

SCOTTISH ENTERPRISE

ANNUAL REPORT AND ACCOUNTS

For the year ended 31 March 2018

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 Auditor's Report to the Members of Scottish Enterprise, the Auditor General for Scotland and the Scottish Parliament.

	Page
Performance Report	2
Accountability Report	12
Independent Auditor's Report to the Members of Scottish Enterprise, the Auditor General for Scotland and the Scottish Parliament	28
Group Statement of Comprehensive Net Expenditure	30
Scottish Enterprise Statement of Comprehensive Net Expenditure	31
Group Statement of Financial Position	32
Scottish Enterprise Statement of Financial Position	33
Group Statement of Cash Flows	34
Scottish Enterprise Statement of Cash Flows	35
Group Statement of Changes in Taxpayers' Equity	36
Scottish Enterprise Statement of Changes in Taxpayers' Equity	37
Statement of Accounting Policies	38
Notes to the Accounts	48
Accounts Direction	84

PERFORMANCE REPORT

for the year ended 31 March 2018

OVERVIEW

STATEMENT OF PURPOSE AND ACTIVITIES

Scottish Enterprise is an executive Non-Departmental Public Body of the Scottish Government and was established under the [Enterprise and New Towns \(Scotland\) Act 1990](#) for the purposes of furthering the development of Scotland's economy.

This Act defines Scottish Enterprise's key functions as:

- furthering the development of Scotland's economy – including providing, maintaining and safeguarding employment;
- promoting Scotland's industrial efficiency and international competitiveness; and
- furthering improvement of the environment of Scotland, including supporting Scotland's transition to a low-carbon economy.

Scottish Enterprise's duties are as determined by Scottish Ministers under Section 24 of the Act. A range of general and specific powers are set out in full in Section 8 of the Act.

BUSINESS MODEL AND ENVIRONMENT

As an economic development agency, Scottish Enterprise's overall objective is to make a significant contribution to achieving the Scottish Government's aim to increase competitiveness and tackle inequality in Scotland. Scottish Enterprise seeks to identify and exploit opportunities for Scotland's economic growth by supporting Scottish companies to compete, helping to build globally competitive sectors, attracting new investment and creating a world-class business environment.

Scottish Enterprise's objectives and key targets are agreed within its business planning process. Scottish Enterprise operates with its own independent Board reporting to the Cabinet Secretary for Economy, Jobs and Fair Work within the Scottish Government.

Scottish Enterprise works closely with public sector partners, in particular Highlands & Islands Enterprise, Skills Development Scotland, the Scottish Funding Council, VisitScotland, Local Authorities and Business Gateway, to secure the alignment of strategies and resources across the public sector behind growth opportunities.

Scottish Enterprise pursues this nationally with Scottish Government and other partners and at a regional/local level via City and Regional Growth Deals, and Community Planning Partnerships.

Some Scottish Enterprise activities operate across all of Scotland, including the Highlands and Islands Enterprise area, these being:

- Inward investment and overseas market development via Scottish Development International (operating as a joint venture with Scottish Government and Highlands and Islands Enterprise) and including management of the network of overseas offices and field staff;
- Major grants programmes, including Regional Selective Assistance (RSA) and SMART grants;
- the Scottish Investment Bank;
- the Scottish Manufacturing Advisory Service;
- Scotland Europa.

Scottish Enterprise works with partners in the public and private sectors to identify and exploit the best opportunities to deliver a significant, lasting effect on the Scottish economy and increase Scotland's international competitiveness. Under the guidance of the Chief Executive and the Executive Leadership Team, operations are delivered via the following Directorates:

Strategy and Sectors builds the evidence base to inform our Business Plan activities and priorities, evaluate Scottish Enterprise's impact and deliver our sector development model. Operational teams focus on Scotland's growth sectors including Energy, Financial Services, Food and Drink, Life and Chemical Sciences, Digital Technology, Tourism and Technology.

Growth Companies, Innovation and Infrastructure leads the account management service, Scottish Manufacturing Advisory Service, enquiry handling, research service and leadership work to encourage and stimulate a culture of innovation in Scotland's business base. Activities included within this Directorate are R&D funding, Regional Selective Assistance, Enterprise Europe Network Scotland and rural and social enterprise functions.

Business Infrastructure supports the creation of Scotland's international place competitiveness through direct investment in companies, enabling infrastructure and sector assets, leverage of strategic partner investment and the attraction of mobile investment to Scotland.

Scottish Development International is responsible for promoting Scotland's international competitiveness through supporting the international trade ambition of companies and attracting new internationally mobile investment to

PERFORMANCE REPORT (continued)

strengthen Scotland's company base and sectors. Using market intelligence and international networks, Scottish Development International helps to stimulate greater ambition and a global mindset within Scotland's growth sectors and companies with an emphasis on supporting companies to enter new markets.

The Scottish Investment Bank is the largest investor of early stage risk capital in Scotland, aiming to increase the supply of finance and stimulate the SME funding market. The Scottish Investment Bank, along side the private sector, co-invests into Scottish small to medium sized businesses with high growth potential.

Customer Operations is responsible for setting the direction and delivering functions which underpin operational delivery in Scotland and overseas. This includes digital service transformation and alignment with other public sector partners involved in delivering business support, customer research and intelligence and the design and delivery of global and domestic customer campaigns. The Directorate also oversees all Scottish Enterprise's governance and communications and leads the approach to harnessing international and business networks, including Globalscot, our stakeholder and regional partner engagement and government and parliamentary relations.

Supporting those operational directorates are the directorates of the Chief Financial Officer, with responsibility for corporate governance and ensuring strategic financial management and value for money are at the heart of the business and its decision-making process, and People Services which focuses on employee related matters of recruitment, benefits, training and engagement and provides the facilities management function and delivers health and safety and environmental management.

STRATEGY AND OBJECTIVES

The approach to achieving the Scottish Government's purpose is set out in the Government Economic Strategy launched as [Scotland's Economic Strategy](#) in March 2015. The Strategy sets out the overarching framework for creating a more productive, cohesive and fairer Scotland. It is based on two mutually supportive pillars of boosting productivity and tackling inequality which in turn are underpinned by four priority areas of innovation, internationalisation, investment and inclusive growth.

Scottish Enterprise makes a distinctive contribution to the goals of the Economic Strategy. Our 2015-18 [Business Plan](#), launched in April 2015, and our subsequent updates in 2016/17 and 2017/18 set out our approach to improve Scotland's productivity and help build a globally competitive and inclusive economy.

2017/18 represented the third and final year of our 2015-2018 Business Plan and focused on the actions we would deliver to support:

- **More competitive businesses:** working alongside companies to help them develop an ambitious plan for growth and support them to achieve that
- **Building competitive strengths in specific sectors:** addressing specific threats, challenges and emerging opportunities by capitalising on Scotland's unique natural assets, talent, research excellence and world class infrastructure
- **Increasing trade and investment:** attracting new investment into Scotland, and working with an increased number of companies to build the capability to export more of their products and services
- **Developing a modern, joined up Scottish economic development system:** working with public and private sector partners to unlock growth potential in the economy, or by stimulating positive shifts in the marketplace

Our focus in 2017/18 reflected the initial findings of the Scottish Government Enterprise and Skills review and we aligned our efforts behind the outcomes of the review and in working in close collaboration with national and local partners to deliver a more joined up economic development system across Scotland.

KEY ISSUES AND RISKS AFFECTING SCOTTISH ENTERPRISE

Scottish Enterprise operates a Board approved risk management policy. The policy notes that risk is inherent in the business of Scottish Enterprise and sets out the process by which risk is identified, escalated and reviewed appropriately. The Board defines Scottish Enterprise's risk appetite at a strategic level. Each business unit is responsible for identifying areas of risk. Risks that have potentially significant impact at an organisation wide level are recorded on the Corporate Risk Register, which is owned by the Executive Leadership Team. The items on this are a combination of the strategic risks identified by senior management and risks escalated from business units, including: -

- Impacts on the economy of the continuing challenges in the Oil and Gas Sector and impacts of Brexit
- Failure to successfully implement the changes and the required levels of collaboration identified by the Scottish Government's review of the Enterprise and Skills agencies
- The effect on budgets arising from Governmental Spending Reviews and the potential reduction in the scale of European Funding which Scottish Enterprise can attract in the future

PERFORMANCE REPORT (continued)

- The threat of electronic attacks to Scottish Enterprise's systems resulting in significant interference to operations or the loss of sensitive data
- Scottish Enterprise's ability to attract and retain a highly motivated workforce to deliver its ambitious plans

The Board reviews the operation of the Risk Management Policy on an annual basis. The Board ensures that the policy is supporting the effective and efficient operation of the organisation and that it helps the business respond to business risks and implement adequate controls. The Audit and Risk Committee reviews risk regularly and the Board approves the Corporate Risk Register annually.

FUTURE DEVELOPMENTS

In 2017, following completion of an end to end review of the enterprise and skills system undertaken by the Scottish Government, a new Strategic Board for Enterprise and Skills was established. With an independent chair, and representation from the private, public and academic sectors, the Strategic Board will seek to maximise the impact of the collective investment we make in enterprise and skills development across Scotland.

Overseeing the work of the enterprise and skills agencies (Scottish Enterprise, Highlands and Islands Enterprise, Skills Development Scotland, the Scottish Funding Council and the soon to be established South of Scotland Enterprise Agency,) it will support ever-greater collaboration and alignment of our activities, leading to improved outcomes for Scotland.

Scottish Enterprise will undertake its strategic and operational planning in line with the Strategic Board's Strategic Plan once developed. In the meantime, we will continue to be attentive to emerging themes and priorities of the Board and will fully engage in supporting the development of the Strategic Plan.

Reflecting this development, our business plan for 2018/19 is a one year transitional plan, however, our remit remains focused on a number of core outcomes that help to improve Scotland's productivity:

- Securing more inward investment and capital investment for Scotland;
- Supporting more companies and sectors to innovate through increased research and development, new products, services, markets and business models;
- Supporting more companies and sectors to internationalise and compete in growing markets around the world.

Underpinning these outcomes is the need to ensure that all parts of Scotland both understand and access more opportunities to generate growth and to benefit from growth. We will consider:

- Who and where benefits - to help tackle inequality and increase the capacity of the economy
- Job Quality – to increase employee wellbeing and increase productivity levels

Our priorities for 2018/19 are set out across four delivery themes:

- more international trade and investment for Scotland
- accelerating business growth
- realising major economic opportunities
- supporting a more effective economic development system for Scotland.

Close collaboration is essential to achieve our ambition and a key focus for us during 2018/19 will be to inform and deliver the collaborative actions agreed by the Strategic Board to improve how we work with partner agencies and the impact we make. Also, we will continue to deliver alongside Scottish Government, public, private and third sector partners at national and regional levels to achieve the priorities set out in the 2018/19 plan and beyond.

We continue to actively monitor the progress of our entire range of activities, reviewing the outputs and focusing on the outcomes we achieve and the impact this has on the wider economy. Reflecting on the recommendations from the Enterprise and Skills Review, we are working with partners to establish a new comprehensive measurement framework that will capture data and evidence across the wider economic development arena.

For 2018/19 we have applied a simplified measurement framework, aligned to Scotland's National Performance Framework (which was refreshed in June 2018), which reflects the drivers of productivity and inclusive and sustainable economy factors set out in the Enterprise and Skills Review.

The Scottish Government has announced its commitment to establishing a Scottish National Investment Bank (SNIB) to boost Scotland's competitiveness and provide patient capital to finance growth. Scottish Enterprise will work with partners to implement plans during the interim period until the SNIB will come into full operation in 2020.

PERFORMANCE REPORT (continued)

PERFORMANCE SUMMARY

Scottish Enterprise’s 2015-18 Business Plan set out the longer-term actions we would take to improve Scotland’s productivity and help build a globally competitive and inclusive economy. We have continued to deliver against the objectives of the plan, while adjusting to the changing economic landscape. 2017/18 represented the final year of our 2015-18 business plan.

Milestones represent significant achievements that contribute to the delivery of the business plan. Fifteen out of the seventeen milestones set out in our plan for 2017/18 have been met. Two were not fully achieved in year, although significant progress was made on both.

Scottish Enterprise has successfully delivered all its business plan measure targets for 2017/18. Seven of the sixteen business plan measures completed the year above their target range with a further two in the top half of their target range and seven in the lower half.

At the end of the 2015-18 business plan period, all but one of our full three-year target ranges have been met. The number of companies assisted to become new or active exporters did not reach the three-year target range, despite the measure being met in the final year.

Overall, these achievements demonstrate a strong performance in the three-year business plan period. At the outset of the plan, the economy was experiencing ongoing challenging market conditions due to the impact of low global oil prices on Scotland’s Oil and Gas sector and supply chain and although this sector is beginning to show tentative signs of confidence, the challenges for the industry and its supply chain have been significant over the last few years.

PERFORMANCE ANALYSIS

To measure how our support meets our objectives by benefiting companies, sectors and the Scottish economy, we apply a comprehensive framework. We use performance measures to help monitor the contribution we make in terms of our economic impact focused on the longer-term goals of Scotland’s Economic Strategy and highlighting our future direction over the 2015-18 period and our ambitions to:

- Transform Scotland’s innovation performance
- Increase investment in Scotland’s growth companies and business infrastructure
- Increase the impact of Scotland’s presence and visibility in overseas markets
- Develop the skills of our people and talent through more fair and progressive workplace practices

Our Business Plan target ranges are informed by a range of evidence, including performance of the measures at the macro-economy level, the pipeline of activities and projects that can contribute to the targets, past performance and experience, evidence of expected outcomes of activities, for example from evaluations, and the likely resources available to deliver support. These factors, as well as anticipated efficiency gains in delivering support, allow us to set stretching, evidence based target ranges. We set target ranges to reflect that there are a number of potential risks and uncertainties that could impact on our performance measures, including changes in the external economic environment that could influence the scale and timing of outcomes achieved. An assessment of the risks and uncertainties identified by Scottish Enterprise is discussed on page 3 above.

RESULTS AGAINST KEY PERFORMANCE INDICATORS

Key

Milestone Progress

- ★ ‘Achieved’
- ‘Not achieved’

Target Range Results

- ▲ ‘Exceeded’
- ◀▶ ‘Achieved’
- ▼ ‘Not achieved’

BUSINESS PLAN MILESTONES

Establish a fully digitised grants application and claims process as the first phase of our digital transformation programme of service delivery to customers.	★	The first version of the secure online account space and funding & support service was launched successfully to around 20 account managed companies.
Support growth of the Fintech sector with the launch of an industry-led action plan in partnership with Scottish Financial Enterprise.	★	Industry-led Fintech Scotland Action Plan approved and Fintech Scotland established. SE/SG support confirmed in Programme for Government and reinforced by Derek Mackay MSP, Cabinet Secretary for Finance and the Constitution, at Fintech 2017 Conference Dinner during September 2017.

PERFORMANCE REPORT (continued)

Introduce an enhanced service to increase the number and help accelerate the speed of scale up of high potential companies.	★	Ministerial launch took place at VentureFest during September 2017.
Promote the leadership development of women in businesses in Scotland through the new Principally Women pilot programme.	★	Pilot programme launched in October 2017.
Support Scottish companies to access international risk capital and attract international risk capital investment to Scotland by establishing a new programme through Scotland House, in London.	●	A programme of company support was implemented to support companies raise international capital. Despite regular investor engagement activity via Scotland House, the decision was taken not to progress with a dedicated London post due to insufficient company demand, and as such the milestone was not fully met.
Establish a fund to connect public sector organisations to SMEs to solve challenges that will make public services better, faster and more accessible.	★	Fund launched successfully.
Boost inward investment through delivery of a joint strategy with VisitScotland to promote Scotland as a place to visit, work, live and study and establishing a new approach and programme to attract investors to Scotland.	★	Scotland's Now (https://www.scotland.org/) developed and launched successfully.
Help more companies to exploit the opportunities of data to innovate and launch new products, services and processes through a Business Data Advisory Service and a Data Leadership programme.	★	The Data Advisory Service launched to support companies: <ul style="list-style-type: none"> • develop a data strategy and plan how companies will become more competitive by data • consider innovative new revenue streams by exploiting data or by combining it with 3rd party data • become more efficient by collecting, using and sharing data internally or with customers and suppliers • implement new processes and developing skills of people (including leadership and management capabilities).
Establish a new programme to support fintech innovation in Scotland's Financial Services sector.	★	A new programme to support financial services and fintech innovation, including Open Innovation established.
Support the Manufacturing Action Plan through the launch of a programme to develop and grow Scotland's supply chain capabilities.	★	Supply Chain Practitioners in place working to identify and support supply chain companies on development planning to exploit appropriate opportunities.
Open the Innovation & Investment Hubs in Berlin and Brussels to support Scotland's Trade & Investment Strategy and our response to Brexit.	★	Both the Berlin and Brussels Hubs fully operational.
Double SDI's presence in Europe to support Scotland's Trade & Investment Strategy and our response to Brexit.	●	15 of the 20 appointments made, with the remaining posts expected to be filled during the Spring of 2018.
Deliver a marketing campaign in the key markets of London and California to promote Scotland as a global centre for data skills and innovation to attract inward investment and to support the internationalisation of Scotland's Technology Sectors	★	Successful London and California campaigns taken place

PERFORMANCE REPORT (continued)

Assist more companies to access appropriate growth funding by launching a digital approach to improve financial readiness, and introduce programmes to assist companies to be Exit Ready and to recruit Non-Executive Directors.	★	'How to' video clips developed, available through SE's web-site and MyGov. Debt, equity and alternative finance events delivered along with exit readiness seminars. A pilot programme reviewing companies exit preparedness undertaken. The pool of experienced NXD expanded to facilitate engagement with more companies
Launch a programme to support subsea engineering companies to access international market opportunities.	★	Subsea Engineering Opportunity in full implementation. Project, international, marketing and research activity progressed. Opportunity board in place.
Complete the construction of a new commercial building at the Edinburgh BioQuarter to continue the growth of Scotland's healthcare and life sciences community.	★	The construction of a further two modular units (extending to 12,000 sq.ft. gross) completed in March 2018.
Support the growth of the social enterprise sector in Scotland by delivering a series of Knowledge Exchange events to build sector capacity, and a Masterclass Programme to stimulate social enterprise innovation	★	3 Knowledge Exchange Events successfully delivered to social enterprise advisers. A series of Innovation masterclasses completed with Social Enterprise and Tourism partners across Scotland.

PERFORMANCE REPORT (continued)

MEASURES

INNOVATION			
<ul style="list-style-type: none"> • SE's innovation drive in 2017/18 has been strong with performance on innovation and R&D levels particularly encouraging. • Can-Do Innovation Challenge Fund has generated significant interest from public agencies and government departments, creating opportunities for Scottish companies to bid for innovation projects • Driving innovation capacity at a sector level has been strong with a focus on opportunities brought about as a result of data and digital solutions, industry 4.0 and low carbon innovation. 			
2016/17	Measure Description 2017/18	Result	2017/18
1,756	800-1000 supported businesses becoming innovation active	▲	1,177
£234m	£200m - £250m of planned additional R&D investment through Scottish Enterprise assisted projects	▲	£315m
£256m	£300m - £350m of planned additional turnover from innovation by supported companies	◀▶	£311m
£117m	£110m - £130m of planned efficiency improvements by supported companies	▲	£140m
204,446t	200,000t – 240,000t of planned CO ₂ savings arising from Scottish Enterprise company support and large scale, innovation led projects	▲	259,444t

INTERNATIONALISATION			
<ul style="list-style-type: none"> • Increased use of digital services to deliver internationalisation support, encouraging companies to export for the first time and/or expand existing sales overseas • Expansion of international support network, with recruitment drive to double SDI resource in Europe and establishment of new Hubs in Europe • Launch of Scotland Is Now. 			
2016/17	Measure Description 2017/18	Result	2017/18
200	300 – 350 assisted companies becoming new or active exporters	◀▶	313
312	200 – 275 companies projecting significant export growth	◀▶	243

INVESTMENT			
<ul style="list-style-type: none"> • Facilitating investment into early stage companies and scale up companies using Scottish Growth Scheme funding • Major investment in key assets including National Manufacturing Institute for Scotland and Fraunhofer Centre for Applied Photonics enhancing Scotland's reputation in key sectors. 			
2016/17	Measure Description 2017/18	Result	2017/18
£106m	£80m - £100m of leveraged private investment from the provision of growth finance via the Scottish Investment Bank	▲	£170m
452	500 – 600 businesses with growth and export potential supported to improve financial readiness...	◀▶	508
103	...of which 95 – 120 supported specifically to secure growth funding	◀▶	98
£161m	£150m - £200m of planned capital investment by supported companies	▲	£215m

PERFORMANCE REPORT (continued)

INCLUSIVE GROWTH			
<ul style="list-style-type: none"> Introduced an additional performance measure on supporting companies develop fair and progressive workplace practices demonstrating our focus in this area. Launched 2 innovative growth initiatives focusing on the 'diversity' agenda – Grey Matters, start up programme for unemployed senior executive and Principally Women, for women leaders. Continuing to promote business benefits of the Scottish Business Pledge with an increasing number of account managed companies signing up to the commitment and demonstrating many of the pledge characteristics Strong performance on inward investment outcomes particularly around the proportion of High Value Added jobs resulting from projects secured. 			
2016/17	Measure Description 2017/18	Result	2017/18
7,839	7,750 – 9,750 planned jobs through attraction of inward investment...	◀▶	8,516
2,312	...of which 2,750 – 3,250 are HVA planned jobs	▲	3,362
889	725 – 1,000 companies developing their leadership through Scottish Enterprise support	◀▶	943
217	240 – 330 entrepreneurs increasing their capacity to create internationally competitive early stage ventures	◀▶	240
-	800 – 1,050 companies engaged and supported to develop approaches to fair and progressive workplace practices.	◀▶	901

FINANCIAL PERFORMANCE

Financial Overview

The results for the year ended 31 March 2018 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 from the use or disposal of Scottish Enterprise's property and investment assets 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 2017/18, after in year adjustments, amounted to £228.6m, comprising a grant in aid provision of £218.034m and a non-cash allocation of £10.6m. During the year Scottish Enterprise was also allocated £35.0m to cover costs designated as Annually Managed Expenditure. Details of Scottish Enterprise's financial outturn against the budget allocated by the Scottish Government for 2017/18 are included within the Parliamentary and Audit Report section of the Accountability Report.

The Resource Budget for 2018/19 amounts to £256.15m, including £247.85m of grant in aid and a ring fenced non-cash budget provision of £8.3m. 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.

Financial Position

Over the year 2017/18 there has been an increase in net asset values to £616.3m (2017: £573.3m) as shown in Scottish Enterprise's Group Statement of Financial Position.

Scottish Enterprise has commenced a programme of planned asset sales from its land and property portfolio and this is reflected in the total value of the land and property assets within Property, Plant and Equipment and Assets held for sale decreased to £173.9m (2017: £192.1m).

After accounting for new investments, sales and loan repayments and revaluation adjustments, the value of equity investments and loans to companies has increased to £322.3m (2017: £276.1m). The significant uplift in value is a reflection of on-going commitment to investment in Scottish companies.

PERFORMANCE REPORT (continued)

The surplus of assets over scheme obligations in the Scottish Enterprise Pension and Life Assurance Scheme has increased to £91.9m (2017: £40.1m). The scheme assets have grown by £6.7m, but scheme liabilities have decreased by £45.1m primarily as a consequence of market conditions affecting the discount rate used to calculate future obligations and by assumptions about future mortality rates and the outlook for higher long term inflation rates and salary growth.

Trade and other receivables (within one year) have decreased to £37.8m (2017: £51.4m). Trade debtors from land sales in the previous financial year have been collected contributing to a reduction in the level of Trade Debtors over the year. The level of accrued European Regional Development Fund (ERDF) income included in these financial statements has also reduced as claims have been made and settled but during the year the process of preparing claims also identified that Scottish Enterprise was unable to secure the necessary third party evidence required to support claims for European funds and the level of accrued income has been reduced accordingly. Further information is included in Note 14.

Cash balances have increased to £93.9m (2017: £74.7m) as debts have been recovered by Scottish Enterprise and, due to the timing of the receipt of invoices from suppliers and of grant claims, the level of accrued charges within Trade and other payables has increased and will be settled after the year end from these cash balances. A significant proportion of cash held in the Scottish Co-investment Fund and Scottish Loan Fund is to fund future investments.

Scottish Enterprise accesses Financial Transactions funding from the Scottish Government for investment in companies and for the provision of loans. The Financial Transactions funding is repayable to the Scottish Government over various terms of up to 16 years based initially on the estimated returns from the underlying investments made. During 2017/18 Scottish Enterprise drew down £38.3m of repayable Financial Transactions funds, including £3.8m to fund investments made under the Renewable Energy Investment Fund (REIF).

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 working days for all suppliers. In the year ended 31 March 2018, Scottish Enterprise paid 81% (2017: 80%) of suppliers' invoices within the revised standard. The average number of days taken to pay valid invoices during the year was 7.9 days (2017: 8.2 days).

SOCIAL MATTERS

Scottish Enterprise has well developed policies and procedures to address anti-corruption and anti-bribery matters. All Scottish Enterprise staff are required at all times to act honestly and with integrity and to safeguard the public resources for which they are responsible. Scottish Enterprise will not accept any level of fraud or corruption. All Scottish Enterprise staff are encouraged to raise concerns about possible improprieties in the conduct of Scottish Enterprise's business whether in matters of financial reporting or other malpractices, including fraud, bribery or blackmail, criminal offences, failure to comply with a legal or regulatory obligation, miscarriage of justice, endangering the health and safety of an individual or concealment of any of these matters. The policy is designed to support Scottish Enterprise's values and ensure that staff can raise concerns without fear of suffering retribution and ensures there is a transparent and confidential process for dealing with concerns.

We have created a comprehensive Corporate Social Responsibility strategy to support our organisation's goals and values and to ensure we are a good corporate citizen and play an active part in our communities across Scotland. Key elements of this strategy include our volunteering policy and our work with charities.

We have a strong employee supported volunteering programme. Our volunteering policy reflects our commitment to an active role in the communities in which we live and work and the environment as well as the development of our people. This year we again supported National Volunteers' Week in June and provided opportunities across the country so that our colleagues throughout Scotland had a chance to volunteer for a good cause near their own home base. Our volunteering policy allows colleagues to use up to 21 hours paid volunteering leave per year (pro-rata for part time staff). During 2017/18, volunteering opportunities were taken up by 184 colleagues totalling 1,574 hours.

ENVIRONMENTAL MATTERS

Scottish Enterprise strives to ensure that sustainability issues are addressed both in its own operations, and in conjunction with those businesses it supports and advises. In respect of our offices, our strategy of reducing our overall energy requirements, adoption of a flexible working environment across all our offices by 2020 and work to ensure we utilise lighting and heating more efficiently has resulted in significant CO₂ reductions over successive years. Similarly, we have revised our travel policies to reduce both the cost and environmental impact of staff requiring to travel as part of their duties. This includes, for example, encouraging the use of technology solutions for meetings and the promotion of public transport, and, in particular rail, as an alternative to car use or air travel.

PERFORMANCE REPORT (continued)

Our Annual Climate Change Duties Report is published on www.keepsotlandbeautiful.org, detailing our sustainability targets and performance. We are full participants in the Carbon Reduction Commitment Energy Efficiency Scheme and submit our annual report in July each year. Progress towards our sustainability targets are regularly reviewed by our Executive Leadership Team and our Environmental Management System has achieved the ISO14001:2015 standard. Scottish Enterprise expects to meet its carbon reduction target of 42% by 2020 (baseline year 2009/10).

Stephen Dunlop
Accountable Officer
3 July 2018

ACCOUNTABILITY REPORT

for the year ended 31 March 2018

CORPORATE GOVERNANCE REPORT

DIRECTORS' REPORT

The Board

The members of the Scottish Enterprise Board, with the exception of the Chief Executive, are appointed by the Scottish Ministers.

The Board members who held office during the year were as follows:

Bob Keiller	Chair
Paul Lewis (ii)	Interim Chief Executive, from 20 October 2017
Lena Wilson (i)	Chief Executive, to 20 October 2017
Melfort Campbell	
Stuart Fancey (iv)	from 1 April 2017
Anne Glover (iii)	
Willie Mackie	
Alison McGregor (iii)	to 28 February 2018
Gavin Nicol (iii)	
Carmel Teusner	

- (i) During the year, Lena Wilson gave notice of her intention to resign. She stepped down from, and ceased to perform the role of Chief Executive on 20 October 2017, and left the organisation on 31 December 2017.
- (ii) Paul Lewis, previously Managing Director of Scottish Development International and Scottish Enterprise International Operations, was appointed to the role of Interim Chief Executive on 20 October 2017. Subsequent to the year end, on 21 May 2018, Stephen Dunlop was appointed into the role of Chief Executive and Paul Lewis returned to his former role on that date.
- (iii) On 1 March 2018, Anne Glover and Gavin Nicol were re-appointed for a further term of 3 years to 28 February 2021. Alison McGregor had intimated that she did not seek re-appointment from that date and therefore she stood down from the Board on 28 February 2018.
- (iv) Stuart Fancey was co-opted on to the Board on 1 April 2017 for a period of one year which was subsequently extended until 31 December 2018.

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:

Paul Lewis	Interim Chief Executive	from 20 October 2017
	Managing Director, Scottish Development International and Scottish Enterprise International Operations	to 20 October 2017
Lena Wilson	Chief Executive	to 20 October 2017
Rhona Allison	Interim Managing Director, of Operations (Growth Companies, Innovation and Infrastructure)	from 11 December 2017
Neil Francis	Interim Managing Director, Scottish Development International and Scottish Enterprise International Operations	from 6 November 2017
Adrian Gillespie (i)	Managing Director, of Operations (Growth Companies, Innovation and Infrastructure)	to 31 December 2017
Linda Hanna	Managing Director, Strategy and Sectors	
Jane Martin	Managing Director, Customer Operations	
Iain Scott	Chief Financial Officer	
Carolyn Stewart	Managing Director, People Services	

- (i) During the year, Adrian Gillespie gave notice of his intention to resign. He stepped down from the role of Managing Director of Operations and left the organisation on 31 December 2017.

ACCOUNTABILITY REPORT (continued)

Register of Board Members' Interests

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.

Data Loss

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

Estate Management

Scottish Enterprise manages its operational offices in full accordance with the Scottish Government's Asset Management Policy. The Scottish Enterprise Property Plan provides details of current operational premises and our strategy is to ensure assets are utilised in the most efficient and effective manner possible. Scottish Enterprise works closely with the Scottish Government and the Smarter Workplaces team at Scottish Futures Trust to achieve this aim.

STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

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. Their relevant responsibilities as Accountable Officer, including the responsibility for the propriety, regularity and value for money of the public finances for which they are answerable, and for the keeping of proper records, are set out in the Scottish Enterprise Framework Agreement 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 all information included on Scottish Enterprise's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

As the Accountable Officer, as far as I am aware there is no relevant information of which Scottish Enterprise's auditors are unaware and that I have taken all necessary steps to make myself aware of any relevant audit information and to establish that Scottish Enterprise's auditors are aware of that information.

Furthermore, I confirm that the annual report and accounts as a whole is fair, balanced and understandable and as Accountable Officer am personally responsible for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

GOVERNANCE STATEMENT

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 for which I am personally responsible, in accordance with the responsibilities assigned to me.

As Accountable Officer I have specific responsibility in relation to:

- Best Value, including the concepts of corporate governance and continuous improvement;
- Planning, performance management and monitoring;
- Advising the Board;
- Managing risk and resources; and

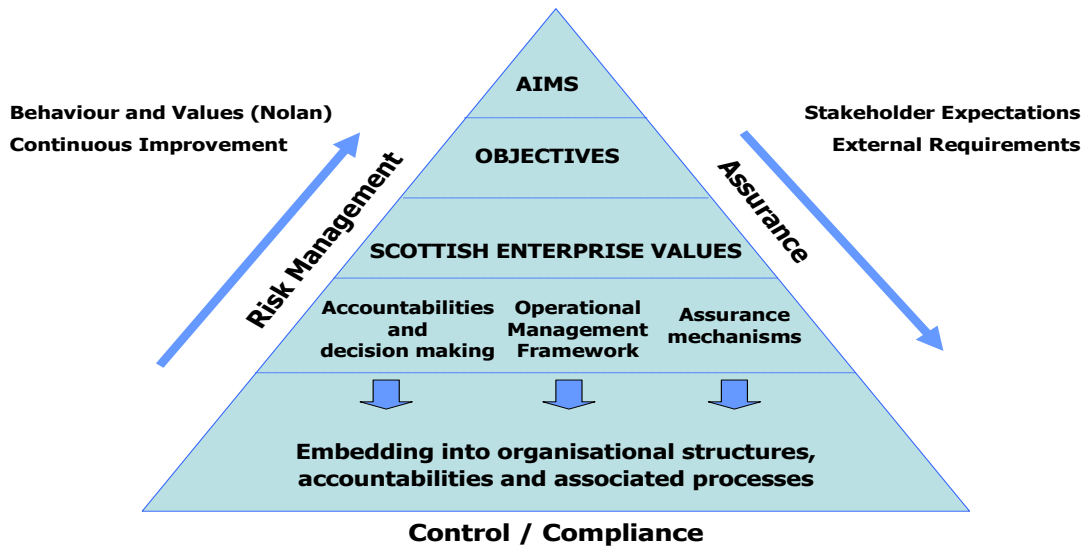
ACCOUNTABILITY REPORT (continued)

- Accounting for Scottish Enterprise’s activities.

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 Scotland’s Economic Strategy which sets out our strategic priorities. Each year, Scottish Enterprise publishes a 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. The importance of how Scottish Enterprise achieves its goals is recognised within the internal staff performance system through the introduction of four sets of behaviours, which are based on emotional and social intelligence – self awareness, self management, social awareness and relationship management - against which staff’s performance is measured.

Accountabilities and Decision Making

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

Scottish Enterprise Board and sub-Committees

The Scottish Enterprise Board is directly accountable to Scottish Ministers and through them to the Scottish Parliament. The Board Members 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. The appointment is made in line with the Code of Practice issued by the Commissioner for Ethical Standards in Public Life in Scotland.

ACCOUNTABILITY REPORT (continued)

The Scottish Enterprise Board has established clear terms of reference and operating practices for itself and its sub-Committees. The Board meets bi-monthly 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. The performance of the Chair of the Board is appraised annually by the Scottish Government.

The Board is responsible for Scottish Enterprise's performance and for ensuring it delivers Scottish Ministers' policies and priorities.

As at 31 March 2018, the Board of Scottish Enterprise comprised the Chair, 6 non-executive members and the Interim Chief Executive. The Board met in full 6 times in the year. The Board is responsible for the overall direction of the organisation within the strategic and funding framework set by Scottish Ministers. It has general corporate responsibility for:

- Establishing the overall strategic direction of Scottish Enterprise within the policy, planning and resources framework determined by Scottish Ministers;
- Ensuring Scottish Ministers are kept informed of any changes which are likely to impact on the strategic direction of Scottish Enterprise or on the attainability of its targets;
- Ensuring Scottish Enterprise complies with any statutory or administrative requirements for the use of public funds and, in so doing, satisfying itself that Scottish Enterprise operates within the limits of its statutory authority and any delegated authority agreed with the Scottish Government sponsor Directorate;
- Ensuring review of regular financial information concerning the management of Scottish Enterprise;
- Demonstrating high standards of corporate governance at all times;
- Providing commitment and leadership in the development and promotion of Best Value principles throughout Scottish Enterprise; and
- Appointing, with Scottish Ministers' approval, a Chief Executive to Scottish Enterprise and, in consultation with the sponsor Directorate, set performance objectives and remuneration terms linked to these objectives for the Chief Executive.

Membership and attendance at meetings of the Board during the year was as follows:

		Eligible to attend	Attendance
Bob Keiller	Chair	6	6
Paul Lewis	Interim Chief Executive, from 20 October 2017	3	3
Lena Wilson	Chief Executive, to 20 October 2017	3	2
Melfort Campbell		6	5
Stuart Fancey	from 1 April 2017	6	6
Anne Glover		6	3
Willie Mackie		6	5
Alison McGregor	to 28 February 2018	6	5
Gavin Nicol		6	4
Carmel Teusner		6	6

The Board was supported during the year by three sub-Committees: Audit and Risk, Remuneration and Nominations & Governance.

The purpose and membership of each committee for the year to 31 March 2018 is summarised below.

Audit and Risk Committee

The Scottish Enterprise Board has established an Audit and Risk Committee to support them in their responsibilities for issues of risk, control and governance and associated assurance. The Audit and Risk Committee monitors and reports to the board on the planned activity and results of both internal and external audit, including the adequacy of management response to issues identified by audit activity. The Audit and Risk Committee also reviews the accounting policies, the accounts and the annual report of the organisation.

The Committee is appointed by the Scottish Enterprise Board from amongst the non-executive directors and consists of not less than 3 members. At least one member of the Committee shall have recent and relevant financial experience. All new members undertake formal induction covering the role of the Audit Committee, overview of the organisation's key risks and audit issues. Members also receive appropriate training in relation to their role as a member of the Audit Committee.

Remuneration Committee

The Remuneration Committee determines and agrees the framework or broad policy for the remuneration of the organisation's Chief Executive, Chair, the executive directors and other members of the executive management as it is designated by the Scottish Enterprise Board to consider.

ACCOUNTABILITY REPORT (continued)

The Committee is appointed by the Scottish Enterprise Board from amongst the non-executive directors and consists of not less than 3 members. The Chair of the Board may not be the Chair of the Committee. The Committee meets at least twice a year in line with the Scottish Enterprise Performance Review process.

Nominations and Governance Committee

The Nominations and Governance Committee provides a strategic overview of the organisation's senior executive and non-executive personnel including carrying out an annual review of the structure, size and composition (including the skills, knowledge and experience required) of the Scottish Enterprise Board and Executive Leadership Team compared to their current position and makes recommendations to the Chair, Board and Scottish Government for any changes. The Committee is responsible for advising the Chair when filling the position of Chief Executive, on appointments to the Executive Leadership Team and advising the Board for appointment of members to the Board Committees. The Committee also keeps under review the organisation's governance structure, including an annual Board effectiveness review.

The Committee is appointed by the Scottish Enterprise Board from amongst the non-executive directors and consists of not less than 3 members. The Scottish Enterprise Chair chairs the Committee and the Committee meets at least twice a year.

Sub Committee Membership and Attendance Record

The format of attendance records below shows the number of meetings attended and the number of meetings the board member was eligible to attend.

	Audit and Risk	Remuneration	Nominations / Governance
Bob Keiller, Chair		2/2	2/2 C
Melfort Campbell	2/3	2/2 C	2/2
Anne Glover		1/2	1/2
Willie Mackie	3/3 C	1/2	1/2
Gavin Nicol (i)		1/2	1/2
Carmel Teusner	3/3		

C – Committee Chair

- (i) Gavin Nicol was appointed to the Remuneration committee and Nominations and Governance Committee on 13 June 2017.

Scottish Enterprise Chief Executive

As the Accountable Officer at the date of signing this report, 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. During the year there were two Chief Executives who also performed the role of Accountable Officer and following my appointment I received an appropriate handover from the interim Chief Executive to enable me to sign these accounts.

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:

ACCOUNTABILITY REPORT (continued)

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 take a leading role.

Resource Management

The Scottish Enterprise Project Lifecycle incorporates a strong, constructive, independent challenge to increase the quality of the projects 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 four main operational budget headings and two further budget headings for support services which are aligned with the Business Plan. These headings are further analysed into business areas where there is clear accountability for the budget. The Executive Leadership Team receives 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.

IT Services

Enterprise Information Services (EIS) is a shared service that provides IT services to Scottish Enterprise, Skills Development Scotland and Highlands and Islands Enterprise. EIS hosts the main platforms which are common to each organisation. EIS is supported by contracts with suppliers delivering services under the current Supplier Integration and Management model.

Risk Management

The Scottish Enterprise Board has approved a risk management policy, the operation of which it reviews on an annual basis to ensure it is supporting the effective and efficient operation of the organisation; helping the business respond to business risks and to implement adequate controls. In accordance with the policy, the Board determines risk appetite, 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 Executive Leadership Team 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 co-ordinating response to the risk and for any reporting requirements.

Scottish Enterprise's Audit and Risk Committee reviews the Corporate Risk Register regularly on behalf of the Board. The Scottish Enterprise Board approves the Corporate Risk Register annually as part of its annual report on risk management. As referenced in page 3 of the Performance Report, the risk management arrangements are embedded across the organisation and have been assessed as operating effectively with some areas identified for improvement. The key risks identified and considered during the year are also outlined on page 3.

Assurance

Role of Scottish Enterprise Audit and Risk Committee

The Scottish Enterprise Board has established an Audit and Risk 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 critically reviews and challenges this assurance and gives its opinion on its comprehensiveness, reliability and integrity in an annual report which is considered by the Scottish Enterprise Board.

ACCOUNTABILITY REPORT (continued)

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 Executive Leadership Team 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. In order to enhance assurances further in relation to information technology and related processes, EIS are also required to provide a Certificate of Assurance. In addition, an independent ISAE 3402 compliance audit of the outsourced ICT Managed Services provision was completed. Unqualified reports covering the year to 31 March 2018 were issued. Two high risk exposures were identified for which EIS has established an action plan to address. During the year there were no significant lapses of data security.

During the year an internal audit review was undertaken on Contract Management and its findings were reported to the Audit and Risk Committee in September 2017. The review, which covered the high volume/low value products and grants offered to businesses, identified a number of issues which had contributed to a high level of non-compliance in relation to the processing of grant claims and which required prompt management attention. As most of these transactions related to European funded programmes there were implications for European Income to be received by Scottish Enterprise (see Note 14).

A further internal audit review was completed in March 2018 and concluded there had been significant improvement since the previous audit. Management continues to monitor the impact of the actions taken.

With the exception of the above, I have confirmed for 2017/18 that controls have been, and are, working well within Scottish Enterprise. There are no further 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 and Risk Committee.

For 2017/18 the conclusion of internal audit work carried out identifies an overall good level of assurance on Scottish Enterprise's framework of governance, risk management and management control with the exception of an internal audit review of Contract Management.

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 Wylie and Bisset LLP.

The external auditors have given unqualified audit opinions on the accounts for the year ended 31 March 2018 and on the regularity of transactions reflected in the accounts. No significant issues have been identified as part of their audit process and all matters raised are being addressed through an action plan.

REMUNERATION AND STAFF REPORT

This report explains the remuneration policy of Scottish Enterprise for Board Members and for the Executive Leadership Team, and provides details of members' remuneration for the year ended 31 March 2018.

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.

Bob Keiller was appointed as Chair with effect from 1 January 2016 for a period of 3 years to 31 December 2018. The Scottish Government sets the level of remuneration for the Chair 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 takes into account additional responsibility arising from holding the chairmanship positions on the board committees. 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. Out with this, remuneration will be amended if the level of responsibility and time commitment changes.

ACCOUNTABILITY REPORT (continued)

Board Members' Remuneration (the information on pages 19 to 23 has been subject to audit)

Remuneration paid to the Chair and other non-executive board members who served during the year to 31 March 2018 was:-

		Fee £	Travel Allowance £	2018 Total Remuneration £	Fee £	Travel Allowance £	2017 Total Remuneration £
Bob Keiller	Chair	40,872	-	40,872	40,482	-	40,482
Melfort Campbell		12,900	2,065	14,965	12,780	2,065	14,845
Stuart Fancey (a) from 1 April 2017		-	-	-	-	-	-
Anne Glover		12,900	2,254	15,154	12,780	2,705	15,485
Willie Mackie (b)		15,480	596	16,076	15,969	695	16,664
Alison McGregor (c) to 28 February 2018		-	-	-	-	-	-
Gavin Nicol		12,900	-	12,900	12,780	-	12,780
Carmel Teusner		12,900	2,730	15,630	12,780	3,185	15,965

- (a) Stuart Fancey was co-opted on to the Board on 1 April 2017 and waived his entitlement to a board fee. His fees for 2017/18 would have been £12,900.
- (b) Fees include sums payable to reflect the additional time commitment from those members holding the chairmanship positions on the board committees.
- (c) Alison McGregor waived her entitlement to a board fee for 2017/18 of £11,825 (2017: £12,780).

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 Chair 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 Chair 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 2018 are outlined in the Governance Statement

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.

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. The former Chief Executive had a contractual entitlement to receive an annual performance bonus of up to 10% of basic salary however this was suspended due to public sector pay policy and consequently for 2017/18 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.

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.

ACCOUNTABILITY 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 were reviewed on 1 July 2017 with the exception of the Chief Executive whose salary was reviewed on 1 April 2017. From 2018, all salaries will be reviewed annually on 1 April. Salary levels are established after taking into account external market levels and internal comparisons as well as individual responsibilities. Annual reviews are conducted in line with the pay remit agreed with the Scottish Government. Salary payments are made every four weeks.

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 20% of the employees' pensionable salary. This is a defined benefits scheme that provides benefits at a normal retirement age of 65, or 60 for staff members who joined before 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.

Remuneration of the Executive Leadership Team members who served during the year to 31 March 2018 was:-

	2018				2017			
	Salary (i) £000	Other £000	Pension benefits (v) £000	Total £000	Salary (i) £000	Other £000	Pension benefits (v) £000	Total £000
Paul Lewis (ii)	143	-	162	305	128	-	37	165
Lena Wilson to 20 October 2017 (iii)	171	-	27	198	214	-	65	279
Rhona Allison from 11 December 2017	34	-	25	59	-	-	-	-
Neil Francis from 6 November 2017	43	-	48	91	-	-	-	-
Adrian Gillespie to 31 December 2017	93	-	37	130	118	-	41	159
Linda Hanna	121	-	61	182	116	-	48	164
Jane Martin	121	-	48	169	116	-	39	155
Iain Scott	129	-	39	168	128	-	36	164
Carolyn Stewart	128	-	58	186	124	-	43	167

- (i) All salaries noted above relate to the period that the individual held a role on the Executive Leadership Team. Lena Wilson's full time equivalent salary was £216,446. Adrian Gillespie's full time equivalent salary at the date he left Scottish Enterprise was £125,672. The full time equivalent salaries payable to both Rhona Allison and Neil Francis for the period in which they served on the Executive Leadership Team were £111,100.
- (ii) Paul Lewis received a temporary increase in salary while acting as Interim Chief Executive which is reflected above in his salary and accrued pension benefits. The annualised full time equivalent salary for the interim Chief Executive position was £160,000. Excluding the effect of the temporary upgrade, Paul Lewis's total remuneration would have been £169,418 comprising salary (£129,126) and pension benefits (£40,292).
- (iii) The salary figure noted for Lena Wilson above includes her salary to the date she stepped down as Chief Executive (£120,710), a payment in lieu of accrued holidays up to that date (£13,320) and a payment to satisfy her legal rights (£36,500).
- (iv) In line with all Scottish Enterprise staff, if they were eligible, Executive Leadership Team members, including the Chief Executive, received a pay increment. Increases varied from 1.00% to 4.04% depending upon the position of the existing salary in the pay band.
- (v) The value of pension benefits accrued during the year is calculated as the real increase in pensions and applying the HMRC methodology multiplier of 20 plus the real increase in any lump sum. The real increases exclude increases due to inflation and are net of contributions made by the individual.

ACCOUNTABILITY REPORT (continued)

(vi) Retirement benefits of the Executive Leadership Team members for the year to 31 March 2018 are as follows:-

	<i>Accrued Pension at age 60 as at 31 March 2018 and related lump sum £000</i>	<i>Change in pension net of inflation and related lump sum at age 60 £000</i>	<i>Cash Equivalent Transfer Value (a)(c)</i>		
			<i>At 31 March 2018 £000</i>	<i>At 31 March 2017 £000</i>	<i>Increase net of members' contributions £000</i>
Paul Lewis	55 - 60 plus lump sum of 165 - 170	5 - 7.5 plus lump sum of 20.0 - 22.5	1,757	1,648	101
Lena Wilson (b)	75 - 80 plus lump sum of 225 - 230	0 - 2.5 plus lump sum of 2.5 - 5.0	2,433	2,448	(19)
Rhona Allison (c)	15 - 20 plus lump sum of 45 - 50	0 - 2.5 plus lump sum of 2.5 - 5.0	494	483	9
Neil Francis (c)	25 - 30 plus lump sum of 80 - 85	0 - 2.5 plus lump sum of 5.0 - 7.5	874	846	26
Adrian Gillespie (b)	20 - 25 plus lump sum of 70 - 75	0 - 2.5 plus lump sum of 5.0 - 7.5	776	709	61
Linda Hanna	40 - 45 plus lump sum of 120 - 125	2.5 - 5.0 plus lump sum of 7.5 - 10.0	1,241	1,199	35
Jane Martin	25 - 30 plus lump sum of 75 - 80	0 - 2.5 plus lump sum of 5.0 - 7.5	762	692	62
Iain Scott	40 - 45 plus lump sum of 130 - 135	0 - 2.5 plus lump sum of 5.0 - 7.5	1,366	1,400	(42)
Carolyn Stewart	35 - 40 plus lump sum of 105 - 110	2.5 - 5.0 plus lump sum of 7.5 - 10.0	1,081	1,007	66

(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. The exceptionally low level of current long term interest rates cause the cash equivalent transfer values to be unusually high and these would reduce substantially if interest rates were to return to historic levels.

(b) Lena Wilson and Adrian Gillespie left Scottish Enterprise on 31 December 2017. Lena Wilson's accrued pension and final cash equivalent transfer value have been prepared to the date she stepped down from her role as Chief Executive.

(c) Cash equivalent transfer values and the subsequent increases in value noted in the table above for Neil Francis and Rhona Allison are calculated from 6 November 2017 and 11 December 2017 respectively as they served on the Executive Leadership Team for only part of the financial year.

ACCOUNTABILITY REPORT (continued)

Fair Pay Disclosure

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 is as follows:-

	2018 £	2017 £
Annualised remuneration before pension benefits of the highest paid member of the Executive Leadership Team	160,000	214,303
Median remuneration of Scottish Enterprise's employees	43,097	41,200
Remuneration ratio	<u>3.7</u>	<u>5.2</u>

The reduction in the annualised salary of the highest paid member of the Executive Leadership Team is a consequence of the terms on which the interim Chief Executive was engaged following the former Chief Executive's decision to leave the organisation during the year. The median remuneration of Scottish Enterprise's employees is based upon the annualised full-time equivalent salary of the employees at 31 March 2018.

The full time equivalent remuneration paid to Scottish Enterprise staff ranged from £16,700 to £217,149 (2017: £16,150 to £214,303).

STAFF REPORT

Staff Costs

The costs of Non executive board members, including the Chair, comprise:

	2018 £	2017 £
Remuneration (i)	115,598	161,087
Pension and social security costs	21,577	25,564
	<u>137,175</u>	<u>186,651</u>

- (i) Remuneration paid to non-executive board members is also detailed in the Remuneration Report above.
- (ii) Scottish Enterprise's former Chief Executive, Lena Wilson, and the Interim Chief Executive, Paul Lewis, were also members of the board. Their remuneration is not included above but details are provided in the Remuneration Report.
- (iii) Scottish Enterprise is required to meet the retirement benefits due to past Chairmen of Scottish Development Agency and Scottish Enterprise who are not members of the Scottish Enterprise Pension & Life Assurance Scheme. Provision has been made in these accounts for £109,700 (2017: £81,700) within the total retirement benefit liabilities at 31 March 2018, as assessed by Mercer Limited, Scottish Enterprise's advising actuaries.

ACCOUNTABILITY REPORT (continued)

Staff costs comprise:

	<i>Permanent staff</i> £000	<i>Others</i> £000	<i>2018</i> £000	<i>2017</i> £000
Wages and salaries	53,197	-	53,197	53,702
Social security costs	5,588	-	5,588	5,182
Pension costs	21,066	-	21,066	12,480
Inward seconded and temporary staff costs	-	2,709	2,709	1,491
Severance costs and other exit packages	14	-	14	-
Total staff costs before recoveries (i)	79,865	2,709	82,574	72,855
Less: recoveries in respect of outward secondments	(326)	-	(326)	(588)
Total net staff costs	79,539	2,709	82,248	72,267

- Total staff costs before recoveries includes expenditure on temporary staff costs of £1,514,000 (2017: £945,000) within operating expenditure and expenditure of £15,000 (2017: £114,000) within other management costs in Note 3.

Staff Numbers

The average number of persons employed calculated on a full time equivalent basis was:

	<i>Permanent staff</i> No.	<i>Others</i> No.	<i>2018</i> No.	<i>Restated 2017</i> No.
Executive Leadership Team	7	-	7	7
Operations	1,066	-	1,066	1,100
Administration and support function	290	-	290	309
Inward Secondments and temporary staff (i)	-	46	46	29
	1,363	46	1,409	1,445

- (i) The number of inward secondments and temporary staff has been restated to include people in the overseas offices employed by the Foreign and Commonwealth Office but engaged on Scottish Enterprise business.

Exit Packages and Settlement Agreements

There were 2 staff members (2017: None) who left Scottish Enterprise under severance in the year to 31 March 2018. Both staff members left following a review which resulted in the closure of Scottish Enterprise's office in Russia and the creation of a new Nordics and Caspian Region which will be managed from Copenhagen, Denmark.

<i>Exit package cost band</i>	<i>Compulsory redundancies</i> No.	<i>Other departures agreed</i> No.	<i>Total 2018</i> No.	<i>Total 2017</i> No.
< £10,000	2	-	2	-

The total cost of exit packages in the year to 31 March 2018 amounted to £13,694 (2017: Nil). A contingent liability of £14,000 has been included in these financial statements in respect of further termination payments which may become due.

One further member of staff left under a Settlement Agreement.

<i>Settlement Agreement cost band</i>	<i>Compulsory redundancies</i> No.	<i>Other departures agreed</i> No.	<i>Total 2018</i> No.	<i>Total 2017</i> No.
£25,000 to £50,000	-	1	1	-

ACCOUNTABILITY REPORT (continued)

Staff Composition

At the end of the financial year the number of persons of each sex was as follows:

	Male	Female	Total
Board (i)	5	2	7
Executive Leadership Team	3	4	7
Other employees	601	792	1,393
Total	609	798	1,407

(i) Paul Lewis, the interim Chief Executive Officer, is included as a member of the Executive Leadership Team in the table above. He is also a member of the Board.

Sickness Absence

The absence record for Scottish Enterprise employees for the year to end March 2018 was 8,917 (2017: 9,227) sick days out of a possible 239,121 (2017: 247,739) working days representing a lost time through sickness absence of 3.73% (2017: 3.72%).

Trade Union Facility Time

Scottish Enterprise recognises two trade unions for the purpose of collective bargaining, Public and Commercial Services Union (PCS) and Unison.

We recognise the benefits of a positive and open relationship with our recognised trade unions. As part of our commitment to working in partnership we offer paid facility time to our work place representatives to enable them to carry out union activities and duties. As an organisation, we derive benefits from allowing paid facility time.

There were 13 staff members who were a trade union official during 2017/18.

<i>Percentage of working hours spent on facility time</i>	<i>Union officials No.</i>
1 – 50%	<u><u>13</u></u>

The total cost of facility time amounted to 0.06% of the total pay bill, including the gross amount spent on wages, pension contributions, and national insurance contributions. 28% of the total paid facility time hours was spent on trade union activities.

Staff Policies

During 2017/18 we have continued our focus on an inclusive employee engagement programme designed to engender high levels of workplace engagement as a means to drive continuous improvement and greater productivity in our organisational performance. We recognise that highly engaged organisations perform better, are more innovative and have lower levels of absenteeism, making employee engagement critical in Scottish Enterprise's drive to create a world-class business environment for Scotland.

A key component of our engagement programme continues to be leadership engagement and at Scottish Enterprise, colleagues are provided with multiple opportunities every year to engage directly with a member of the leadership group to discuss our business performance and the financial and economic factors affecting this. Through this engagement the people of Scottish Enterprise directly contribute to the ongoing development of our business plan.

We have co-operative working relationships with our recognised trade unions and ensure they are engaged in business changes through working groups such as the Terms and Conditions Sub Group and our Joint Committee for Negotiation and Consultation (JCNC). We have a Health & Safety Committee which includes union representatives, employees and management. The committee meets quarterly.

As an organisation, we develop and deliver programmes and services to ensure that we attract, develop, engage and retain talented people, in order to deliver our business plan for Scotland. As an accredited Investors in People (IIP) Gold and Investors in Young People (IYP) employer, attracting a diverse workforce includes a focus on youth employment and development through our structured programmes, for example, modern apprenticeships, enterprise apprenticeships and graduates. We also develop talent through a comprehensive range of learning and development opportunities, including career planning support, an SE Academy, people manager development, resonance training for all staff, and a broad range of talent development class room based learning opportunities. In addition, we proactively manage

ACCOUNTABILITY REPORT (continued)

employee and industrial relations policies and issues, and also coordinate workforce planning by aligning headcount and skills requirements with the future business plan.

At Scottish Enterprise, we value and recognise individuals' contributions regardless of age, disability, ethnic origin, sex, marital and civil partnership status, religion/belief, sexual orientation, pregnancy/maternity or gender re-assignment and embrace a culture based on fair treatment. To reinforce the awareness of these protected characteristics and related policies such as Dignity at Work and Diversity, we require all our people to participate in diversity training and review and acknowledge changes online. We have rolled out unconscious bias training in a phased approach, first of all, to our people managers, leaders and Account Managers. The next phase of the roll out will be for all employees.

We offer a varied range of blended learning programmes to accommodate all staff, ensuring equal treatment of development needs. We work strategically with our leaders, people managers and colleagues to ensure our training offering meets all colleagues' requirements. Our training programmes are mainly delivered across SE office locations and provision is put in place for any employee who has a disability and who has made this known to us. Our training programmes and material are designed to accommodate all learning needs, and can be further adapted for employees with a disability.

From job content, recruitment, employment and development our policies and practices ensure that we promote equality and fairness to all individuals. We hold "Scottish Living Wage", "Working Families" and "Disability Confident" standards for our employment practices and are recognised as an employer for supporting diversity, including Stonewall membership. We regularly review our equal opportunity data, including running focus groups, with external Equality organisations, and identify actions which will help drive improvements.

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, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

Scottish Enterprise's recruitment procedure ensures that selection processes are fair, open and objective. More than one person will always interview – we do our best to have a gender-balanced panel - and interviewers will have an opportunity to access recruitment and selection training. All appointments are made on merit, and selection criteria only include requirements that are relevant to the effective performance of the role.

During 2017 we piloted name-blind applications. We plan to roll this out with our new HR system due for implementation in 2018/19.

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. Our equality impact assessments now review human rights as part of the methodology applied and we have carried out assessments on a number of projects. Scottish Enterprise also serves on a working group for international business as part of the Human Rights Scottish National Action Plan (SNAP) development. Over and above that, we have been involved in supporting the development of a related plan for business and human rights, led by the Scottish Government and the Scottish Human Rights Commission. During 2017/18 information leaflets on the UN Convention on Rights of the Child were circulated to all Scottish Enterprise offices to raise awareness amongst staff and help them recognise the importance of these obligations.

Following our 2017/18 pay award, we worked on an equal pay review, in partnership with our recognised trade unions. The review found no evidence of systemic pay discrimination. However, our analysis identifies themes around occupational segregation, which reinforces the analysis from last year's equality mainstreaming report. We've updated the equality action plan from our 2017 mainstreaming report, and this includes the actions from the equal pay review.

Our next equality mainstreaming report is due by April 2019.

PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

Summary of Resource and Capital 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 under-spend against its funding provision for the year to 31 March 2018 was £13.2m, £10m of which related to the funding available for the Scottish European Growth Co-investment Programme. This is part of an innovative pilot fund through which Scottish Enterprise will invest up to £50m alongside the European Investment Fund.

ACCOUNTABILITY REPORT (continued)

Due to the long lead time required to promote the fund, unlock demand and build the pipeline that will lead to completed deals, Scottish Enterprise was unable to call on any of the funding allocated for 2017/18. The financial commitment to the fund is unaffected by the timing issues and remains at £50m.

Scottish Enterprise drew down Grant in Aid of £207.510m, including Financial Transactions funding, against the 2017/18 Grant in Aid provision of £218.034m.

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

	<i>Expenditure</i> £000	<i>Income</i> £000	<i>Outturn</i> £000	<i>Allocation</i> £000	<i>Underspend</i> £000
Resource budget (see below)	181,933	(40,824)	141,109	142,434	(1,325)
Capital budget	85,935	(55,654)	30,281	30,600	(319)
Financial Transactions budget	33,483	-	33,483	45,000	(11,517)
	301,351	(96,478)	204,873	218,034	(13,161)
Non-cash costs including depreciation	4,100	-	4,100	10,600	(6,500)
Total resource budget	305,451	(96,478)	208,973	228,634	(19,661)
Annually managed expenditure	30,941	-	-	35,000	(4,059)

Reconciliation of the group statement of comprehensive net expenditure to resource outturn

	£000
Net expenditure before taxation	224,983
Attributable to non-controlling interests in subsidiaries	(168)
Depreciation charge allocated to non-cash costs	(4,100)
Asset revaluation adjustments charged to annually managed expenditure	(3,017)
Investment impairments charged to annually managed expenditure	(19,847)
Net pension costs attributed to annually managed expenditure	(7,806)
Provisions charged to annually managed expenditure	195
Scottish Government Grant income credited to reserves	(1,328)
Net expenditure attributed to the capital budget	(47,803)
Resource budget	141,109

Losses and Special Payments

	<i>No. of cases</i>	<i>£000</i>
Claims abandoned or waived	121	8,403

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 2018, balances in excess of £250,000 written off were as follows:-

		£000
2-B Energy Limited	Accrued interest written off as part of a negotiated package to convert debt to equity and secure improved investment terms	531
Airborne Energy Limited	Investment in ordinary shares to support the company in proof of concept and subsequently in prototype development and commercialisation of their technology but the company was unable to develop a commercially viable product and it was unable to attract further investment. The company was dissolved.	605
Aquapharm Biodiscovery Limited	Scottish Enterprise invested in a combination of shares and loan funding between 2005 and 2013. The company was unable to commercialise its assets sufficiently to generate the working capital required to sustain its operations and was placed in Administration ultimately leading to its dissolution. The amount written off included £70,000 of accrued interest.	1,136

ACCOUNTABILITY REPORT (continued)

		£000
Aqaira Holdings Limited	The company was awarded Regional Selective Assistance (RSA) grants to assist it to establish its operations in Glasgow. The company was later placed in administration. Scottish Enterprise has, to date, been unable to recover the grant which became repayable as the company did not maintain the jobs targets related to the grant award.	849
Blipfoto Limited	Scottish Enterprise invested in the ordinary shares of the company between 2010 and 2015 but despite extensive marketing efforts it was unable to attract the required user numbers for its product to maintain a viable commercial operation. The company entered liquidation and was subsequently dissolved.	635
Netidme Limited	Scottish Enterprise invested in a combination of shares and loan funding between 2006 and 2014. The company lacked the commercial resources to complete contracts with large customers and to compete with bigger competitors. The company entered liquidation and was subsequently dissolved. The amount written off included £64,000 of accrued interest.	1,458
Twickler Industries Limited	The company was awarded Regional Selective Assistance grants to assist it to maintain jobs and assets and subsequently to relocate to Dundee. The company had cash flow difficulties due to its property refurbishment costs and the downturn in the oil and gas industry and the company was placed in administration. Scottish Enterprise assessed the extent to which the grants awarded had achieved their original purpose and wrote off the balance which was deemed not to have secured the required value for money.	330
Vibio (UK) Limited	Cost of ordinary shares written off as the company was unable to make the technical progress of its product required to attract further investment and was subsequently dissolved.	291
Waveblade Limited	Scottish Enterprise invested in a combination of shares and loan funding between 2012 and 2014. The company was unable to sufficiently develop its sales to be sustainable leading to its failure and dissolution.	566

Subsequent to the end of the financial year, with the approval of the Scottish Government, Scottish Enterprise agreed to waive arrears of rent and service charges of up to £1.683m as part of a re-negotiation of a lease with Burntisland Fabrications Limited at Fife Energy Park.

Fees and charges

As required in the Fees and Charges guidance in the Scottish Public Finance Manual, Scottish Enterprise charges market rates whenever applicable.

Remote contingent liabilities

Contingent liabilities that meet the disclosure requirements in IAS37 Provisions and Contingent Liabilities are included in Note 19 of the Notes to the Accounts. In addition, due to the complex nature of the business activities and extensive portfolio of assets of Scottish Enterprise, there are contingent liabilities for which IAS37 does not require disclosure because the probability of any requirement on Scottish Enterprise to meet any future liabilities is considered to be remote.

Scottish Enterprise also considers to be remote, the likely occurrence of any of the events of default which would require repayment in full or in part of the original funding contributions for the construction of the assets of Glasgow Science Centre Charitable Trust.

Stephen Dunlop
Accountable Officer
3 July 2018

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

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 120 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.

Report on the audit of the financial statements

Opinion on financial statements

I have audited the financial statements in the annual report and accounts of Scottish Enterprise and its group for the year ended 31 March 2018 under the Enterprise and New Towns (Scotland) Act 1990. The financial statements comprise the Group Statement of Comprehensive Net Expenditure, Scottish Enterprise Statement of Comprehensive Net Expenditure, the Group Statement of Financial Position, Scottish Enterprise Statement of Financial Position, the Group Statement of Cash Flows, Scottish Enterprise Statement of Cash Flows, the Group Statement of Changes in Taxpayers' Equity, Scottish Enterprise Statement of Changes in Taxpayers' Equity and notes to the financial statements, including a summary of significant accounting policies. 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 2017/18 Government Financial Reporting Manual (the 2017/18 FReM).

In my opinion the accompanying 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 affairs of the body and its group as at 31 March 2018 and of the 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 2017/18 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.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the body and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the body has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accountable Officer is responsible for assessing the ability of the body and its group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual report and accounts

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration and Staff Report, and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on regularity of expenditure and income

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.

Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Report on other requirements

Opinions on matters prescribed by the Auditor General for Scotland

In my opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been 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 Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers.

Matters on which I am required to report by exception

I am required by the Auditor General for Scotland to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Gordon Smail
Assistant Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN
July 2018

GROUP STATEMENT OF COMPREHENSIVE NET EXPENDITURE

for the year ended 31 March 2018

	Notes	2018 £000	2017 £000
Expenditure			
Operating expenditure	1,3	177,104	175,458
Net management expenditure on staff costs	3	81,182	71,983
Other management expenditure	3	24,565	28,071
		<u>282,851</u>	<u>275,512</u>
Income			
Income from activities	2	(23,785)	(24,696)
Other Income	2	(27,164)	(45,943)
		<u>(50,949)</u>	<u>(70,639)</u>
Net Operating Expenditure		231,902	204,873
Share of losses in equity accounted investees	7	-	14
Income from investments	2	(274)	(196)
Interest receivable	2	(5,461)	(3,732)
Other finance income	2	(1,184)	(2,779)
		<u>(6,929)</u>	<u>(6,783)</u>
Net Expenditure after interest		224,983	198,180
Taxation	4	467	437
Net Expenditure after taxation		<u>225,450</u>	<u>198,617</u>
Other Comprehensive Net Expenditure			
Items that will not be reclassified to net expenditure:			
Net gains on revaluation of property, plant and equipment		(5,130)	(3,577)
Net losses on revaluation of property, plant and equipment held by Equity Accounted Investee		-	-
Net remeasurement (gains)/losses recognised in retirement benefits scheme		(59,604)	34,027
Items that may be reclassified to net expenditure:			
Net gains in fair value of available for sale assets		(26,973)	(6,169)
Reclassification to net expenditure in the year		133	3,921
		<u>(26,840)</u>	<u>(2,248)</u>
Total Comprehensive Net Expenditure for the year		<u>133,876</u>	<u>226,819</u>
Attributable to:			
Taxpayers' Equity		133,708	226,839
Non-Controlling Interest		168	(20)
		<u>133,876</u>	<u>226,819</u>

The notes on pages 38 to 83 form part of these accounts.

SCOTTISH ENTERPRISE STATEMENT OF COMPREHENSIVE NET EXPENDITURE

for the year ended 31 March 2018

	Notes	2018 £000	2017 £000
Expenditure			
Operating expenditure	1,3	173,071	169,040
Net management expenditure on staff costs	3	74,014	64,899
Other management expenditure	3	23,941	27,144
		<u>271,026</u>	<u>261,083</u>
Income			
Income from activities	2	(22,383)	(23,398)
Other Income	2	(18,904)	(36,791)
		<u>(41,287)</u>	<u>(60,189)</u>
Net Operating Expenditure		229,739	200,894
Income from investments	2	(220)	(138)
Interest receivable	2	(5,457)	(3,721)
Other finance income	2	(1,184)	(2,779)
		<u>(6,861)</u>	<u>(6,638)</u>
Net Expenditure after interest		222,878	194,256
Taxation	4	464	359
		<u>464</u>	<u>359</u>
Net Expenditure after taxation		<u>223,342</u>	<u>194,615</u>
Other Comprehensive Net Expenditure			
Items that will not be reclassified to net expenditure:			
Net gains on revaluation of property, plant and equipment		(4,622)	(53)
Net remeasurement (gains)/losses recognised in retirement benefits scheme		(59,604)	34,027
Items that may be reclassified to net expenditure:			
Net gains in fair value of available for sale assets		(26,960)	(5,724)
Reclassification to net expenditure in the year		-	3,870
		<u>(26,960)</u>	<u>(1,854)</u>
Total Comprehensive Net Expenditure for the year		<u>132,156</u>	<u>226,735</u>

The notes on pages 38 to 83 form part of these accounts.

GROUP STATEMENT OF FINANCIAL POSITION

as at 31 March 2018

	Notes	2018 £000	2017 £000	2016 £000
NON-CURRENT ASSETS				
Property, plant and equipment	5	178,449	198,719	202,214
Intangible assets	6	-	-	-
		<u>178,449</u>	<u>198,719</u>	<u>202,214</u>
Financial assets				
Investments in equity accounted investees	7	1,409	1,617	1,531
Other investments	8	314,226	265,107	236,449
Total financial assets		<u>315,635</u>	<u>266,724</u>	<u>237,980</u>
Retirement benefits scheme	10	91,938	40,140	71,813
Other non-current receivables	11	2,237	2,680	4,435
TOTAL NON-CURRENT ASSETS		<u>588,259</u>	<u>508,263</u>	<u>516,442</u>
CURRENT ASSETS				
Intangible assets	6	104	95	118
Other investments	8	8,073	11,002	18,750
Assets classified as held for sale	12	5,980	4,740	13,635
Inventories	13	115	111	118
Income tax receivable		49	27	33
Trade and other receivables	14	37,742	51,369	16,764
Cash and cash equivalents	15	93,872	74,713	106,381
TOTAL CURRENT ASSETS		<u>145,935</u>	<u>142,057</u>	<u>155,799</u>
TOTAL ASSETS		<u>734,194</u>	<u>650,320</u>	<u>672,241</u>
CURRENT LIABILITIES				
Trade and other payables	16	(56,751)	(52,471)	(48,974)
Income tax payable		(257)	(222)	(593)
Provisions	17	(2,432)	(2,627)	(2,072)
TOTAL CURRENT LIABILITIES		<u>(59,440)</u>	<u>(55,320)</u>	<u>(51,639)</u>
NON-CURRENT ASSETS PLUS NET CURRENT ASSETS		<u>674,754</u>	<u>595,000</u>	<u>620,602</u>
NON-CURRENT LIABILITIES				
Other payables	16	(58,434)	(21,666)	(4,367)
TOTAL NON-CURRENT LIABILITIES		<u>(58,434)</u>	<u>(21,666)</u>	<u>(4,367)</u>
ASSETS LESS LIABILITIES		<u>616,320</u>	<u>573,334</u>	<u>616,235</u>
TAXPAYERS' EQUITY				
General Reserve		448,645	438,290	473,576
Specific Reserve		672	979	1,144
Revaluation Reserve		165,897	132,791	140,261
Non-Controlling Interest		1,106	1,274	1,254
TOTAL EQUITY		<u>616,320</u>	<u>573,334</u>	<u>616,235</u>

The notes on pages 38 to 83 form part of these accounts.

The accountable officer authorised these financial statements for issue on 3 July 2018.

Stephen Dunlop
Accountable Officer
3 July 2018

SCOTTISH ENTERPRISE STATEMENT OF FINANCIAL POSITION

as at 31 March 2018

	Notes	2018 £000	2017 £000	2016 £000
NON-CURRENT ASSETS				
Property, plant and equipment	5	125,835	141,161	144,394
Intangible assets	6	-	-	-
		<u>125,835</u>	<u>141,161</u>	<u>144,394</u>
Financial assets				
Other investments	8	316,371	267,235	238,707
Retirement benefits scheme	10	91,938	40,140	71,813
Other non-current receivables	11	5,372	12,744	15,274
TOTAL NON-CURRENT ASSETS		<u>539,516</u>	<u>461,280</u>	<u>470,188</u>
CURRENT ASSETS				
Intangible assets	6	104	95	118
Other investments	8	8,073	11,002	18,750
Assets classified as held for sale	12	5,980	4,740	13,635
Trade and other receivables	14	35,724	49,235	14,729
Income tax receivable		-	-	-
Cash and cash equivalents	15	90,395	70,283	101,606
TOTAL CURRENT ASSETS		<u>140,276</u>	<u>135,355</u>	<u>148,838</u>
TOTAL ASSETS		<u>679,792</u>	<u>596,635</u>	<u>619,026</u>
CURRENT LIABILITIES				
Trade and other payables	16	(55,236)	(51,870)	(47,611)
Income tax payable		(257)	(207)	(579)
Provisions	17	(2,222)	(2,627)	(2,072)
TOTAL CURRENT LIABILITIES		<u>(57,715)</u>	<u>(54,704)</u>	<u>(50,262)</u>
NON-CURRENT ASSETS PLUS NET CURRENT ASSETS		<u>622,077</u>	<u>541,931</u>	<u>568,764</u>
NON-CURRENT LIABILITIES				
Other payables	16	(58,434)	(21,666)	(4,367)
TOTAL NON-CURRENT LIABILITIES		<u>(58,434)</u>	<u>(21,666)</u>	<u>(4,367)</u>
ASSETS LESS LIABILITIES		<u>563,643</u>	<u>520,265</u>	<u>564,397</u>
TAXPAYERS' EQUITY				
General Reserve		439,578	427,102	461,284
Revaluation Reserve		124,065	93,163	103,113
TOTAL EQUITY		<u>563,643</u>	<u>520,265</u>	<u>564,397</u>

The notes on pages 38 to 83 form part of these accounts.

The accountable officer authorised these financial statements for issue on 3 July 2018.

Stephen Dunlop
Accountable Officer
3 July 2018

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 March 2018

	<i>Notes</i>	<i>2018</i> <i>£000</i>	<i>Restated</i> <i>2017</i> <i>£000</i>
Cash flows from operating activities			
Net expenditure after interest		(224,983)	(198,180)
Adjustments for:			
Depreciation and assets written off		4,098	8,261
Increase in investment provision and write off		19,848	17,302
Property revaluation deficit		2,921	3,893
Investment revaluation surplus		(38)	(144)
Interest receivable	2	(5,461)	(3,732)
Dividends received	2	(274)	(196)
Retirement benefits scheme net charges		7,806	(2,354)
Share of loss in equity accounted investees	7	-	14
Surplus on disposal of property, plant and equipment	2	(2,291)	(831)
Surplus on disposal of investments and equity accounted investees	2	(8,192)	(9,919)
		<u>(206,566)</u>	<u>(185,886)</u>
(Increase) / decrease in inventories		(4)	7
Decrease / (increase) in trade and other receivables		6,464	(26,877)
Increase in trade payables		3,255	463
(Decrease) / increase in provision for future liabilities		(195)	555
		<u>(197,046)</u>	<u>(211,738)</u>
Income tax expense		(454)	(802)
Net cash outflow from operating activities		<u>(197,500)</u>	<u>(212,540)</u>
Cash flows from investing activities			
Proceeds of disposal of property, plant and equipment		32,073	8,265
Proceeds of disposal of financial assets and equity accounted investees		10,661	14,621
Repayments of other investments		7,357	14,061
Interest received		2,326	6,430
Dividends received		274	196
Purchase of property, plant and equipment		(7,181)	(8,436)
Purchase of current intangible assets		(104)	(157)
Purchase of financial assets		(44,141)	(58,108)
Net cash inflow / (outflow) from investing activities		<u>1,265</u>	<u>(23,128)</u>
Cash flows from financing activities			
Grants from Scottish Government		177,133	184,799
Financial Transactions financing from Scottish Government	16	38,261	19,201
Net cash inflow from financing activities		<u>215,394</u>	<u>204,000</u>
Net increase / (decrease) in cash and cash equivalents in the period		19,159	(31,668)
Cash and cash equivalents at the beginning of the period	15	74,713	106,381
Cash and cash equivalents at the end of the period	15	<u>93,872</u>	<u>74,713</u>

The notes on pages 38 to 83 form part of these accounts.

SCOTTISH ENTERPRISE STATEMENT OF CASH FLOWS

for the year ended 31 March 2018

	Notes	2018 £000	<i>Restated</i> 2017 £000
Cash flows from operating activities			
Net expenditure after interest		(222,878)	(194,256)
Adjustments for:			
Depreciation and assets written off		2,493	3,243
Increase in investment provision and write off		19,853	17,237
Property revaluation deficit		3,086	3,970
Investment revaluation deficit / (surplus)		95	(143)
Interest receivable	2	(5,457)	(3,721)
Dividends received	2	(220)	(138)
Retirement benefits scheme net charges		7,806	(2,354)
Surplus on disposal of property, plant and equipment	2	(1,716)	(831)
Surplus on disposal of investments and equity accounted investees	2	(8,044)	(9,760)
		<u>(204,982)</u>	<u>(186,753)</u>
Decrease / (increase) in trade and other receivables		13,277	(26,003)
Increase in trade payables		2,341	1,225
(Decrease) / increase in provision for future liabilities		(405)	555
		<u>(189,769)</u>	<u>(210,976)</u>
Income tax expense		(414)	(731)
Net cash outflow from operating activities		<u>(190,183)</u>	<u>(211,707)</u>
Cash flows from investing activities			
Proceeds of disposal of property, plant and equipment		27,073	8,264
Proceeds of disposal of financial assets		9,872	14,251
Repayments of other investments		7,598	14,061
Interest received		2,322	6,419
Dividends received		220	138
Purchase of property, plant and equipment		(6,768)	(7,342)
Purchase of current intangible assets		(104)	(95)
Purchase of financial assets		(43,984)	(57,997)
Net cash outflow from investing activities		<u>(3,771)</u>	<u>(22,301)</u>
Cash flows from financing activities			
Grants from Scottish Government		175,805	183,484
Financial Transactions financing from Scottish Government	16	38,261	19,201
Net cash inflow from financing activities		<u>214,066</u>	<u>202,685</u>
Net increase/(decrease) in cash and cash equivalents in the period		20,112	(31,323)
Cash and cash equivalents at the beginning of the period	15	70,283	101,606
Cash and cash equivalents at the end of the period	15	<u>90,395</u>	<u>70,283</u>

The notes on pages 38 to 83 form part of these accounts.

GROUP STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

for the year ended 31 March 2018

	<i>General Reserve £000</i>	<i>Specific Reserve £000</i>	<i>Revaluation Reserve £000</i>	<i>Non- Controlling Interest £000</i>	<i>Total £000</i>
Balance at 1 April 2016	473,576	1,144	140,261	1,254	616,235
Net expenditure during the year	(198,472)	(165)	-	20	(198,617)
Remeasurement losses in retirement benefit scheme	(34,027)	-	-	-	(34,027)
Surpluses on revaluation of investments	-	-	2,248	-	2,248
Net surpluses on revaluation of property, plant and equipment	-	-	3,577	-	3,577
Transfer between reserves	13,295	-	(13,295)	-	-
Total recognised income and expense for year to 31 March 2017	<u>(219,204)</u>	<u>(165)</u>	<u>(7,470)</u>	<u>20</u>	<u>(226,819)</u>
Grant in Aid from Scottish Government	180,649	-	-	-	180,649
Other grants from Scottish Government	3,269	-	-	-	3,269
	<u>183,918</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>218,353</u>
Balance at 31 March 2017	<u>438,290</u>	<u>979</u>	<u>132,791</u>	<u>1,274</u>	<u>573,334</u>
Net expenditure during the year	(224,975)	(307)	-	(168)	(225,450)
Remeasurement gains in retirement benefit scheme	59,604	-	-	-	59,604
Surpluses on revaluation of investments	-	-	26,840	-	26,840
Net surpluses on revaluation of property, plant and equipment	-	-	5,130	-	5,130
Transfer between reserves	(1,136)	-	1,136	-	-
Total recognised income and expense for year to 31 March 2018	<u>(166,507)</u>	<u>(307)</u>	<u>33,106</u>	<u>(168)</u>	<u>(133,876)</u>
Grant in Aid from Scottish Government	173,034	-	-	-	173,034
Other grants from Scottish Government	3,828	-	-	-	3,828
	<u>176,862</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>176,862</u>
At 31 March 2018	<u>448,645</u>	<u>672</u>	<u>165,897</u>	<u>1,106</u>	<u>616,320</u>

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 £9,333m (2017: £9,160m). The grant in aid provision of £173m for 2017/18 (2016/17: £181m) included £31m (2016/17: £35m) 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 £166m (2017: £133m) is £62m (2017: £56m) attributable to net unrealised surpluses on Land and Buildings.

SCOTTISH ENTERPRISE STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

for the year ended 31 March 2018

	<i>General Reserve</i> £000	<i>Revaluation Reserve</i> £000	<i>Total</i> £000
Balance at 1 April 2016	461,284	103,113	564,397
Net expenditure during the year	(194,615)	-	(194,615)
Remeasurement losses in retirement benefits scheme	(34,027)	-	(34,027)
Surpluses on revaluation of investments	-	1,854	1,854
Net surpluses on revaluation of property, plant and equipment	-	53	53
Transfer between reserves	11,857	(11,857)	-
Total recognised income and expense for year to 31 March 2017	<u>(216,785)</u>	<u>(9,950)</u>	<u>(226,735)</u>
Grant in Aid from Scottish Government	180,649	-	180,649
Other grants from Scottish Government	1,954	-	1,954
	<u>182,603</u>	<u>-</u>	<u>182,603</u>
Balance at 31 March 2017	<u>427,102</u>	<u>93,163</u>	<u>520,265</u>
Net expenditure during the year	(223,342)	-	(223,342)
Remeasurement gains in retirement benefits scheme	59,604	-	59,604
Surpluses on revaluation of investments	-	26,960	26,960
Net surpluses on revaluation of property, plant and equipment	-	4,622	4,622
Transfer between reserves	680	(680)	-
Total recognised income and expense for year to 31 March 2018	<u>(163,058)</u>	<u>30,902</u>	<u>(132,156)</u>
Grant in Aid from Scottish Government	173,034	-	173,034
Other grants from Scottish Government	2,500	-	2,500
	<u>175,534</u>	<u>-</u>	<u>175,534</u>
Balance at 31 March 2018	<u>439,578</u>	<u>124,065</u>	<u>563,643</u>

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 £9,333m (2017: £9,160m). The grant in aid provision of £173m for 2017/18 (2016/17: £181m) included £31m (2016/17: £35m) in respect of net capital expenditure.

Revaluation Reserve is the cumulative unrealised balance arising on revaluation adjustments to assets. Included within the Revaluation Reserve total of £124m (2017: £93m) is £21m (2017: £17m) attributable to net unrealised surpluses on Land and Buildings.

STATEMENT OF ACCOUNTING POLICIES

1. Basis of preparation

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

Where the FRoM 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, unless otherwise stated, been applied consistently for all periods presented in the Group and Scottish Enterprise accounts.

The preparation of accounts in conformity with the FRoM 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 10)
- Land and property (Note 5)
- Financial assets (Note 8)
- Assets classified as held for sale (Note 12)

The Board and Accountable Officer have considered the Resource Budget for 2018/19, 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 2018/19 are given in the Performance Report. Details of the liquidity position are given in Note 21.

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.

(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 of the arrangement and has rights to the net assets of the arrangement, established by contractual agreements and requiring unanimous consent for strategic financial and operational decisions.

STATEMENT OF ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures 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.

Scottish Enterprise also receives Financial Transactions funding from the Scottish Government for the specific purpose of financing equity investments and the provision of loans. Financial Transactions funding is repayable over variable periods and is recognised as a current or long term liability in accordance with the repayment terms determined at the time each tranche of the funding is drawn down from the Scottish Government.

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 2017 (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.

STATEMENT OF ACCOUNTING POLICIES (continued)

Assets under construction are shown at cost less any impairment charges. 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 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.

A depreciation charge is applied in the year of acquisition of an asset and no charge is made in the year in which it is disposed.

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. Where an item of property has significant components, the components are depreciated separately, in accordance with their useful lives. The useful lives of property assets are determined in consultation with Ryden LLP, Chartered Surveyors.

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.

(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.

A depreciation charge is applied in the year of acquisition of an asset and no charge is made in the year in which it is disposed.

(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.

STATEMENT OF ACCOUNTING POLICIES (continued)

(e) *Impairment*

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

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

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

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

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

Non-current assets held for sale are not depreciated.

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.

STATEMENT OF ACCOUNTING POLICIES (continued)

(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.

(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.

STATEMENT OF ACCOUNTING POLICIES (continued)

(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.

(c) *Carbon Reduction Commitment (CRC) Scheme Allowances*

Allowances purchased from the Department of Energy and Climate Change and held at 31 March are included as current intangible assets. Allowances are measured at cost, being a proxy for fair value.

8. **Assets held by Local Enterprise Companies and their subsidiary undertakings**

Under the terms of the operating contract with the Local Enterprise Companies (LECs) 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. Following the closure of the LECs as operating entities the beneficial interest in their property interests and their interest in specified shares and loans were transferred to Scottish Enterprise for no consideration. The obligations of the LECs' subsidiary undertakings to Scottish Enterprise remain and will diminish over the remaining economic life of the property acquired with funding from Scottish Enterprise provided via the LEC.

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.

STATEMENT OF ACCOUNTING POLICIES (continued)

14. Grants

Grants payable or paid are recorded as expenditure in the period that the underlying event or activity giving rise to the grant occurs. Where necessary, obligations in respect of grant awards are recognised as liabilities.

15. 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 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.

16. 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 plan's obligations represents the increase in obligations arising from unwinding of the discount due to the passage of time.

Remeasurement 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.

STATEMENT OF ACCOUNTING POLICIES (continued)

(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.

17. 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 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.

18. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of twelve months or less.

19. 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.

20. Provisions

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

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

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

STATEMENT OF ACCOUNTING POLICIES (continued)

21. Critical accounting estimates and judgements

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

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

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

(a) Retirement benefit obligations

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

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

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

Other key assumptions for retirement benefit obligations are based in part on current market conditions. Additional information is disclosed in Note 10.

(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 external 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.

(e) European Income

The Group operates a series of programmes which attract financial support from the European Union. Funding is claimed in arrears at the intervention rate agreed at the start of the programmes and based upon the costs incurred to deliver the programmes and the successful delivery of strategic operation outcomes. Claims submitted during the financial year are recognised as income in the financial year they are presented. At the end of each financial year an assessment is made of the eligibility of the expenditure incurred and for which the Group will be able to secure the evidence standards required to make a claim for European funding in the future. Based upon the ratios obtained from completed verification work and extended to expenditure still to be fully verified, an

STATEMENT OF ACCOUNTING POLICIES (continued)

estimate is made of the associated income not yet claimed which is then accrued in the financial statements. Additional information is disclosed in Note 14.

22. Accounting standards issued not yet adopted

There are new accounting standards that 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 are as follows:

- **IFRS 9 – Financial Instruments**
Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from 2018/19. The standard replaces IAS 39 Financial Instruments: Recognition and Measurement and brings together all aspects of accounting for financial instruments. The impact on the consolidated accounts has not been determined.
- **IFRS 15 – Revenue from Contracts with Customers**
Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from 2018/19. This standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The new revenue standard will supersede all current revenue recognition requirements under IFRS. The impact on the consolidated accounts has not been determined.
- **IFRS 16 – Leases**
Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from 2019/20. The standard replaces IAS 17 - Leases and largely removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. This is a significant change in lessee accounting. The impact on the consolidated accounts has not been determined.

NOTES TO THE ACCOUNTS

1. EXPENDITURE

	<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating Expenditure	177,104	175,458	173,071	169,040
Management Expenditure	105,747	100,054	97,955	92,043
Expenditure noted above includes:				
Rentals under operating leases				
Buildings	4,355	5,469	3,480	4,473
Other	83	69	83	69
Foreign exchange losses/(gains)	173	(250)	130	(195)
Depreciation	4,098	8,199	2,493	3,243
Amortisation of intangible assets	-	62	-	-
Auditors' remuneration				
- audit of these accounts (i)	159	157	159	157
Amounts paid to other auditors in respect of:				
- audit of subsidiary companies' accounts	32	40	-	-
- non-audit fees	3	-	-	-
	35	40	-	-

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

2. INCOME

	<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Income from Activities				
Property Services				
Rents	10,267	9,690	9,608	8,571
Sundry property income	3,035	4,256	3,015	4,236
Surplus / (loss) on disposal of property	2,291	831	1,716	831
Investment Management				
Surplus on disposal of investments and equity accounted investees	8,192	9,919	8,044	9,760
	23,785	24,696	22,383	23,398
Other Income				
European funding	7,647	31,345	7,647	31,345
Contributions and other fees	19,517	14,598	11,257	5,446
	27,164	45,943	18,904	36,791
Income from Investments				
Dividends and other investment income	274	196	220	138
Interest Receivable	5,461	3,732	5,457	3,721
Other Finance Income				
Net interest income on retirement benefits scheme assets	1,184	2,779	1,184	2,779

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.

	<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating Expenditure				
Internationalisation				
International Services Support	12,739	12,958	14,355	14,945
Market Development	3,302	3,754	3,302	3,760
International Marketing and Research	2,953	4,587	2,440	4,361
Overseas Premises and Facilities Management Costs	3,927	4,814	3,927	4,814
Innovation				
Innovation Specialist Support	10,206	9,064	10,206	9,064
Business Efficiency	7,175	7,291	7,175	7,291
R&D Support	24,843	20,789	24,843	20,793
Renewable Energy R&D Support – WATERS/POWERS/SIFT	924	1,067	924	1,067
Commercialisation Support	4,109	4,074	3,743	3,974
Investment				
Equity Investment and Loans	17,005	16,444	16,992	16,362
Renewable Energy Investment Fund	4,115	2,533	4,115	2,533
Capital Expenditure Grant Support Programmes	13,873	14,793	13,873	14,793
Business Infrastructure	36,194	36,962	32,665	29,989
Digital Strategy Business Engagement Programme	982	3,384	982	3,384
Inclusive Growth				
Job Creation/Safeguarding Grant Support Schemes	11,572	8,583	11,572	8,583
Entrepreneurship, Leadership and Organisational Development	7,768	8,111	6,540	7,068
Cross Cutting Activity				
Industry Sector Project Support	9,834	9,856	9,834	9,865
Strategic Development	2,286	3,138	2,286	3,138
Marketing, Research & Stakeholder Engagement (i)	964	1,904	964	1,904
Digital Transformation (i)	2,333	1,352	2,333	1,352
Total Segmental Expenditure	177,104	175,458	173,071	169,040
Management Expenditure				
Management expenditure on staff costs (ii)	81,182	71,983	74,014	64,899
Premises, ICT, business services and other management costs	24,565	28,071	23,941	27,144
	105,747	100,054	97,955	92,043
Income	(50,949)	(70,639)	(41,287)	(60,189)
Net Operating Expenditure	231,902	204,873	229,739	200,894

(i) Scottish Enterprise has embarked on a digital transformation programme designed to increase its impact by improving the online experience of those businesses who engage with Scottish Enterprise. The programme will establish a new online environment, simplify the system for processing the award and subsequent approval of grant claims and enhance collaboration with partner agencies. The programme is distinct from core marketing activity and a new separate reporting line has been created. Comparative figures for 2016/17 have been restated accordingly.

NOTES TO THE ACCOUNTS (continued)

(ii) Management expenditure on staff costs comprises:-

	<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Wages and salaries	53,325	53,863	47,009	47,700
Social security costs	5,597	5,195	4,975	4,619
Pension costs	21,066	12,493	20,860	12,174
Secondments and temporary staff costs	1,180	432	1,156	406
Severance costs	14	-	14	-
	<u>81,182</u>	<u>71,983</u>	<u>74,014</u>	<u>64,899</u>

A further analysis of staff costs is located in the Staff Report section of the Accountability Report.

4. TAXATION

	<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
UK Corporation tax @ 19% (2017: 20%)	671	314	671	294
Corporation tax (over)/ under provided in previous years	(204)	123	(207)	65
	<u>467</u>	<u>437</u>	<u>464</u>	<u>359</u>
Share of equity accounted investees' tax	-	-	-	-
Total current tax	<u>467</u>	<u>437</u>	<u>464</u>	<u>359</u>

Factors affecting current tax charge:

	<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Net expenditure after interest	224,983	198,180	222,878	194,256
Current tax @ 19% (2017: 20%)	(42,747)	(39,636)	(42,347)	(38,851)
Effect of:				
Non-taxable income and disallowed expenditure	43,418	39,950	43,018	39,145
Tax (over)/ under provided in previous years	(204)	123	(207)	65
Current tax charge	<u>467</u>	<u>437</u>	<u>464</u>	<u>359</u>

NOTES TO THE ACCOUNTS (continued)**5. PROPERTY, PLANT AND EQUIPMENT****GROUP**

	<i>Land</i>	<i>Buildings</i>	<i>Assets Under Construction</i>	<i>Transport Equipment</i>	<i>Plant and Equipment</i>	<i>Information Technology</i>	<i>Furniture & Fittings</i>	<i>Leasehold Improvement</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost and valuation									
At 1 April 2017	96,550	90,780	-	98	15,697	5,959	4,045	13,837	226,966
Additions	3,386	12	2,411	-	287	22	219	376	6,713
Disposals	(165)	(4,425)	-	(18)	(934)	(30)	(75)	(172)	(5,819)
Transfer from/(to)									
Held for Sale	(2,604)	(18,006)	-	-	-	-	-	-	(20,610)
Reclassification	70	(70)	-	-	-	-	-	-	-
Revaluation	2,733	(312)	(1,161)	-	-	-	-	-	1,260
At 31 March 2018	99,970	67,979	1,250	80	15,050	5,951	4,189	14,041	208,510
Depreciation									
At 1 April 2017	-	-	-	65	13,395	5,803	3,725	5,259	28,247
Charge for year	-	1,194	-	9	1,235	102	190	1,368	4,098
Revaluation	-	(1,194)	-	-	-	-	-	-	(1,194)
Disposals	-	-	-	(18)	(934)	(30)	(75)	(33)	(1,090)
At 31 March 2018	-	-	-	56	13,696	5,875	3,840	6,594	30,061
Net book value									
At 31 March 2018	99,970	67,979	1,250	24	1,354	76	349	7,447	178,449
At 31 March 2017	96,550	90,780	-	33	2,302	156	320	8,578	198,719
Asset financing									
Owned	99,970	67,979	1,250	24	1,354	76	349	7,447	178,449
Net book value									
At 31 March 2018	99,970	67,979	1,250	24	1,354	76	349	7,447	178,449

Included within Land is land on long leasehold (over 50 years) with a value of £Nil (2017: £Nil).

Land and Buildings held for industrial and commercial use were valued at 31 March 2018 by Ryden LLP, Chartered Surveyors, on a fair value basis as defined in the Valuation Standards 2017 (Red Book) issued by The Royal Institution of Chartered Surveyors and had a total value of £168m (2017: £187m).

Within Buildings are buildings that have been revalued by Ryden LLP, Chartered Surveyors on the basis of depreciated replacement cost representing the gross replacement cost discounted for consumption of assets to date. The buildings are depreciated over periods of 26 and 45 years.

Assets under construction are held at cost less any impairment charges.

At 31 March 2018 the net carrying value of leased equipment was £Nil (2017: £Nil).

NOTES TO THE ACCOUNTS (continued)**GROUP**

	<i>Land</i> <i>£000</i>	<i>Buildings</i> <i>£000</i>	<i>Assets Under Construction</i> <i>£000</i>	<i>Transport Equipment</i> <i>£000</i>	<i>Plant and Equipment</i> <i>£000</i>	<i>Information Technology</i> <i>£000</i>	<i>Furniture & Fittings</i> <i>£000</i>	<i>Leasehold Improvement</i> <i>£000</i>	<i>Total</i> <i>£000</i>
Cost and valuation									
At 1 April 2016	99,742	90,186	1,648	116	15,188	5,809	3,739	11,223	227,651
Additions	4,163	695	656	34	950	150	306	2,614	9,568
Disposals	(732)	(270)	-	(52)	(441)	-	-	-	(1,495)
Transfer from/(to)									
Held for Sale	(3,545)	-	-	-	-	-	-	-	(3,545)
Reclassification	(350)	1,150	(800)	-	-	-	-	-	-
Revaluation	(2,728)	(981)	(1,504)	-	-	-	-	-	(5,213)
At 31 March 2017	96,550	90,780	-	98	15,697	5,959	4,045	13,837	226,966
Depreciation									
At 1 April 2016	-	-	-	104	12,609	5,299	3,520	3,905	25,437
Charge for year	-	4,897	-	12	1,227	504	205	1,354	8,199
Revaluation	-	(4,897)	-	-	-	-	-	-	(4,897)
Disposals	-	-	-	(51)	(441)	-	-	-	(492)
At 31 March 2017	-	-	-	65	13,395	5,803	3,725	5,259	28,247
Net book value									
At 31 March 2017	96,550	90,780	-	33	2,302	156	320	8,578	198,719
At 31 March 2016	99,742	90,186	1,648	12	2,579	510	219	7,318	202,214
Asset financing									
Owned	96,550	90,780	-	33	2,302	156	320	8,578	198,719
Net book value									
At 31 March 2017	96,550	90,780	-	33	2,302	156	320	8,578	198,719

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

	Land £000	Buildings £000	Assets Under Construction £000	Transport Equipment £000	Plant and Equipment £000	Information Technology £000	Furniture & Fittings £000	Leasehold Improvement £000	Total £000
Cost and valuation									
At 1 April 2017	91,411	40,898	-	52	861	5,395	3,846	13,074	155,537
Additions	3,386	12	2,411	-	-	-	137	354	6,300
Disposals	(165)	-	-	(18)	-	-	-	(172)	(355)
Transfer from/(to)									
Held for Sale	(2,604)	(18,006)	-	-	-	-	-	-	(20,610)
Reclassification	70	(70)	-	-	-	-	-	-	-
Revaluation	2,733	(701)	(1,161)	-	-	-	-	-	871
At 31 March 2018	94,831	22,133	1,250	34	861	5,395	3,983	13,256	141,743
Depreciation									
At 1 April 2017	-	-	-	40	847	5,272	3,552	4,665	14,376
Charge for year	-	910	-	4	14	83	157	1,325	2,493
Disposals	-	-	-	(18)	-	-	-	(33)	(51)
Revaluation	-	(910)	-	-	-	-	-	-	(910)
At 31 March 2018	-	-	-	26	861	5,355	3,709	5,957	15,908
Net book value									
At 31 March 2018	94,831	22,133	1,250	8	-	40	274	7,299	125,835
At 31 March 2017	91,411	40,898	-	12	14	123	294	8,409	141,161
Asset financing									
Owned	94,831	22,133	1,250	8	-	40	274	7,299	125,835
Net book value									
At 31 March 2018	94,831	22,133	1,250	8	-	40	274	7,299	125,835

Included within Land is land on long leasehold (over 50 years) with a value of £Nil (2017: £Nil).

Land and Buildings held for industrial and commercial use were valued at 31 March 2018 by Ryden LLP, Chartered Surveyors, on a fair value basis as defined in the Valuation Standards 2017 (Red Book) issued by The Royal Institution of Chartered Surveyors and had a total value of £117m (2017: £132m).

Assets under construction are held at cost less any impairment charges.

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

	<i>Land</i> <i>£000</i>	<i>Buildings</i> <i>£000</i>	<i>Assets Under Construction</i> <i>£000</i>	<i>Transport Equipment</i> <i>£000</i>	<i>Plant and Equipment</i> <i>£000</i>	<i>Information Technology</i> <i>£000</i>	<i>Furniture & Fittings</i> <i>£000</i>	<i>Leasehold Improvement</i> <i>£000</i>	<i>Total</i> <i>£000</i>
Cost and valuation									
At 1 April 2016	94,603	40,270	1,648	53	861	5,271	3,586	10,514	156,806
Additions	4,163	695	656	16	-	124	260	2,560	8,474
Disposals	(732)	(270)	-	(17)	-	-	-	-	(1,019)
Transfer from/(to)									
Held for Sale	(3,545)	-	-	-	-	-	-	-	(3,545)
Reclassification	(350)	1,150	(800)	-	-	-	-	-	-
Revaluation	(2,728)	(947)	(1,504)	-	-	-	-	-	(5,179)
At 31 March 2017	91,411	40,898	-	52	861	5,395	3,846	13,074	155,537
Depreciation									
At 1 April 2016	-	-	-	53	833	4,787	3,383	3,356	12,412
Charge for year	-	1,262	-	4	14	485	169	1,309	3,243
Disposals	-	-	-	(17)	-	-	-	-	(17)
Revaluation	-	(1,262)	-	-	-	-	-	-	(1,262)
At 31 March 2017	-	-	-	40	847	5,272	3,552	4,665	14,376
Net book value									
At 31 March 2017	91,411	40,898	-	12	14	123	294	8,409	141,161
At 31 March 2016	94,603	40,270	1,648	-	28	484	203	7,158	144,394
Asset financing									
Owned	91,411	40,898	-	12	14	123	294	8,409	141,161
Net book value									
At 31 March 2017	91,411	40,898	-	12	14	123	294	8,409	141,161

NOTES TO THE ACCOUNTS (continued)**6. INTANGIBLE ASSETS****GROUP**

	<i>Patents and other rights</i> £000	<i>Software Licences</i> £000	<i>CRC Allowances</i> £000	<i>Total</i> £000
Cost				
At 1 April 2016	925	876	118	1,919
Additions	62	-	95	157
Disposals	-	-	(118)	(118)
As at 31 March 2017	987	876	95	1,958
Additions	-	-	104	104
Disposals	(200)	-	(95)	(295)
As at 31 March 2018	787	876	104	1,767
Amortisation				
At 1 April 2016	925	876	-	1,801
Charge for year	62	-	-	62
As at 31 March 2017	987	876	-	1,863
Charge for year	-	-	-	-
Disposals	(200)	-	-	(200)
As at 31 March 2018	787	876	-	1,663
Net book value				
At 31 March 2018	-	-	104	104
At 31 March 2017	-	-	95	95
At 1 April 2016	-	-	118	118
Non-Current Intangible Assets	-	-	-	-
Current Intangible Assets	-	-	104	104
Total Intangible Assets at 31 March 2018	-	-	104	104

SCOTTISH ENTERPRISE

	<i>Patents and other rights</i> £000	<i>Software Licences</i> £000	<i>CRC Allowances</i> £000	<i>Total</i> £000
Cost				
At 1 April 2016	633	867	118	1,618
Additions	-	-	95	95
Disposals	-	-	(118)	(118)
As at 31 March 2017	633	867	95	1,595
Additions	-	-	104	104
Disposals	-	-	(95)	(95)
As at 31 March 2018	633	867	104	1,604
Amortisation				
At 1 April 2016	633	867	-	1,500
Charge for year	-	-	-	-
As at 31 March 2017	633	867	-	1,500
Charge for year	-	-	-	-
As at 31 March 2018	633	867	-	1,500
Net book value				
At 31 March 2018	-	-	104	104
At 31 March 2017	-	-	95	95
At 1 April 2016	-	-	118	118
Non-Current Intangible Assets	-	-	-	-
Current Intangible Assets	-	-	104	104
Total Intangible Assets at 31 March 2018	-	-	104	104

NOTES TO THE ACCOUNTS (continued)

7. EQUITY ACCOUNTED INVESTEEES

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
Ravenscraig Limited	31 December	Property development	33.33
AMCET Limited (i)	31 July	Promoting technology commercialisation	26.00
Limited by guarantee	Accounting period end	Nature of Business	% of Membership
Design Dundee Limited	31 March	Advancement of cultural facility	20.00
Headstart Capital Fund	30 September	Investment Fund	50.00
Joint arrangement		Nature of Business	% Interest
Scottish Enterprise / Calachem Limited		Property development	60.00

(i) AMCET Limited was dissolved on 18 July 2017.

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

	<i>Current Assets</i>	<i>Non current assets</i>	<i>Total Assets</i>	<i>Current Liabilities</i>	<i>Non Current Liabilities</i>	<i>Total Liabilities</i>	<i>Revenue</i>	<i>Expenses</i>	<i>Profit / (Loss)</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 April 2016	54,424	1,060	55,484	(11,763)	(53,597)	(65,360)	43	(1,215)	(1,172)
At 31 March 2017	52,277	1,150	53,427	(10,073)	(56,093)	(66,166)	5,549	(8,512)	(2,963)
At 31 March 2018	50,987	946	51,933	(9,099)	(56,839)	(65,938)	195	(1,253)	(1,058)

Movements in carrying amount of investment in equity accounted investees:

	<i>£000</i>
Carrying amount at 1 April 2016	1,531
Share of net losses	(14)
Revaluation	100
Carrying amount at 31 March 2017	<u>1,617</u>
Carrying amount at 1 April 2017	1,617
Disposal	(241)
Revaluation	33
Carrying amount at 31 March 2018	<u>1,409</u>

NOTES TO THE ACCOUNTS (continued)**8. FINANCIAL ASSETS – OTHER INVESTMENTS**

	<i>Group</i>			<i>Scottish Enterprise</i>		
	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Non-Current Other Investments						
Available for sale financial assets	269,706	238,487	214,756	269,150	237,914	214,311
Held to Maturity Investments	10	21	2,031	10	21	2,031
Loans and other receivables	44,510	26,599	19,662	47,211	29,300	22,365
	<u>314,226</u>	<u>265,107</u>	<u>236,449</u>	<u>316,371</u>	<u>267,235</u>	<u>238,707</u>
Current Other Investments						
Held to Maturity Investments	-	-	-	-	-	-
Loans and other receivables	8,073	11,002	18,750	8,073	11,002	18,750
	<u>8,073</u>	<u>11,002</u>	<u>18,750</u>	<u>8,073</u>	<u>11,002</u>	<u>18,750</u>
Total Other Investments	<u>322,299</u>	<u>276,109</u>	<u>255,199</u>	<u>324,444</u>	<u>278,237</u>	<u>257,457</u>

The above financial assets have been funded as follows:

	<i>Group</i>			<i>Scottish Enterprise</i>		
	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Grant in Aid	322,299	276,108	255,197	324,444	278,236	257,455
Public Dividend Capital	-	1	2	-	1	2
	<u>322,299</u>	<u>276,109</u>	<u>255,199</u>	<u>324,444</u>	<u>278,237</u>	<u>257,457</u>

From 1 April 1991 all receipts, both revenue and capital, arising from the investments funded by Public Dividend Capital require to be repaid to the Treasury. This arrangement is consequent upon the provision by the Secretary 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 £Nil (2017: £Nil).

Listed Investments

Stock Exchange investments included in the above at 31 March 2018 are valued £34,416,437 (2017: £3,015,191) which includes unrealised surpluses on valuation of £29,668,065 (2017: £893,460). Income from listed investments in the year to 31 March 2018 was £56,254 (2017: £57,967).

Details of the initial cost of principal investments included above are disclosed in Note 25.

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
Glasgow Science Centre Limited (i)	Visitor attraction operator	100
Glasgow Science Centre (Trading) Limited (i)	Commercial operations management	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
Co-operative Development Scotland Limited	Dormant	100
Enterprise Services Scotland Limited (ii)	Dormant	100
GDA Investments Limited	Dormant	100
Scottish Investment Bank Limited	Dormant	100
Scottish Development Finance Limited (ii)	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
This is Remarkable Limited (formerly Investors in People Scotland)	Training & skills accreditation	50(S)
Scottish Intellectual Asset Management Limited	Dormant	50(S)

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) Enterprise Services Scotland Limited and Scottish Development Finance Limited were dissolved on 15 May 2018.

Local Enterprise Companies

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

NOTES TO THE ACCOUNTS (continued)**9. FAIR VALUE MEASUREMENTS**

The following table sets out the assets and liabilities that are measured and recognised at fair value at 31 March 2018:

GROUP

	<i>2018</i>	<i>2018</i>	<i>2018</i>	<i>2018</i>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Recurring fair value measurements				
Financial assets	34,416	-	287,883	322,299
Land and property assets	-	-	169,199	169,199
Non-recurring fair value measurements				
Assets classified as held for sale	-	-	5,980	5,980
	<u>34,416</u>	<u>-</u>	<u>463,062</u>	<u>497,478</u>

SCOTTISH ENTERPRISE

	<i>2018</i>	<i>2018</i>	<i>2018</i>	<i>2018</i>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Recurring fair value measurements				
Financial assets	31,646	-	292,798	324,444
Land and property assets	-	-	118,214	118,214
Non-recurring fair value measurements				
Assets classified as held for sale	-	-	5,980	5,980
	<u>31,646</u>	<u>-</u>	<u>416,992</u>	<u>448,638</u>

Fair value hierarchy

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

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

There have been no transfers between level 1 and level 2 recurring fair value measurements during the year.

There has been a transfer between level 3 and level 1 during the year following the listing of one company on a recognised stock exchange.

Valuation processes for level 3 fair values

All material financial assets are defined as level 3 instruments with the exception of those listed on a recognised stock exchange. Fair values of financial assets are determined every six months by suitably qualified professionals within Scottish Enterprise using recognised valuation techniques.

Scottish Enterprise engages external independent valuers to determine the fair value of the land and buildings that are classified as property plant and equipment at the end of each financial year.

NOTES TO THE ACCOUNTS (continued)

The following table sets out the reconciliation of the opening and closing balances for level 3 fair value measurements as at 31 March 2018:

GROUP

	<i>Financial assets £000</i>	<i>Land & property assets £000</i>	<i>Assets classified as held for sale £000</i>	<i>Total £000</i>
At 1 April 2017	273,094	187,330	4,740	465,164
Acquisitions	46,231	5,809	-	52,040
Disposals	(7,684)	(4,590)	(19,125)	(31,399)
Transfers to/from held for sale	-	(20,610)	20,610	-
Transfers to Level 1	(8,988)	-	-	(8,988)
Depreciation	-	(1,194)	-	(1,194)
Impairment	(19,871)	(4,010)	(245)	(24,126)
Net gains recognised in Other				
Comprehensive Net Expenditure	5,053	6,464	-	11,517
Net gains recognised in Net Expenditure	48	-	-	48
At 31 March 2018	<u>287,883</u>	<u>169,199</u>	<u>5,980</u>	<u>463,062</u>

SCOTTISH ENTERPRISE

	<i>Financial assets £000</i>	<i>Land & property assets £000</i>	<i>Assets classified as held for sale £000</i>	<i>Total £000</i>
At 1 April 2017	278,222	132,309	4,740	415,271
Acquisitions	46,231	5,809	-	52,040
Disposals	(7,925)	(165)	(19,125)	(27,215)
Transfers to/from held for sale	-	(20,610)	20,610	-
Transfers to Level 1	(8,988)	-	-	(8,988)
Depreciation	-	(910)	-	(910)
Impairment	(19,843)	(4,683)	(245)	(24,771)
Net gains recognised in Other				
Comprehensive Net Expenditure	5,053	6,464	-	11,517
Net gains recognised in Net Expenditure	48	-	-	48
At 31 March 2018	<u>292,798</u>	<u>118,214</u>	<u>5,980</u>	<u>416,992</u>

The following table sets out the amount of unrealised gains or losses for the period included in net expenditure that is attributable to the changes in unrealised gains or loss relating to those assets and liabilities held at the end of the reporting period:

GROUP

	<i>Financial assets £000</i>	<i>Land & property assets £000</i>	<i>Assets classified as held for sale £000</i>	<i>Total £000</i>
Unrealised losses recognised in net expenditure	<u>(19,823)</u>	<u>(2,675)</u>	<u>(245)</u>	<u>(22,743)</u>

SCOTTISH ENTERPRISE

	<i>Financial assets £000</i>	<i>Land & property assets £000</i>	<i>Assets classified as held for sale £000</i>	<i>Total £000</i>
Unrealised losses recognised in net expenditure	<u>(19,795)</u>	<u>(2,840)</u>	<u>(245)</u>	<u>(22,880)</u>

NOTES TO THE ACCOUNTS (continued)

The following table sets out the valuation techniques used in the determination of fair values within level 3 including the key unobservable inputs used and the relationship between unobservable inputs to fair value:

Item	Valuation approach, key unobservable inputs and relationship between unobservable inputs and fair value
Financial assets - available for sale:	<p>Fair value is determined by application of the most appropriate valuation methodology for an investee company based on the nature, facts and circumstances of the investment. In the absence of an active market for the unquoted investments in seed, start up and early stage companies held by Scottish Enterprise, the fair value of the majority of investments is established by reference to valuation placed on the investee company at the most recent round of investment. Scottish Enterprise will take account of the circumstances of the funding round and any subsequent events which may impact on that valuation.</p> <p>Where the investee company is an established business with an identifiable stream of earnings that are considered to be maintainable, the fair value of Scottish Enterprise's investment will be established by the application of a multiplier to the earnings of the business. The multiplier will be based on the quoted price/earnings ratio appropriate to the industry sector, discounted for lack of marketability, liquidity and other relevant factors which can vary considerably by sector.</p> <p>Multiplier From 15.66 (before discount) to 42.89 (before discount) Discount 50% (marketability 20%; liquidity 20% & minority shareholding 10%)</p> <p>The higher the multiplier, the higher the fair value. The higher the discount factor applied to the multiplier, the lower the fair value.</p>
Financial assets - held to maturity & loans and other receivables	<p>Fair value is based on amortised cost using the effective interest rate method derived from the anticipated cash flows from the investment over its estimated life. A provision for impairment is established if there is objective evidence that Scottish Enterprise will not be able to collect all amounts due according to the terms of the investment.</p>
Land	<p>Fair value of land is derived by analysis of comparable sales evidence and quoted prices of land parcels offering similar characteristics in similar locations to the various land parcels being appraised. Consideration is given to local market forces, developer or occupational demand and competing supply. The assets are valued on a capital rate per acre basis with adjustment made to reflect location, site size, potential phasing of future development and, where appropriate, site servicing costs to unlock the development opportunity.</p>
Buildings	<p>Fair value of the buildings is derived by analysis of comparable sales transactions of properties offering similar characteristics to the assets under consideration. These are generally derived by adopting an income approach by constructing an envisaged cash flow reflecting the rental income stream, vacancy rates and irrecoverable expenditure associated with any period of vacancy prior to re-letting. The resultant valuations are cross checked where appropriate on a capital per square feet basis.</p> <p>Within the portfolio, equivalent yields have typically been in the range 8.45% to 20.00% with rental voids generally between 12 and 24 months upon individual lease expires. Rental growth has been factored in on a unit by unit basis where evidence supports the contention.</p> <p>The higher the yield, the longer the vacancy period and the lower any rental growth prospects, then the lower the fair value will be.</p> <p>The lower the yield, the shorter the vacancy period and the greater the rental growth prospects, then the higher the fair value will be.</p>

Further information and analysis of financial assets is included in Note 21.

NOTES TO THE ACCOUNTS (continued)**10. 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 in the form of a guaranteed level of pension payable for life. The level of benefits provided depends upon the members' length of service and their final pensionable salary. The assets of the scheme are held separately from those of Scottish Enterprise, being invested by the Trustees of the scheme. There are eight Trustees in total, comprising an independent Chairman, three Trustees appointed by Scottish Enterprise and four nominated by members. The Trustees are responsible for ensuring the scheme is run in accordance with the members best interests and the pension laws of the United Kingdom, as overseen by the Pensions Regulator

A full actuarial valuation of the Scottish Enterprise Pension & Life Assurance Scheme was carried out using membership data at 31 March 2017 and the results of that valuation have been projected to 31 March 2018 by Mercer Limited, qualified independent actuaries. The next formal valuation will be carried out during 2020/21 based on data at 31 March 2020.

	2018 £000	2017 £000
Present value of funded defined benefit obligations	(700,316)	(745,425)
Fair value of plan assets	792,254	785,565
Recognised surplus in the scheme	<u>91,938</u>	<u>40,140</u>

Movements in the present value of defined benefit obligations

	2018 £000	2017 £000
At 1 April	(745,425)	(583,658)
Current service cost	(19,745)	(11,277)
Past service cost	-	-
Interest cost	(19,032)	(20,645)
Remeasurements		
- Effect of changes in demographic assumptions	13,144	-
- Effect of changes in financial assumptions	20,781	(150,303)
- Effect of experience adjustments	23,160	-
Benefits paid	26,861	20,518
Contributions by members	(60)	(60)
	<u>(700,316)</u>	<u>(745,425)</u>

The weighted average duration of the Scheme's defined benefit obligations is 23 years (2017: 23 years).

Movements in the present value of defined benefit scheme assets

	2018 £000	2017 £000
At 1 April	785,565	655,471
Expected return on plan assets	20,216	23,424
Remeasurements		
- Return on plan assets, excluding interest income	2,519	116,276
Contributions by the employer (i)	11,867	11,714
Contributions by members (i)	60	60
Benefits paid by the plan	(26,861)	(20,518)
Administrative expenses	(1,112)	(862)
	<u>792,254</u>	<u>785,565</u>

NOTES TO THE ACCOUNTS (continued)

(i) With effect from 1 April 2016 Scottish Enterprise offered a pension salary exchange scheme whereby employees were given an option to have their notional salary reduced by an amount equivalent to the member's contribution to the pension scheme and in return Scottish Enterprise's employer contribution to the scheme was increased by an equal amount. The respective contributions to the scheme noted above by the employer and by the members reflect the take up of the offer made to employees.

During the year Scottish Enterprise paid contributions equivalent to 20% of pensionable salaries.

The defined benefit obligation analysed by participant status

	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>
Active members	(278,546)	(273,116)
Vested deferred members	(139,512)	(197,229)
Retired members	(282,258)	(275,080)
	<u>(700,316)</u>	<u>(745,425)</u>

Expense recognised in the Statement of comprehensive net expenditure

	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>
Current service cost	19,745	11,277
Past service cost	-	-
Administrative expenses	1,112	862
Interest income on retirement benefit scheme assets	(20,216)	(23,424)
Interest on retirement benefit scheme obligations	19,032	20,645
Total retirement benefit scheme expense	<u>19,673</u>	<u>9,360</u>

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

	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>
Management Expenditure	20,857	12,139
Other Finance Income	(1,184)	(2,779)
	<u>19,673</u>	<u>9,360</u>

The total gain amount recognised in the Statement of other comprehensive net expenditure in respect of net remeasurement gains and losses is £59,604,000 (2017: £34,027,000 loss).

Cumulative remeasurement gains and losses recognised in the Statement of other comprehensive net expenditure since 1 April 2002 are net gains of £33,966,000 (2017: £25,638,000 losses)

The fair value and the expected rates of return on scheme assets at 31 March 2018 were as follows:

	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>
Equity instruments	193,700	195,377
Debt instruments	373,601	292,655
Investment funds	187,654	261,433
Real estate	36,461	34,286
Cash or cash equivalents	838	1,814
Total fair value of assets	<u>792,254</u>	<u>785,565</u>

NOTES TO THE ACCOUNTS (continued)

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

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

	<i>2018</i>	<i>2017</i>
	<i>% per annum</i>	<i>% per annum</i>
Discount rate	2.70%	2.60%
Future salary increases	2.00%	2.10%
Rate of increase in retirement benefits	2.10%	2.10%
Price inflation	3.00%	3.10%

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 used as follows: -

	<i>2018</i>	<i>2017</i>
	<i>Years</i>	<i>Years</i>
Male member, age 60, retiring today	27.7	28.0
Female member, age 60, retiring today	29.4	30.1
Male member, age 40, retiring in 20 years	29.0	29.6
Female member, age 40, retiring in 20 years	31.3	32.0

Through its defined benefit pension scheme, Scottish Enterprise is exposed to a number of risks, the most significant of which are noted below: -

Volatility: The scheme obligations are calculated using a discount rate set with reference to corporate bond yields and if scheme assets underperform this yield a deficit will be created. The Trustees have agreed an underlying investment strategy to reduce the proportion of scheme assets invested in the equity portfolio and to re-invest into bonds with a maturity profile which matches the scheme obligations.

Inflation rate: The majority of the scheme obligations are linked to inflation, consequently higher levels of inflation in the future will lead to higher liabilities.

Life expectancy: The majority of the scheme obligations are to provide benefits for the life of the member therefore increasing life expectancy of members will result in an increase in scheme liabilities

The sensitivity of the defined benefit obligation to changes in the following actuarial assumptions is as follows: -

	<i>Change in assumption</i>	<i>Increase in assumption</i>	<i>Decrease in assumption</i>
	<i>%</i>	<i>£m</i>	<i>£m</i>
Discount rate	0.10	(14.5)	14.9
Inflation rate	0.10	14.7	(14.3)

The effect of increasing the assumed life expectancies by one year would be to increase the value of obligations by £20.0m at 31 March 2018.

The above sensitivity analyses are based on the change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the scheme obligations recognised in the Statement of financial position.

During the year to 31 March 2019, Scottish Enterprise estimates that contributions of £11.4m will be paid to the Scottish Enterprise Pension & Life Assurance Scheme.

NOTES TO THE ACCOUNTS (continued)**11. OTHER NON-CURRENT RECEIVABLES**

	2018	2017	Group	2018	2017	Scottish Enterprise
	£000	£000	2016	£000	£000	2016
			£000			£000
Assets held by Local Enterprise Companies and their subsidiary undertakings (i)	-	-	-	3,135	3,912	4,687
Subsidiary undertakings (ii)	-	-	-	-	6,152	6,152
Other receivables	2,237	2,680	4,435	2,237	2,680	4,435
	<u>2,237</u>	<u>2,680</u>	<u>4,435</u>	<u>5,372</u>	<u>12,744</u>	<u>15,274</u>

(i) Assets held by Local Enterprise Companies and their subsidiary undertakings represents the balance of the initial capital funding provided by SE Glasgow to the Glasgow Science Centre and which is amortised over the remaining economic life of the property.

(ii) In February 2018, the respective interests in Conference House, Edinburgh of Scottish Enterprise and its subsidiary company, SE Conference House Limited were sold. SE Conference House Limited subsequently settled its liability to Scottish Enterprise by repaying the initial funding it received to acquire its interest in the property.

12. ASSETS CLASSIFIED AS HELD FOR SALE**GROUP AND SCOTTISH ENTERPRISE**

	Property, plant and equipment £000
At 1 April 2016	13,635
Transfers to assets held for sale	3,545
Impairment recognised on re-measurement	-
Disposals of non-current assets held for sale	(12,440)
As at 31 March 2017	<u>4,740</u>
At 1 April 2017	4,740
Transfers to assets held for sale	20,610
Impairment recognised on re-measurement	(245)
Disposals of non-current assets held for sale	(19,125)
As at 31 March 2018	<u>5,980</u>

Land and property assets are disposed of when Scottish Enterprise considers their sale will derive the maximum economic development benefits achievable. Assets deemed to be available for sale and where the sale is anticipated to complete within one year are included as current assets. The assets are being actively marketed with a view to completion of the sales in the coming year.

During the year the sale of a number of assets was successfully concluded in the normal course of business.

13. INVENTORIES

	2018	2017	Group	2018	2017	Scottish Enterprise
	£000	£000	2016	£000	£000	2016
			£000			£000
Finished Goods	115	111	118	-	-	-

NOTES TO THE ACCOUNTS (continued)**14. TRADE AND OTHER RECEIVABLES**

	<i>Group</i>			<i>Scottish Enterprise</i>		
	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Other Subsidiary undertakings	-	-	-	105	57	81
Other receivables (ii)	11,119	15,143	8,476	10,283	13,827	7,192
Prepayments	2,418	3,245	2,950	2,145	3,040	2,798
Accrued income (i)	24,205	32,981	5,338	23,191	32,311	4,658
	<u>37,742</u>	<u>51,369</u>	<u>16,764</u>	<u>35,724</u>	<u>49,235</u>	<u>14,729</u>

- (i) Included within accrued income at the end of March 2017 is European funding of £6.2m. Scottish Enterprise estimated that this funding could be secured based on expenditure incurred to March 2017 on a series of programmes. During 2017/18 it became apparent that the standards of evidence required from third parties to support Scottish Enterprise's claims for the associated European funding was not available in many cases. As a consequence, the estimate of funding which could be attributed to expenditure incurred in the year to 31 March 2017 has been reduced to £2.1m. All efforts are being made to bring forward new, alternative programmes to secure the maximum European funding available. At the end of March 2018, the total value of accrued European funding included above in respect of these programmes is £3.9m.

- (ii) Trade and other receivables above are shown net of provisions for impairment as follows:

GROUP

	<i>At</i>	<i>Utilised during</i>	<i>Movements in</i>	<i>At</i>
	<i>1 April 2016</i>	<i>year</i>	<i>Provisions</i>	<i>31 March 2017</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Other receivables	4,254	(1,021)	1,487	4,720

	<i>At</i>	<i>Utilised during</i>	<i>Movements in</i>	<i>At</i>
	<i>1 April 2017</i>	<i>year</i>	<i>Provisions</i>	<i>31 March 2018</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Other receivables	4,720	(1,261)	2,272	5,731

SCOTTISH ENTERPRISE

	<i>At</i>	<i>Utilised during</i>	<i>Movements in</i>	<i>At</i>
	<i>1 April 2016</i>	<i>year</i>	<i>Provisions</i>	<i>31 March 2017</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Other receivables	3,950	(881)	1,165	4,234

	<i>At</i>	<i>Utilised during</i>	<i>Movements in</i>	<i>At</i>
	<i>1 April 2017</i>	<i>year</i>	<i>Provisions</i>	<i>31 March 2018</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Other receivables	4,234	(1,261)	2,551	5,524

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

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

	<i>Group</i>			<i>Scottish Enterprise</i>		
	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Central Government	27,966	31,856	5,056	27,524	31,563	4,698
Local Authorities	991	1,158	1,764	937	1,150	1,754
NHS Bodies	9	8	24	-	-	24
Bodies External to Government	8,776	18,347	9,920	7,263	16,522	8,253
	<u>37,742</u>	<u>51,369</u>	<u>16,764</u>	<u>35,724</u>	<u>49,235</u>	<u>14,729</u>

15. CASH AND CASH EQUIVALENTS

	<i>Group</i>			<i>Scottish Enterprise</i>		
	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Balance at 1 April	74,713	106,381	97,828	70,283	101,606	91,786
Net change in cash and cash equivalent balances	19,159	(31,668)	8,553	20,112	(31,323)	9,820
Balance at 31 March	<u>93,872</u>	<u>74,713</u>	<u>106,381</u>	<u>90,395</u>	<u>70,283</u>	<u>101,606</u>

	<i>Group</i>			<i>Scottish Enterprise</i>		
	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Scottish Enterprise	25,673	10,399	49,728	25,673	10,399	49,728
Investment Funds (i)	64,722	59,884	51,878	64,722	59,884	51,878
Other subsidiary undertakings	3,477	4,430	4,775	-	-	-
	<u>93,872</u>	<u>74,713</u>	<u>106,381</u>	<u>90,395</u>	<u>70,283</u>	<u>101,606</u>

The balances at 31 March were held at:

Commercial banks and cash in hand	93,872	54,713	106,381	90,395	50,283	101,606
Short term investments (ii)	-	20,000	-	-	20,000	-
	<u>93,872</u>	<u>74,713</u>	<u>106,381</u>	<u>90,395</u>	<u>70,283</u>	<u>101,606</u>

(i) 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.

(ii) At 31 March 2018, £Nil (2017: £20,000,000) was held in a fixed term deposit.

NOTES TO THE ACCOUNTS (continued)**16. TRADE AND OTHER PAYABLES****Amounts falling due within one year**

			<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Other taxation and social security	3,253	1,203	1,165	3,095	1,129	1,024
Other subsidiary undertakings	-	-	-	1,438	2,103	2,148
Trade payables	12,053	13,428	8,707	11,397	12,994	7,996
Other payables	303	5,829	1,695	191	5,719	1,567
Accrued charges	36,188	26,152	27,757	35,282	25,188	26,957
Prepaid revenue	3,046	4,642	5,216	1,925	3,520	3,485
Loans from Scottish Government	955	-	-	955	-	-
EU Funding for Investment Funds	953	1,217	4,434	953	1,217	4,434
	<u>56,751</u>	<u>52,471</u>	<u>48,974</u>	<u>55,236</u>	<u>51,870</u>	<u>47,611</u>

Amounts falling due after more than one year

			<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Other payables and accrued charges	425	389	-	425	389	-
Deferred income	1,502	2,076	2,651	1,502	2,076	2,651
Loans from Scottish Government (i)	56,507	19,201	-	56,507	19,201	-
EU Funding for Investment Funds	-	-	1,716	-	-	1,716
	<u>58,434</u>	<u>21,666</u>	<u>4,367</u>	<u>58,434</u>	<u>21,666</u>	<u>4,367</u>

(i) Loans from Scottish Government

Scottish Government funding is partly allocated to Scottish Enterprise in the form of loans to finance equity investments and the provision of loan finance to Scottish businesses. These loans are repayable over a period of up to 16 years (2017: 10 years). Although no interest is payable on these loans, any receipts generated by Scottish Enterprise from the underlying investments may be retained by Scottish Enterprise, subject to the approval of the Scottish Government.

			<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Balance at 1 April	19,201	-	-	19,201	-	-
Loan funding received in year	38,261	19,201	-	38,261	19,201	-
Loan funding repaid in year	-	-	-	-	-	-
Balance at 31 March	<u>57,462</u>	<u>19,201</u>	<u>-</u>	<u>57,462</u>	<u>19,201</u>	<u>-</u>
Due within one year	955	-	-	955	-	-
Due after one year	56,507	19,201	-	56,507	19,201	-
	<u>57,462</u>	<u>19,201</u>	<u>-</u>	<u>57,462</u>	<u>19,201</u>	<u>-</u>

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

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

	<i>Group</i>			<i>Scottish Enterprise</i>		
	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Central Government	8,478	12,893	17,028	8,006	12,472	16,255
Local Authorities	1,043	5,078	1,146	988	5,026	1,095
NHS Bodies	140	452	50	140	402	-
Bodies External to Government	47,090	34,048	30,750	46,102	33,970	30,261
	<u>56,751</u>	<u>52,471</u>	<u>48,974</u>	<u>55,236</u>	<u>51,870</u>	<u>47,611</u>

17. PROVISIONS

	<i>Group</i>	<i>Scottish Enterprise</i>
	<i>£000</i>	<i>£000</i>
Balance at 1 April 2016	2,072	2,072
Provided in the year	841	841
Provisions not required written back	-	-
Provisions utilised in the year	(286)	(286)
Balance at 1 April 2017	<u>2,627</u>	<u>2,627</u>
Provided in the year (ii) (iii)	740	530
Provisions not required written back	(119)	(119)
Provisions utilised in the year	(816)	(816)
Balance at 31 March 2018 (i)	<u>2,432</u>	<u>2,222</u>

- (i) The provision reflects the value of costs incurred by Falkirk Council, under a joint arrangement, which may be met from future sale proceeds of the land owned by Scottish Enterprise. The provision is unchanged from the previous year.
- (ii) A provision has been made for claims by the landlords of property formerly leased by Scottish Enterprise. Negotiations on the extent of Scottish Enterprise's liability in respect of these claims are on-going.
- (iii) Provisions have been made by a subsidiary company for repairs and contract remediation work.

18. COMMITMENTS**GROUP AND SCOTTISH ENTERPRISE**

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

	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>
Property, plant and equipment	-	-
Financial Assets	<u>60,390</u>	<u>12,573</u>

During the year to 31 March 2018 Scottish Enterprise entered into an agreement with The European Investment Fund to invest £50,000,000 in the Scottish-European Growth Co-Investment Programme. The capital commitment at 31 March 2018 includes the balance of funds still to be invested.

Scottish Enterprise operates several large grant programmes and has made financial commitments which extend over more than one year. The extent to which these commitments will be called upon in the future is uncertain and dependent upon the successful completion of the supported projects by the recipients of the offers of grant and will be met from Scottish Enterprise's annual funding allocation from the Scottish Government.

NOTES TO THE ACCOUNTS (continued)**19. CONTINGENT LIABILITIES****GROUP AND SCOTTISH ENTERPRISE**

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

	2018 £000	2017 £000
Contingent liabilities arising from legal actions (i)	223	5
Other contingent liabilities (ii) (iii) (iv) (v) (vi)	40	588

- (i) Scottish Enterprise had received a personal injury claim during 2016/17, this was settled by Scottish Enterprise's insurers in November 2017 at a cost of £6,000. Scottish Enterprise is defending a claim in respect of an employee relations matter. A court judgement in favour of Scottish Enterprise has been appealed by the claimant and a hearing is currently pending.
- (ii) Since 31 March 2010, Scottish Enterprise has provided a guarantee to Social Investment Scotland in respect of 90% of a loan provided to Glencraft (Aberdeen) Limited up to £135,000. The guarantee remains in place until 31 December 2018 and at 31 March 2018 the potential liability amounted to £26,000 (2017: £58,000).
- (iii) The carrying value of the remaining investments funded by Public Dividend Capital is £Nil (2017: £1,000). Any proceeds from the sale of these investments are due to be remitted to the Scottish Government (see Note 8).
- (iv) A claim made by a contractor against a partner organisation for additional costs incurred as a consequence of project amendments has been settled without a financial call on Scottish Enterprise and the contingent liability of £362,000 has now been removed.
- (v) Discussions with the Managing Authority regarding the potential repayment of ERDF support in the sum of £167,000 concluded with no clawback required. The contingent liability has now been removed.
- (vi) A contingent liability of £14,000 has been noted for redundancy payments following the closure of Scottish Enterprise's office in Russia during 2017/18.
- (vii) An inspection programme has been commissioned by Scottish Enterprise to test the external cladding on buildings within its tenanted property estate. The buildings are not considered to be high risk properties but it is not possible to determine whether any remediation work will be required or the associated cost of any such work until the programme of tests has been completed and the results have been considered.

NOTES TO THE ACCOUNTS (continued)**20. COMMITMENTS UNDER LEASES****OPERATING LEASES**

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

	Group			Scottish Enterprise		
	2018 £000	2017 £000	2016 £000	2018 £000	2017 £000	2016 £000
Obligations under operating leases comprise:						
Land and buildings:						
within one year	3,538	3,870	4,199	2,728	3,495	3,364
after one year but not more than five years	11,197	9,664	6,669	8,706	9,113	6,176
after more than five years	9,253	12,613	8,826	7,554	12,613	8,826
	<u>23,988</u>	<u>26,147</u>	<u>19,694</u>	<u>18,988</u>	<u>25,221</u>	<u>18,366</u>
Other:						
within one year	53	81	75	28	56	56
after one year but not more than five years	33	84	117	-	28	83
after more than five years	-	-	-	-	-	-
	<u>86</u>	<u>165</u>	<u>192</u>	<u>28</u>	<u>84</u>	<u>139</u>

21. 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. Other than the Scottish Government, Scottish Enterprise has no debt or borrowing facility with any external party.

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

NOTES TO THE ACCOUNTS (continued)

The table below details the contractual maturities of financial liabilities.

GROUP

	2018	2018	2018	2018
	Carrying	Contractual	Within one	After more
	Amount	Cashflows	year	than one
	£000	£000	£000	year
				£000
Financial liabilities				
Trade and other payables	106,431	106,431	49,499	56,932
	<u>106,431</u>	<u>106,431</u>	<u>49,499</u>	<u>56,932</u>

SCOTTISH ENTERPRISE

	2018	2018	2018	2018
	Carrying	Contractual	Within one	After more
	Amount	Cashflows	year	than one
	£000	£000	£000	year
				£000
Financial liabilities				
Trade and other payables	104,757	104,757	47,825	56,932
	<u>104,757</u>	<u>104,757</u>	<u>47,825</u>	<u>56,932</u>

GROUP

	2017	2017	2017	2017
	Carrying	Contractual	Within one	After more
	Amount	Cashflows	year	than one
	£000	£000	£000	year
				£000
Financial liabilities				
Trade and other payables	64,999	64,999	45,409	19,590
	<u>64,999</u>	<u>64,999</u>	<u>45,409</u>	<u>19,590</u>

SCOTTISH ENTERPRISE

	2017	2017	2017	2017
	Carrying	Contractual	Within one	After more
	Amount	Cashflows	year	than one
	£000	£000	£000	year
				£000
Financial liabilities				
Trade and other payables	63,491	63,491	43,901	19,590
	<u>63,491</u>	<u>63,491</u>	<u>43,901</u>	<u>19,590</u>

GROUP

	2016	2016	2016	2016
	Carrying	Contractual	Within one	After more
	Amount	Cashflows	year	than one
	£000	£000	£000	year
				£000
Financial liabilities				
Trade and other payables	38,159	38,159	38,159	-
	<u>38,159</u>	<u>38,159</u>	<u>38,159</u>	<u>-</u>

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

	2016	2016	2016	2016
	<i>Carrying Amount</i>	<i>Contractual Cashflows</i>	<i>Within one year</i>	<i>After more than one year</i>
	£000	£000	£000	£000
Financial liabilities				
Trade and other payables	36,520	36,520	36,520	-
	<u>36,520</u>	<u>36,520</u>	<u>36,520</u>	<u>-</u>

The Group and Scottish Enterprise has outstanding borrowings at 31 March 2018 of £57,462,000 (2016 £nil, 2017 £19,201,000).

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.

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:-

	2018	2017	2016
	<i>Carrying Amount</i>	<i>Carrying Amount</i>	<i>Carrying Amount</i>
	£000	£000	£000
GROUP			
Financial assets – other investments			
Assets available for sale	269,706	238,487	214,756
Held to maturity assets	10	21	2,031
Loans and other receivables	52,583	37,601	38,412
Financial assets			
Trade and other receivables	37,561	50,804	18,249
Cash and cash equivalents	93,872	74,713	106,381
	<u>453,732</u>	<u>401,626</u>	<u>379,829</u>

NOTES TO THE ACCOUNTS (continued)

SCOTTISH ENTERPRISE	<i>2018 Carrying Amount £000</i>	<i>2017 Carrying Amount £000</i>	<i>2016 Carrying Amount £000</i>
Financial assets – other investments			
Assets available for sale	269,150	237,914	214,311
Held to maturity assets	10	21	2,031
Loans and other receivables	55,284	40,302	41,115
Financial assets			
Trade and other receivables	35,711	48,818	16,285
Cash and cash equivalents	90,395	70,283	101,606
	<u>450,550</u>	<u>397,338</u>	<u>375,348</u>

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

GROUP

	<i>2018 Gross £000</i>	<i>2018 Impairment £000</i>	<i>2017 Gross £000</i>	<i>2017 Impairment £000</i>	<i>2016 Gross £000</i>	<i>2016 Impairment £000</i>
Not past due	32,341	(1,258)	49,107	(752)	12,944	(990)
Past due 0 to 30 days	573	-	1,152	-	1,957	-
Past due 31 to 120 days	940	(120)	1,799	-	2,110	-
Past due more than 120 days	9,438	(4,353)	3,466	(3,968)	5,679	(3,451)
	<u>43,292</u>	<u>(5,731)</u>	<u>55,524</u>	<u>(4,720)</u>	<u>22,690</u>	<u>(4,441)</u>

SCOTTISH ENTERPRISE

	<i>2018 Gross £000</i>	<i>2018 Impairment £000</i>	<i>2017 Gross £000</i>	<i>2017 Impairment £000</i>	<i>2016 Gross £000</i>	<i>2016 Impairment £000</i>
Not past due	30,491	(1,258)	46,787	(752)	10,980	(990)
Past due 0 to 30 days	573	-	1,152	-	1,957	-
Past due 31 to 120 days	940	(120)	1,799	-	2,110	-
Past due more than 120 days	9,231	(4,146)	3,314	(3,482)	5,375	(3,147)
	<u>41,235</u>	<u>(5,524)</u>	<u>53,052</u>	<u>(4,234)</u>	<u>20,422</u>	<u>(4,137)</u>

Movements in impairment of trade and other receivables are shown in Note 14. 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.

NOTES TO THE ACCOUNTS (continued)*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	<i>2018 Carrying Amount £000</i>	<i>2017 Carrying Amount £000</i>	<i>2016 Carrying Amount £000</i>
Fixed rate instruments			
Financial assets	79,100	75,324	69,420
Financial liabilities	-	-	-
	<u>79,100</u>	<u>75,324</u>	<u>69,420</u>
Variable rate instruments			
Cash and cash equivalents	93,872	74,713	106,381
	<u>93,872</u>	<u>74,713</u>	<u>106,381</u>
SCOTTISH ENTERPRISE			
Fixed rate instruments			
Financial assets	79,100	75,324	69,420
	<u>79,100</u>	<u>75,324</u>	<u>69,420</u>
Variable rate instruments			
Cash and cash equivalents	90,395	70,283	101,606
	<u>90,395</u>	<u>70,283</u>	<u>101,606</u>

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

	<i>Group 100 basis points change £000</i>	<i>Scottish Enterprise 100 basis points change £000</i>
Cash and cash equivalents		
31 March 2016	1,021	967
31 March 2017	905	859
31 March 2018	1,001	803

Currency risk

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

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

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

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

GROUP	<i>2018 Carrying Amount £000</i>	<i>2018 Fair Value £000</i>	<i>2017 Carrying Amount £000</i>	<i>2017 Fair Value £000</i>	<i>2016 Carrying Amount £000</i>	<i>2016 Fair Value £000</i>
Financial assets available for sale (i)	269,706	269,706	238,487	238,487	214,756	214,756
Financial assets held to maturity	10	10	21	21	2,031	2,031
Loans and other receivables	52,583	52,583	37,601	37,601	38,412	38,412
Trade and other receivables	37,561	37,561	50,804	50,804	18,249	18,249
Cash and cash equivalents	93,872	93,872	74,713	74,713	106,381	106,381
Trade and other payables	(106,431)	(106,431)	(64,999)	(64,999)	(38,159)	(38,159)
	<u>347,301</u>	<u>347,301</u>	<u>336,627</u>	<u>336,627</u>	<u>341,670</u>	<u>341,670</u>
SCOTTISH ENTERPRISE	<i>2018 Carrying Amount £000</i>	<i>2018 Fair Value £000</i>	<i>2017 Carrying Amount £000</i>	<i>2017 Fair Value £000</i>	<i>2016 Carrying Amount £000</i>	<i>2016 Fair Value £000</i>
Financial assets available for sale (i)	269,150	269,150	237,914	237,914	214,311	214,311
Financial assets held to maturity	10	10	21	21	2,031	2,031
Loans and other receivables	55,284	55,284	40,302	40,302	41,115	41,115
Trade and other receivables	35,711	35,711	48,818	48,818	16,285	16,285
Cash and cash equivalents	90,395	90,395	70,283	70,283	101,606	101,606
Trade and other payables	(104,757)	(104,757)	(63,491)	(63,491)	(36,520)	(36,520)
	<u>345,793</u>	<u>345,793</u>	<u>333,847</u>	<u>333,847</u>	<u>338,828</u>	<u>338,828</u>

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

Fair value hierarchy

The fair value hierarchy for the Group and Scottish Enterprise financial assets and liabilities that are valued at fair value are as defined in Note 9 in respect financial assets

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 £34,416,437 (2017: £3,015,191) at 31 March.

NOTES TO THE ACCOUNTS (continued)

Estimation of fair values

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

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

22. 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 government bodies and other non-departmental bodies.

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

Foreign & Commonwealth Office	Highlands and Islands Enterprise	Loch Lomond & The Trossachs National Park
NHS Lothian	Scottish Funding Council	Scottish National Heritage
Skills Development Scotland Limited	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 10. 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.

23. BOARD MEMBERS INTERESTS

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. Figures in brackets represent income to Scottish Enterprise.

Company	Board Member	Position	£	Description
Destini Marine Safety Solutions Limited	Melfort Campbell	Director	10,000	Grant
University of Aberdeen	Anne Glover	Vice Principal of External Affairs and Dean for Europe	23,380 7,695	Grant Exhibit and showcase package

NOTES TO THE ACCOUNTS (continued)

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

Organisation	Board Member	Position
Aberdeen and Grampian Chamber of Commerce	Bob Keiller	Member of the Policy Council
Opportunity North East Limited	Bob Keiller	Sector Board Member
Opportunity North East Limited	Melfort Campbell	Sector Board Member
The Royal Edinburgh Military Tattoo	Lena Wilson	Ambassador
The Royal Society of Edinburgh	Anne Glover	President
University of Strathclyde	Melfort Campbell	Visiting Professor
University of Strathclyde	Gavin Nicol	Visiting Professor
University of Strathclyde	Anne Glover	Senior advisor to the Principal

24. EVENTS AFTER THE REPORTING PERIOD

In May 2018, a company to which Scottish Enterprise provided a loan, released a statement casting doubt on its ability to continue as a going concern and to realise its assets and settle its liabilities in the normal course of events. Scottish Enterprise now considers the loan of £3,000,000 to be fully impaired and anticipates that it will be written off in full during 2018/19.

25. SCHEDULES OF INVESTMENTS AT 31 MARCH 2018

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 7. 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

	<i>% of Voting Rights</i>	<i>Shares £000</i>	<i>Loans £000</i>	<i>Commitments £000</i>
A F Clothing <i>Design and sale of clothing products</i>	22.54	176	-	-
Actual Analytics Limited <i>Software for the analysis of animal behaviour</i>	27.27	630	-	-
Administrative Limited <i>Development and supply of business training software</i>	28.56	1,699	-	-
Advanced Microwave Technologies Ltd <i>Microwave volumetric heating development and implementation</i>	22.29	710	542	-
Alfacyte Limited <i>Drug discovery – immunoregulatory platform</i>	26.94	300	-	-
Ambicare Health Limited <i>Development of medical healthcare devices</i>	23.11	2,282	228	-
Antoxis Limited <i>Design and synthesis of therapeutic antioxidants</i>	20.99	373	-	-
Apsu Environmental Limited <i>Water treatment and waste recycling</i>	29.99	119	-	-
Aptus Systems Limited <i>Online catering management software</i>	24.37	600	-	-
Aridhia Informatics Limited <i>Biomedical informatics and analytics</i>	22.69	748	1,070	-
Arrayjet Limited <i>Microarray printers and services</i>	26.03	1,560	70	-
Aurum Biosciences Limited <i>Stroke therapy</i>	21.97	441	-	-
Avanticell Science Limited <i>Cell assay products and services</i>	26.70	203	151	-

NOTES TO THE ACCOUNTS (continued)

	% of Voting Rights	Shares £000	Loans £000	Commitments £000
Biofilm Holdings Limited <i>Manufacture of fast dissolving films</i>	27.52	2,637 278(P)	75	-
Calcviv Limited <i>Dental medical device co-visualise calcium loss</i>	25.13	1,934	-	-
Caldan Therapeutics Limited <i>Diabetes diagnostics</i>	29.99	1,425	-	-
Calnex Solutions Limited <i>Synchronisation testing software provider</i>	26.23	575	-	-
Carbon Black System Limited <i>Design and production of wheelchairs</i>	27.98	522	137	-
Causeway Therapeutics Limited <i>Patented therapy for the treatment of tendinopathy</i>	20.00	500	-	-
Cellucomp Limited <i>Development of products from high tech composites</i>	22.71	2,307	-	-
Ceres Holographics Limited <i>Development of holographic technology</i>	25.51	1,028	-	-
Chromacity Limited <i>Design and manufacture of advanced lasers</i>	22.11	401	-	-
CiQual Limited <i>Software solutions to telecommunications industry</i>	25.77	967	756	-
Clear Returns Limited <i>IT services for retailers</i>	29.90	543	-	-
Clear Surgical Limited <i>Producer of surgical devices</i>	27.13	565	-	100
Cloudsoft Corporation Limited <i>Development of cloud computing software</i>	25.87	1,888	-	-
Clyde Biosciences Limited <i>Cardiac drug screening product</i>	22.71	708	167	100
Collectiveworks Limited <i>Business social networking and media platform</i>	26.33	1,264	173	-
Conjunct Limited <i>Development of optical communication components</i>	29.81	698	30	-
Critical Blue Limited <i>Providing flexible, automated embedded systems design</i>	25.96	1,800	100	-
Cyberhawk Innovations Limited <i>Provider of unmanned aerial vehicle inspection services</i>	26.40	741	-	-
DC Biosciences Limited <i>Bioscience and drug discovery research tools</i>	28.23	248	-	-
DeltaDNA Limited <i>Data mining/analytics services to games industry</i>	25.71	1,816	-	-
DEM Solutions Limited <i>Particulate analysis software and consultancy provider</i>	21.73	717	125	-
Design Led Products Limited <i>Developer of proprietary light-guide technology</i>	29.00	1,322	1,730	-
DestiNA Genomics Ltd <i>Chemical nucleic acid testing</i>	20.22	314	-	-
Dukosi Limited <i>Battery management system development</i>	26.20	1,496	-	-
East Coast Oil & Gas Engineering Limited <i>Developing innovative marine current turbine</i>	20.00	500	125	-
Edinburgh Molecular Imaging Limited <i>Medical imaging reagents</i>	22.00	1,430	-	242
Enocell Limited <i>Fuel cell technology</i>	23.69	770	-	-
Exerity Limited <i>IPTV networks provider</i>	23.66	749	-	-
Fios Genomics Limited <i>Statistical and bioinformatic analyses</i>	22.82	536	-	-

NOTES TO THE ACCOUNTS (continued)

	<i>% of Voting Rights</i>	<i>Shares £000</i>	<i>Loans £000</i>	<i>Commitments £000</i>
Fixed Phage Limited <i>Commercialisation of bacteriophages</i>	28.74	895	-	-
Formedix Limited <i>Software/consultancy services provider</i>	20.26	298	-	-
Gas Sensing Solutions Limited <i>High speed low cost precision gas sensor</i>	28.98	1,150	350	-
Global Surface Intelligence Limited <i>Carbon land use data services</i>	21.79	539	-	-
Incremental Group Holdings Limited <i>IT services</i>	20.00	-	1,200	-
Ingenious Audio Limited <i>Developer of a wi-fi guitar plug-in device</i>	27.47	365	-	-
Keith Brewery Holdings Limited <i>Craft brewery</i>	29.77	205	-	-
Kite Power Systems Limited <i>Generation of electricity from airborne kites</i>	20.00	2,000	-	-
Leading Software Limited <i>Software development company</i>	22.09	622	50	-
Loch Duart Limited <i>Sustainable salmon farming</i>	29.52	2,400	-	-
Logan Energy Limited <i>Hydrogen fuel cell consultancy and installation</i>	27.01	375	-	-
Lux Assure Limited <i>Solutions provider difficult to detect chemicals</i>	24.33	1,977	-	-
MGB Biopharma Limited <i>Development of antibacterial drug</i>	23.16	2,619	-	388
Mironid Limited <i>Life sciences drug development</i>	26.43	1,467	-	-
My1Login Limited <i>Developer of internet based applications</i>	29.27	927	73	-
NetThings Limited <i>Developer of energy consumption solutions</i>	29.89	2,625	-	-
Network 90 Limited <i>Premium private members networking website</i>	20.64	366	-	-
NeurocentRxPharma Limited <i>Reformulates existing drug agents for new uses</i>	28.48	359	-	-
Objective Associates Limited <i>Seller of software solutions to online retailers</i>	26.57	490	-	-
Ocutec Limited <i>Next generation contact lens development</i>	21.72	1,603	352	-
Opinurate Ltd <i>Customer experience management software</i>	27.00	324	-	-
Pick Protection Limited <i>Personal security device</i>	27.42	330	-	-
Pneumagen Limited <i>Prevention and treatment of infectious diseases</i>	25.45	1,010	-	-
PowerPhotonic Limited <i>Development and sale of custom laser optics</i>	26.32	1,288	100	-
Pufferfish Limited <i>Spherical display systems for events and exhibitions</i>	27.14	634	-	-
QED Naval Ltd <i>Foundation platform for tidal turbines</i>	27.96	588	-	-
Qikserve Limited <i>Provides in-restaurant ordering and payment solutions for the travel hospitality sector</i>	22.68	2,099	-	-
Reactec Limited <i>Development of vibration control solutions</i>	23.08	838	-	-
Relitect Limited <i>Developing a diagnostic and monitoring tool</i>	26.55	950	-	-

NOTES TO THE ACCOUNTS (continued)

	% of Voting Rights	Shares £000	Loans £000	Commitments £000
Ryboquin Limited <i>Developer of cancer therapies</i>	23.75	825	60	-
Saloca Limited <i>Software developer of online booking software</i>	28.28	654	-	-
SAW Dx Limited <i>Clinical diagnostic company</i>	22.90	375	-	-
Scotrenewables Tidal Power Limited <i>Tidal energy technology developer</i>	29.33	5,650	305	-
Sharein Limited <i>Technology tools and solutions in crowdfunding</i>	21.50	280	-	-
SIRAKOSS Limited <i>Developer of bone graft substitute</i>	20.97	886	204	409
Sistemic Scotland Limited <i>SistemRNA drug discovery technology</i>	28.33	605	-	-
Skoogmusic Limited <i>Developing and designing musical instruments</i>	22.37	583	-	-
Smarter Grid Solutions Limited <i>Software which increases capacity of existing grid</i>	29.05	2,016	-	-
Snapdragon Monitoring Limited <i>Monitoring software for IP protection</i>	27.60	480	-	-
Sofant Technologies Limited <i>Development of smart antennae for mobile communications</i>	27.80	901	-	-
Spaceright Europe Limited <i>Supplier of equipment to the education sector</i>	22.56	396	200	-
Sustainable Marine Energy Limited <i>Tidal energy technology developer</i>	29.79	525	984	-
Symbiosis Pharmaceutical Services Limited <i>Pharmaceutical services contract manufacturer</i>	29.50	1,385	60	-
Symphonic Software Limited <i>IT governance and access rights solution provider</i>	26.37	593	-	-
Syntropharma Limited <i>Pharmaceutical company focussed on transdermal technology</i>	26.56	1,166	-	-
TC BioPharm Limited <i>Drug discovery company focussing on T-cells</i>	22.53	2,815	-	-
Ubiquigent Limited <i>Developing products for life science research</i>	29.12	450	-	-
UWI Technology Limited <i>Development of elapsed time smart label</i>	21.21	1,141	-	-
Vert Rotors UK Limited <i>Compressor Technology</i>	26.73	1,493	-	-
Vicast Limited <i>Internet video software platform</i>	29.41	1,105	26	-
Zonefox Holdings Limited <i>Security software</i>	29.69	1,923	-	-
Total of items listed		96,110	9,443	1,239

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

	% of Voting Rights	Shares £000	Loans £000	Commitments £000
2-B Energy BV <i>Offshore wind technology developer Registered in Netherlands</i>	12.49	3,160	440	-
Atlantis Resources (Scotland) Limited <i>Engineering services – tidal energy market</i>	-	-	2,364	-
Berwickshire Community Renewables LLP <i>Power generation</i>	-	-	1,750	-
Big Data for Humans <i>Development and sale of big data product for SME's</i>	16.05	1,209	-	-

NOTES TO THE ACCOUNTS (continued)

	% of Voting rights	Shares £000	Loans £000	Commitments £000
BigDNA Limited <i>Developer of small molecule cancer therapies</i>	19.39	1,847	-	-
Blazing Keep Limited <i>Parent of multimedia entertainment group</i>	11.26	250	2,000	-
Celtic Renewables Limited <i>Energy from whisky by-product</i>	2.94	250	825	-
Cogbooks Limited <i>Adaptive learning software for education market</i>	12.93	313	887	-
Cyclacel Pharmaceuticals Inc. <i>Clinical research cancer drugs Registered in USA and quoted on NASDAQ</i>	0.16	5,000	-	-
Cytosystems Limited <i>Development of diagnostic cancer tests</i>	11.78	989	197	-
DYSIS Medical Limited <i>Designs, develops, manufactures and market imaging systems</i>	10.62	3,871	460	-
EAL Lending Limited <i>Commercial loan funding (Lending Crowd)</i>	-	-	2,000	665
Edinburgh Alternative Finance Limited <i>Peer to peer lending platform</i>	10.01	1,427	-	-
European Investment Fund <i>European Investment Fund Registered in Luxembourg</i>	0.11	1,275	-	3,528
Encompass Corporation Pty Limited <i>Technology company Registered in Australia</i>	5.15	1,790	600	-
Fanduel Limited <i>Online daily play fantasy sports games</i>	4.26	5,227	-	-
Fyne Energy Limited <i>Power generation</i>	-	-	2,820	-
Garth Wind Limited <i>Community renewable wind project</i>	-	-	1,590	-
Havelock Europe PLC <i>Design and installations of interior fit-outs</i>	-	-	3,000	-
Helix Power Limited <i>Manufacturer of energy efficiency product</i>	8.88	2,333	-	333
Isle of Harris Distillers Limited <i>Malt whisky distillery based on the Isle of Harris</i>	18.40	1,500	-	-
Lamellar Biomedical Limited <i>Application of lamellosome memetics</i>	19.99	3,330	-	-
Liberty Steel Dalzell Limited <i>Production of steel products</i>	-	-	7,000	-
MeyGen Holdings Limited <i>Holding company for the MeyGen tidal projects</i>	16.55	12,100	-	-
MeyGen Limited <i>Development of tidal power generation project</i>	-	-	7,500	-
Morrison Glasgow Distillers Limited <i>Distilling, rectifying and blending spirits</i>	17.11	2,000	-	-
MP1 Limited <i>SPV company to develop, own and operate wind farm</i>	-	-	1,750	-
Newmake Limited <i>New start distillery in central Edinburgh</i>	16.27	1,500	-	-
Nova Innovation Limited <i>Tidal turbine developer</i>	-	-	1,010	-
Novabiotics Limited <i>Design and development of anti-infectives</i>	18.26	3,338	-	-
NuCana plc <i>Oncology focussed biopharmaceutical company Quoted on NASDAQ</i>	7.06	2,000	-	-

NOTES TO THE ACCOUNTS (continued)

	% of Voting rights	Shares £000	Loans £000	Commitments £000
Outplay Entertainment Limited <i>Development and publication of social digital games</i>	19.24	2,850	-	-
Pangeo Subsea Inc <i>Geophysical subsea service provider</i>	11.78	489 635(P)	140	-
PB Community Energy CIC <i>SPV entity to develop, own and operate wind farm</i>	-	-	1,750	-
Point & Sandwick Power Limited <i>Power generation</i>	-	-	2,250	-
Pure LiFi Limited <i>Development of data communication over light waves</i>	6.52	1,207	-	-
Pyreos Limited <i>Production of thin film infrared sensor components</i>	0.36	3,067	-	-
Raptor Oil Limited <i>Signal processing technology oil and gas sector</i>	8.52	1,200	-	-
Stewart Energy Limited <i>Power generation</i>	-	-	1,630	-
Sympromics Limited <i>Creation of manmade synthetic promoters</i>	14.38	1,750	-	-
The One Place Capital Limited <i>Web based provision of financial advice to consumer</i>	14.46	1,772	-	-
TV Squared Limited <i>TV advertising attribution company</i>	5.20	1,411	-	-
Twig Rights Limited <i>Digital media company producing short films</i>	8.48	1,000	774	-
Vascular Flow Technologies Limited <i>Development of vascular devices</i>	2.96	1,802	-	-
Volo Holdings Limited <i>In-train entertainment systems</i>	6.85	1,184	157	-
Welton of Creuchies <i>Wind farm</i>	-	-	1,800	-
Epidarex Capital II LP <i>Investment Fund</i>	-	-	3,699	1,301
Scottish Loan Fund LP <i>Investment Fund</i>	-	-	11,585	1,844
Shackleton Secondaries 3 LP <i>Investment Fund</i>	-	-	1,385	10
Total of items listed		73,076	61,363	7,681
	<i>Number of companies</i>	<i>Shares £000</i>	<i>Loans £000</i>	<i>Commitments £000</i>
Total of items listed – Note 25A	93	96,110	9,443	1,239
Total of items listed – Note 25B	49	73,076	61,363	7,681
Other shares and loans	375	62,753	10,373	1,521
	517	231,939	81,179	10,441
			Total £000	
Shares			231,939	
Loans			81,179	
Initial cost of shares and loans before revaluations or provisions			313,118	
Capitalised interest			8,563	
Cumulative unrealised net gains recognised in Net Expenditure			3,094	
Cumulative unrealised gains recognised in Other Comprehensive Net Expenditure			103,516	
Cumulative impairments recognised in Net Expenditure			(105,992)	
Fair Value of shares and loans (Note 8)			322,299	

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 (FRoM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year. 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