24,211
	7	4,231	4,238	25,285
Impairments				
Property plant and equipment	2,912	3,561	6,473	8,982
Assets classified as held for sale	150	-	150	-
Financial assets	9,698	-	9,698	24,251
	12,760	3,561	16,321	33,233

NOTES TO THE ACCOUNTS (continued)

12. OTHER NON-CURRENT RECEIVABLES

	Group		*Scottish Enterprise*	
	2013	*2012*	*2013*	*2012*
	£000	*£000*	*£000*	*£000*
Assets and investments held by Local Enterprise Companies	-	-	9,259	10,341
Subsidiary undertakings	-	-	6,152	6,152
Other receivables	3,315	3,586	3,315	3,492
	3,315	3,586	18,726	19,985

Assets and investments held by Local Enterprise Companies

Under the terms of the operating contract with the Local Enterprise Companies all sums arising from the disposal of assets and investments held in their own name but funded by Scottish Enterprise fell to be repaid to Scottish Enterprise.

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

	Scottish Enterprise	
	2013	*2012*
	£000	*£000*
Land	6,738	7,300
Investments	2,521	3,041
Other	-	-
	9,259	10,341

Scottish Enterprise holds a floating charge over the assets of each Local Enterprise Company.

On 29 March 2012, the Local Enterprise Companies agreed to transfer their property interests and their interest in specified shares and loans to Scottish Enterprise for no consideration. During 2012/13 three Local Enterprise Companies transferred their remaining interest in shares and loans to Scottish Enterprise, also for no consideration. A small number of financial assets are retained by one of the Local Enterprise Companies pending resolution of outstanding financial or legal matters and the net book value of these investments remains as a balance ultimately due to Scottish Enterprise on realisation.

The balance noted above in respect of land represents the balance of the initial capital funding provided to the Glasgow Science Centre which is amortised over the remaining economic life of the property.

NOTES TO THE ACCOUNTS (continued)

13. ASSETS CLASSIFIED AS HELD FOR SALE

GROUP

	Property, plant and equipment £000	*Total £000*
At 1 April 2011	4,290	4,290
Transfers to assets held for sale	80	80
Disposals of non-current assets held for sale	(65)	(65)
As at 31 March 2012	4,305	4,305
At 1 April 2012	4,305	4,305
Transfers to assets held for sale	75	75
Impairment recognised on re-measurement	(150)	(150)
Disposals of non-current assets held for sale	(1,880)	(1,880)
As at 31 March 2013	2,350	2,350

SCOTTISH ENTERPRISE

	Property, plant and equipment £000	*Total £000*
At 1 April 2011	4,225	4,225
Transfers to assets held for sale	80	80
Impairment recognised on re-measurement	-	-
Disposal of non-current assets held for sale	-	-
As at 31 March 2012	4,305	4,305
At 1 April 2012	4,305	4,305
Transfers to assets held for sale	75	75
Impairment recognised on re-measurement	(150)	(150)
Disposal of non-current assets held for sale	(1,880)	(1,880)
As at 31 March 2013	2,350	2,350

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 2013 is £1,510,000 (2012: £Nil). These assets are no longer held for sale due to a combination of current economic conditions and changing strategic priorities.

14. INVENTORIES

		Group		*Scottish Enterprise*
	2013 £000	*2012 £000*	*2013 £000*	*2012 £000*
Finished Goods	115	101	-	-

NOTES TO THE ACCOUNTS (continued)

15. TRADE AND OTHER RECEIVABLES

	Group 2013 £000	Group 2012 £000	Scottish Enterprise 2013 £000	Scottish Enterprise 2012 £000
Local Enterprise Companies		-	-	180
Other Subsidiary undertakings		-	7	4
Other receivables	13,751	13,745	12,687	12,719
Prepayments	2,581	2,295	2,502	2,243
Accrued income	8,467	6,141	7,462	4,966
	24,799	22,181	22,658	20,112

(i) Provisions for impairments

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

GROUP

	At 1 April 2012 £000	*Utilised during year £000*	*Movements in Provisions £000*	*At 31 March 2013 £000*
Other receivables	3,195	(650)	576	3,121

SCOTTISH ENTERPRISE

	At 1 April 2012 £000	*Utilised during year £000*	*Movements in Provisions £000*	*At 31 March 2013 £000*
Other receivables	3,193	(648)	573	3,118

(ii) Public Sector balances

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

	Group 2013 £000	Group 2012 £000	Scottish Enterprise 2013 £000	Scottish Enterprise 2012 £000
Central Government	2,177	3,484	2,152	3,172
Local Authorities	184	198	159	186
	2,361	3,682	2,311	3,358

NOTES TO THE ACCOUNTS (continued)

16. CASH AND CASH EQUIVALENTS

	Group 2013 £000	Group 2012 £000	Scottish Enterprise 2013 £000	Scottish Enterprise 2012 £000
Balance at 1 April	92,506	101,970	84,867	88,424
Net change in cash and cash equivalent balances	(387)	(9,464)	(386)	(3,557)
	92,119	92,506	84,481	84,867

	Group 2013 £000	Group 2012 £000	Scottish Enterprise 2013 £000	Scottish Enterprise 2012 £000
Scottish Enterprise	28,778	24,301	28,778	24,301
Investment Funds	55,703	60,566	55,703	60,566
Local Enterprise Companies	-	182	-	-
Other subsidiary undertakings	7,638	7,457	-	-
	92,119	92,506	84,481	84,867
The balances at 31 March were held at:				
Commercial banks and cash in hand	92,119	92,506	84,481	84,867

The Investment Funds balance relates to bank accounts held in respect of The Scottish Co-Investment Fund and The Scottish Loan Fund. Both funds are part funded by the European Union and are intended to finance direct investment activity in association with private sector partners.

17. TRADE AND OTHER PAYABLES

Amounts falling due within one year

	Group 2013 £000	Group 2012 £000	Scottish Enterprise 2013 £000	Scottish Enterprise 2012 £000
Other taxation and social security	1,244	1,181	957	1,137
Local Enterprise Companies	-	-	-	-
Other subsidiary undertakings	-	-	2,119	1,261
Trade payables	10,238	15,770	9,778	15,346
Other payables	295	266	237	215
Accrued charges	21,833	12,817	20,556	11,634
Prepaid revenue	3,237	3,487	2,194	2,098
EU Funding for Investment Funds	6,376	6,034	6,376	6,034
Treasury appropriations	413	34	413	34
	43,636	39,589	42,630	37,759

NOTES TO THE ACCOUNTS (continued)

Amounts falling due after more than one year

	Group 2013 £000	Group 2012 £000	Scottish Enterprise 2013 £000	Scottish Enterprise 2012 £000
Other payables and accrued charges	1,601	1,601	1,601	1,601
Deferred income	1,388	1,464	1,388	1,464
EU Funding for Investment Funds	-	1,901	-	1,901
	2,989	4,966	2,989	4,966

(i) Public Sector balances

Included within trade and other payables are balances due to other public sector organisations as follows:

	Group 2013 £000	Group 2012 £000	Scottish Enterprise 2013 £000	Scottish Enterprise 2012 £000
Central Government	3,661	4,611	3,199	4,377
Local Authorities	1,534	2,850	1,534	2,850
	5,195	7,461	4,733	7,227

18. PROVISIONS

GROUP AND SCOTTISH ENTERPRISE

	Support costs for leavers £000	Total £000
Balance at 1 April 2012	43	43
Provided in the year	7	7
Provisions not required written back	(38)	(38)
Provisions utilised in the year	(5)	(5)
Balance at 31 March 2013	7	7

Amounts are expected to be paid in respect of all provisions in the year ending 31 March 2014 and therefore the liabilities recognised have not been discounted.

A provision is recognised for the cost of support services which may be called upon by those staff who have left under the voluntary severance scheme operated by Scottish Enterprise.

NOTES TO THE ACCOUNTS (continued)

19. CAPITAL COMMITMENTS

GROUP AND SCOTTISH ENTERPRISE

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

	2013 *£000*	*2012* *£000*
Financial Assets	52,182	52,312

Scottish Enterprise has an agreement to invest £55,000,000 in the Scottish Loan Fund LP. The capital commitment at 31 March 2013 includes the balance of funds still to be invested.

During the year Scottish Enterprise entered into an agreement to invest £5,000,000 in Rock Spring Ventures EU LP. The capital commitment at 31 March 2013 includes the balance of funds still to be invested.

20. CONTINGENT LIABILITIES

GROUP AND SCOTTISH ENTERPRISE

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

	2013 *£000*	*2012* *£000*
Contingent liabilities arising from legal actions	-	-
Other contingent liabilities (i) (ii) (iii)	137	1,252

(i) Since 31 March 2010, Scottish Enterprise has provided a guarantee of up to £135,000 (2012: £135,000) to Social Investment Scotland in respect of a loan provided to Glencraft (Aberdeen) Limited. This guarantee remains in place and will continue until 31 March 2015.

(ii) On 8 February 2012, Scottish Enterprise agreed to provide a guarantee of up to £480,000 to the Clydesdale Bank PLC in respect of short term credit facilities granted to a company which was seeking external investment. During 2012/13 the company went into administration and Scottish Enterprise was called upon to meet its guarantee.

(iii) During the year, Scottish Enterprise completed its exit from one of its investments funded by Public Dividend Capital and the proceeds from sale are included within Treasury Appropriations (Note 17). The carrying value of the remaining investments funded by Public Dividend Capital is £2,000. Any proceeds from the sale of these investments is due to be remitted to the Scottish Government (see Note 10).

NOTES TO THE ACCOUNTS (continued)

21. COMMITMENTS

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.

		Group		*Scottish Enterprise*
	2013	*2012*	*2013*	*2012*
	£000	*£000*	*£000*	*£000*
Obligations under operating leases comprise:				
Land and buildings:				
within one year	5,283	5,986	4,588	5,038
after one year but not more than five years	14,909	17,511	12,739	15,223
After more than five years	4,959	6,107	4,959	6,081
	25,151	29,604	22,286	26,342
Other:				
within one year	22	24	-	-
after one year but not more than five years	23	19	-	-
After more than five years	-	-	-	-
	45	43	-	-

FINANCIAL COMMITMENTS

The Group and Scottish Enterprise has no financial commitments.

22. SUMMARY OF LOSSES AND AMOUNTS WRITTEN OFF

	No. of cases	*£000*
Claims abandoned or waived	60	9,460

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 2013, balances in excess of £250,000 written off were as follows:-

			2013 *£000*
110 Sports Group Limited	Ordinary Shares	Company Dissolved	709
Elonics Limited	Ordinary Shares & Grant	Company in Liquidation	2,194
Hydrosense Limited	Ordinary Shares, CCRP & Loans	Company Dissolved	688
Intense Limited	Ordinary Shares & Loans	Company Dissolved	3,337
McTavish Ramsay Group Limited	Loans	Company Dissolved	286
Microstencil Limited	Ordinary Shares	Company Dissolved	500

NOTES TO THE ACCOUNTS (continued)

23. MINORITY INTERESTS

		Group
	2013	*2012*
	£000	*£000*
Share of profits carried forward	1,424	1,576
Share of post tax profit/(loss) for year	86	(152)
Share of partnership appropriations	-	-
	1,510	1,424

24. 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 Leadership Team 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. Scottish Enterprise has no debt or borrowing facility with any external party,

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

The table below details the contractual maturities of financial liabilities.

GROUP

	2013	*2013*	*2013*	*2013*
	Carrying Amount	*Contractual Cashflows*	*Within one year*	*After more than one year*
	£000	*£000*	*£000*	*£000*
Financial liabilities				
Trade and other payables	33,967	33,967	32,366	1,601
	33,967	33,967	32,366	1,601

SCOTTISH ENTERPRISE

	2013	*2013*	*2013*	*2013*
	Carrying Amount	*Contractual Cashflows*	*Within one year*	*After more than one year*
	£000	*£000*	*£000*	*£000*
Financial liabilities				
Trade and other payables	32,172	32,172	30,571	1,601
	32,172	32,172	30,571	1,601

NOTES TO THE ACCOUNTS (continued)

GROUP

	2012 Carrying Amount £000	*2012* Contractual Cashflows £000	*2012* Within one year £000	*2012* After more than one year £000
Financial liabilities				
Trade and other payables	30,454	30,454	28,853	1,601
	30,454	30,454	28,853	1,601

SCOTTISH ENTERPRISE

	2012 Carrying Amount £000	*2012* Contractual Cashflows £000	*2012* Within one year £000	*2012* After more than one year £000
Financial liabilities				
Trade and other payables	28,830	28,830	27,229	1,601
	28,830	28,830	27,229	1,601

The Group and Scottish Enterprise have no outstanding borrowings at 31 March 2013 (2011, 2012: £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 Statement of Financial Position.

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.

NOTES TO THE ACCOUNTS (continued)

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

GROUP	*2013 Carrying Amount £000*	*2012 Carrying Amount £000*
Financial assets – other investments		
Assets available for sale	129,635	107,633
Held to maturity assets	2,431	3,895
Loans and other receivables	27,208	27,747
Financial assets		
Trade and other receivables	25,533	23,472
Cash and cash equivalents	92,119	92,506
	276,926	255,253

SCOTTISH ENTERPRISE	*2013 Carrying Amount £000*	*2012 Carrying Amount £000*
Financial assets – other investments		
Assets available for sale	139,872	116,055
Held to maturity assets	2,431	3,895
Loans and other receivables	26,762	26,934
Financial assets		
Trade and other receivables	23,464	21,177
Cash and cash equivalents	84,481	84,867
	277,010	252,928

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

GROUP

	2013 Gross £000	*2013 Impairment £000*	*2012 Gross £000*	*2012 Impairment £000*
Not past due	16,545	-	14,621	-
Past due 0 to 30 days	1,572	-	2,319	-
Past due 31 to 120 days	5,852	-	1,182	-
Past due more than 120 days	4,685	(3,121)	8,545	(3,195)
	28,654	(3,121)	26,667	(3,195)

SCOTTISH ENTERPRISE

	2013 Gross £000	*2013 Impairment £000*	*2012 Gross £000*	*2012 Impairment £000*
Not past due	14,476	-	12,326	-
Past due 0 to 30 days	1,572	-	2,319	-
Past due 31 to 120 days	5,852	-	1,181	-
Past due more than 120 days	4,682	(3,118)	8,544	(3,193)
	26,582	(3,118)	24,370	(3,193)

NOTES TO THE ACCOUNTS (continued)

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.

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 date of the Statement of Financial Position the market risk of Scottish Enterprise's interest bearing financial instruments was:-

GROUP	*2013 Carrying Amount £000*	*2012 Carrying Amount £000*
Fixed rate instruments		
Financial assets	50,472	40,709
Financial liabilities	-	-
	50,472	40,709
Variable rate instruments		
Cash and cash equivalents	92,119	92,506
	92,119	92,506

SCOTTISH ENTERPRISE	*2013 Carrying Amount £000*	*2012 Carrying Amount £000*
Fixed rate instruments		
Financial assets	49,846	39,950
	49,846	39,950
Variable rate instruments		
Cash and cash equivalents	84,481	84,867
	84,481	84,867

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:

	Group 100 basis points change £000	*Scottish Enterprise 100 basis points change £000*
Cash and cash equivalents		
31 March 2012	972	866
31 March 2013	923	847

NOTES TO THE ACCOUNTS (continued)

Currency risk

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

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

Fair values

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

GROUP	*2013 Carrying Amount £000*	*2013 Fair Value £000*	*2012 Carrying Amount £000*	*2012 Fair Value £000*
Financial assets available for sale (i)	129,635	129,635	107,633	107,633
Financial assets held to maturity	2,431	2,431	3,895	3,895
Loans and other receivables	27,208	27,208	27,747	27,747
Trade and other receivables	25,533	25,533	23,472	23,472
Cash and cash equivalents	92,119	92,119	92,506	92,506
Trade and other payables	(33,967)	(33,967)	(30,454)	(30,454)
	242,959	242,959	224,799	224,799

SCOTTISH ENTERPRISE	*2013 Carrying Amount £000*	*2013 Fair Value £000*	*2012 Carrying Amount £000*	*2012 Fair Value £000*
Financial assets available for sale (i)	139,872	139,872	116,055	116,055
Financial assets held to maturity	2,431	2,431	3,895	3,895
Loans and other receivables	26,762	26,762	26,934	26,934
Trade and other receivables	23,464	23,464	21,177	21,177
Cash and cash equivalents	84,481	84,481	84,867	84,867
Trade and other payables	(32,172)	(32,172)	(28,830)	(28,830)
	244,838	244,838	224,098	224,098

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

NOTES TO THE ACCOUNTS (continued)

Fair value hierarchy

Group and Scottish Enterprise financial assets and liabilities that are valued at fair valued 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 £4,304,574 (2012: £4,642,731) at 31 March.

Estimation of fair values

The following methods and assumptions were used to estimates 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

25. 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 for other entities for which the Scottish Government is regarded as the parent body.

In addition, Scottish Enterprise has had a number of material transactions with other Government Departments, central and local government bodies and other non-departmental bodies.

During the year, material transactions have also taken place with:-

Aberdeen City Council	Aberdeenshire Council	Angus Council
Audit Scotland	Dumfries & Galloway Council	Dundee City Council
East Ayrshire Council	Edinburgh City Council	Fife Council
Foreign & Commonwealth Office	Glasgow City Council	Highlands and Islands Enterprise
North Lanarkshire Council	Renfrewshire Council	Skills Development Scotland Limited
South Ayrshire Council	Stirling Council	Visit Scotland

The Scottish Enterprise Pension & Life Assurance Scheme is also regarded as a related party. Full details of the Scheme and employer contributions made are included in Note 5. Scottish Enterprise also considers Members of the Board and the Executive Leadership Team to be related parties but none of the members or other related parties had any transactions with Scottish Enterprise.

NOTES TO THE ACCOUNTS (continued)

26. SCHEDULES OF INVESTMENTS AT 31 MARCH 2013

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 20% or more of the voting rights, and where the total investment is in excess of £100,000; and all other investments in excess of £1m, but excludes equity accounted investees which are disclosed in Note 9. Investment amounts are stated at cost before revaluations or 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 greater than £100,000 and voting rights 20% or more

	% of Voting rights	*Shares £000*	*Loans £000*
Actual Analytics Limited *Software solutions for the analysis of animal behaviour*	26.03	559	-
Advanced Microwave Technologies Ltd *Development of Microwave Volumetric Heating*	29.94	458	316
Airborne Energy Limited *Development of wind turbines for small-scale use*	22.38	231	-
Airframe Components Europe Ltd *Maintenance solutions to the aviation industry*	20.00	24 116 (P)	122
Ambicare Health Limited *Medical technology*	28.40	1,997	238
Antoxis Limited *Design and synthesis of therapeutic antioxidants*	24.72	329	-
AppShare Limited *Software development*	28.97	567	-
Apsu Environmental Limited *Water treatment and waste recycling*	29.99	119	-
Arrayjet Limited *Biotechnology development*	29.90	1,185	-
Ateeda Limited *Software development*	23.53	902	-
Bibliographic Data Services Limited *Information on book publication etc*	20.00	25	-
Biofilm Limited *Medical technology*	28.15	2,018 278(P)	-
Biopta Limited *Services to the biotechnology industry*	29.83	800	1
BlipFoto Limited *Social Networking platform based on photo journals*	27.01	325	-
Bloxx Limited *Web, email and media filtering technology provider*	29.91	944 100(P)	-
Calnex Solutions Limited *Development of next generation test equipment*	27.37	575	-
Centeo Biosciences Limited *Design and supply instrumentation which improves the R&D process*	25.33	584	103
CiQual Limited *Software solutions for Wireless Service Providers to understand and interpret the needs users*	26.21	967	426
Cloudsoft Corporation Limited *Software development*	27.78	1,100	-
Critical Blue Limited *Development of electronic automation design software*	26.57	1,800	-
Cytosystems Limited *Diagnostic Medical Technology*	24.06	858	
DEM Solutions Limited *Provider of engineering software and consultancy*	20.81	600	-

NOTES TO THE ACCOUNTS (continued)

	% of Voting rights	Shares £000	Loans £000
Design Led Products Limited *Design and development of light guide technology*	25.90	756	-
Dimensional Imaging Limited *Services to the medical industry*	23.44	261	39
Dollar Top Limited *Distribution of wines and spirits*	29.90	199	767
Eaglewood Systems Limited *Development & supply of business management software*	29.88	550	-
Energyflo Construction Technologies Limited *Clean technology company*	26.50	850	375
Exterity Limited *Design and sale of audio visual technology*	23.66	749	-
Factonomy Ltd *Technology partner for the agile and flexible development of web-enabled business solutions*	29.99	889	-
Fanduel Limited *Designed and implemented software to run information markets*	20.86	2,311	-
Fixed Phage Limited *Commercialisation of bacteriophages*	20.59	120 90(P)	-
Gas Sensing Solutions Ltd *Development of gas sensing device*	28.38	1,000	150
Helixion Limited *Developing a new direction for mobility device security in next generation convergence networks*	20.63	200	-
Ice Factor International Ltd *Multi adventure centres*	21.82	445	-
iCs2 Limited *Cable industry*	23.29	103	30
Kiltr Limited *Business social networking and media platform*	22.16	529	-
Larosco Limited *Online marketing software*	24.98	191 150(P)	-
Leading Software Limited *Software development*	22.09	622	50
LUX Assure Limited *Development of light based detection solutions*	24.80	1,417	-
Metaforic Limited *Software development*	26.56	3,108	-
MGB Biopharma Limited *Development of antibacterial drug*	26.43	971	-
Mode Diagnostics Limited *Developer of medical diagnostic products*	28.70	558	
Mullin Ink Jet Media Limited *Niche producer of specialist paper*	29.07	10 90 (P)	-
Nandi Proteins Limited *Sales, marketing IP & licensing*	22.78	464	-
Ncimb Limited *Microbiology and chemical sciences*	21.23	252	-
NGentec Ltd *Generator technology development (wind power)*	28.28	1,260	500
Ocutec Limited *Medical Technology Devices - Opthalmology*	26.69	1,003	-
Opinurate Ltd *Developing and marketing CRM software*	27.00	324	-
Outplay Entertainment Limited *Development & publication of social digital games*	27.90	2,250	-
Pincer Vodka Limited *Functional Drinks supplier / inventor*	26.67	100	-

NOTES TO THE ACCOUNTS (continued)

	% of Voting rights	Shares £000	Loans £000
Pufferfish Limited *Design, develop and sell experiential AV products*	29.43	369	-
Reactec Limited *Noise and vibration control solutions through products, consultancy and design services*	26.55	516	-
Reisswolf Scotland Limited *Document security business*	29.91	200	-
Sentient Medical Limited *Developing a miniature Middle Ear Implant (MEI)*	27.90	235	-
SFX Technologies Limited *Innovative speaker technology*	24.04	930	55
Sigma Offshore Limited *Engineers – offshore oil and gas industry*	20.83	739 1,473 (P)	-
Sistemic Scotland Limited *Biotechnology development*	29.86	270	-
Smarter Grid Solutions Limited *Grid solution to renewable generators and network operators*	29.78	850	-
Spaceright Europe Limited *Specialist provider of noticeboards, display equipment and school dining furniture*	28.97	396	200
Symbiosis Pharmaceutical Services Limited *Contract manufacturing and services for supply and storage of drugs*	29.99	1,270	-
Syntropharma Limited *Pharmaceutical company*	29.89	1,166	-
Tayeco Limited *Developer of energy consumption in house displays*	29.81	1,063	-
The One Place Capital Limited *Software development*	28.58	902	198
Touch Emas Limited *Manufacturer of medical and orthopaedic equipment*	28.35	2,376	-
Traak Systems Limited *Developing intelligent self-learning radio frequency identification ('RFID') and sensor network products*	29.87	238	-
Treegreen Limited *Manufacturer of electronic energy saving devices*	20.00	74	-
Viopti Ltd *Contact lens accessories*	21.03	364	-
Visible Ink Television Limited *Media*	21.37	100	-
Vueklar Cardiovascular Limited *Medical equipment*	22.22	220	-
Water Evolution Limited *Designing and producing grey water recycling units*	26.20	200	1,175
Waveblade Limited *Development & marketing of marine engineering tools*	20.51	274	-
XI Engineering Consultants Ltd *Engineering consultancy*	26.71	108	-
Total of items listed		53,616	4,745

NOTES TO THE ACCOUNTS (continued)

B. Other investments greater than £1m and voting rights less than 20%

	% of Voting rights	*Shares £000*	*Loans £000*
3D Resources plc *Health care technology*	6.44	1,890	-
Amor Group Limited *Business technology solutions*	7.40	23	1,651
Aquamarine Power Limited *Marine energy*	11.59	9,000	-
Aquapharm Bio-Discovery Ltd *Marine biotechnology*	5.17	497 1(P)	581
BigDNA Ltd *Biotechnology*	19.39	1,750	-
Compound Semiconductor Technologies Global Limited *Opto-electronic devices designer/development*	8.29	1,503	-
Cxr Biosciences Limited *Biotechnology – innovative technology to improve drug discovery and development*	16.21	1,395	-
Cyclacel Pharmaceuticals Inc. *Drug development* *Registered in USA & quoted on NASDAQ*	2.23	5,000	-
DYSIS Medical Limited *Medical device*	13.08	2,000	127
GC Holdings Inc *Fibre optical communications*	7.39	2,000	-
Green Highland Renewables Ltd *River hydro schemes*	19.22	1,425	175
IE CHP (UK & Eire) Limited *Development of fuel cell powered CHP systems*	7.49	1,012	-
Lamellar Biomedical Limited *Health care products*	17.92	1,374	-
Loch Duart Limited *Sustainable salmon farming*	-	-	2,000
Netidme Limited *Software identity verification*	19.98	1,222	135
Novabiotics Limited *Biotechnology – anti infectives for disease treatment*	12.39	1,373	1,369
NuCana Biomed Limited *Biopharmaceutical*	13.57	1,500	-
Pangeo Subsea Scotland Limited *Energy*	13.57	489 635(P)	-
Pelamis Wave Power Limited *Generation of renewable energy from ocean waves*	13.80	3,466(P)	3,903
Prismtech Group Limited *Supply of computer middleware platform solutions*	8.36	1,500	60
Pyreos Limited *Microelectronics*	17.39	2,254	-
Survivex Limited *Oil and Gas industry training*	15.00	500	1,286
TPP Global Development Limited *Start up drug development*	10.21	2,000	-
Twig Rights Limited *Digital media*	6.77	425	646
Vascular Flow Technologies Limited *Development of vascular devices*	11.51	1,802	-
Verisim Limited *Developer of training simulation software*	16.98	1,145	50
Volo TV & Media Limited *In-train entertainment systems*	10.98	1,181	123

NOTES TO THE ACCOUNTS (continued)

	% of Voting rights	Shares £000	Loans £000
Scottish Loan Fund Lp *Investment Fund*	-	-	9,544
City of Edinburgh Council *Development of visitor attraction conference facility*	-	-	5,915
Glasgow Harbour Limited *Property development*	-	-	3,040
Total of items listed		48,362	30,605

	Shares £000	Loans £000	Total £000
Total of items listed – Note 28A	53,616	4,745	58,361
Total of items listed – Note 28B	48,362	30,605	78,967
	101,978	35,350	137,328
Other shares and loans			67,812
Total cost of shares and loans before revaluations or provisions			205,140

	No. of Companies
Total number of companies	555

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.

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