

# SCOTTISH ENTERPRISE

## ANNUAL REPORT AND ACCOUNTS

For the year ended 31 March 2012

### Enterprise and New Towns (Scotland) Act 1990

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

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## MANAGEMENT COMMENTARY

for the year ended 31 March 2012

### BUSINESS OBJECTIVES AND STRATEGY

Scottish Enterprise was established under the Enterprise and New Towns (Scotland) Act 1990 for the purposes of furthering the development of Scotland's economy.

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

The approach to achieving the Scottish Government's purpose is set out in the Government Economic Strategy, an update of which was published in September 2011. This Strategy is the route map for all of the public sector in Scotland to meet the challenge of increasing economic growth, through increasing productivity, participation and population, while ensuring growth is socially and regionally equitable and environmentally sustainable.

As an economic development agency, Scottish Enterprise makes a distinctive contribution to all of the goals of the Government Economic Strategy.

Scottish Enterprise's 2011/14 Business Plan set out the contribution that Scottish Enterprise makes to the National Outcomes and Purpose Targets of the National Performance Framework used to track progress against the Government Economic Strategy's goals and targets.

Our Business Plan set out our priorities, which in the last year took account of the challenges faced in terms of the difficult economic conditions and the need to accelerate economic recovery. The Business Plan had the aim of helping Scotland become more globally competitive, supporting the companies that will drive Scotland's economy forward, creating more and better jobs, and working with sectors where Scotland has advantages that can be exploited within the global marketplace. Important to this is building a world class business environment which supports growth and attracts investment.

We prioritised five key areas in our 2011/14 Business Plan:

- **Renewables** – capitalising on our existing competitive advantage in renewable energy, which we identified could generate an extra £11 billion added value for Scotland's economy by 2020. During the last year, we worked to attract investment and help Scottish companies to establish a strong supply chain.
- **Internationalisation** – Scotland is operating in a highly competitive global economy and we must raise our international aspirations if we want to become more productive. This includes supporting more companies to trade overseas and looking to attract new inward investment. This is an important contribution to *Scotland's International Trade and Investment Strategy* (2011-15), published jointly with Scottish Government, Highlands & Islands Enterprise and Scottish Development International, in March 2011.
- **Growth Companies** – we focus support on companies that can make the greatest contribution to the Scottish economy, in terms of those companies with growth potential to which we can make the biggest difference. This includes support through our account management process, as well as support for specific issues such as leadership and strategy development, support for manufacturers through the Scottish Manufacturing Advisory Service (SMAS), investment through the Scottish Investment Bank and grant support through Regional Selective Assistance.
- **Innovation** – the development of innovative products and processes, increased business expenditure on R&D and improved outputs from the commercialisation of university research are all significant drivers of competitiveness and growth. Our support to Scottish companies will also help translate great business ideas into great business practice, concentrating on those sectors with the potential for achieving growth and contributing to jobs and the growth of the economy.
- **Transition to a Low Carbon Economy** – a major new economic opportunity for Scotland, where we have some significant competitive advantages; this is also an important priority in the Government Economic Strategy, which encourages sectors and companies to take advantage of emerging 'green' opportunities. Scottish Enterprise has sought to weave this activity through everything in our Business Plan.

In delivering its operational activities, Scottish Enterprise has three key strategic objectives:

- i) Supporting globally competitive companies with growth and internationalisation opportunities, helping to improve innovation and commercialisation, and workforce development.
- ii) Building globally competitive sectors, utilising Scotland's existing capabilities and ensuring that Scotland is recognised as a world leader in growing sectors.
- iii) Establishing a globally competitive business environment creating the right conditions for Scotland to compete with other international locations.

## MANAGEMENT COMMENTARY (continued)

In our work, we focus on a number of key sectors identified by the Government Economic Strategy as offering the opportunity to strengthen Scotland's areas of international comparative advantage, through achieving critical mass and boosting productivity:

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

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

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

- Aerospace, Marine & Defence
- Chemicals
- Construction
- Forestry & Timber
- Textiles

To complement this activity, and to achieve the aspirations set out in the Government Economic Strategy, Scottish Enterprise also works closely with public sector partners - in particular Local Authorities, Skills Development Scotland, NHS Scotland, the Scottish Funding Council, VisitScotland and Highlands & Islands Enterprise (HIE) - to secure the alignment of strategies and resources across the public sector behind growth opportunities.

Scottish Enterprise pursues this nationally through its role in the Scottish Government's Strategic Forum, with other partners and locally via Community Planning Partnerships.

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

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

During the course of the last year, we made a number of important organisational changes designed to improve our efficiency and our performance, and to enhance the impact of our activities. This year saw the final step in the transfer of the provision of capital grant support through the Regional Selective Assistance (RSA) scheme, with the final transfer of funding responsibility from Scottish Government to Scottish Enterprise. Similarly, Scottish Enterprise's funding responsibility for the Urban Regeneration Companies (URCs) was transferred to the Scottish Government.

### REVIEW OF CURRENT YEAR DEVELOPMENTS AND PERFORMANCE

Overall, 2011/12 has been successful for Scottish Enterprise, with 12 of the 15 quantifiable targets in our Business Plan achieved. We have seen progress against all of our major priorities. In an exceedingly difficult economic trading environment, this represents a strong performance.

A feature of our operations over the last year has been the need to respond vigorously to the difficult economic conditions faced by companies and sectors. The economic recovery has remained substantially below the trend rate, with prospects affected by the significant events in the eurozone and the continued slow growth in the UK. This has significantly affected investment prospects, reflected by how the uncertain outlook is affecting investment by companies, investors and banks. These difficult conditions have been reflected in the outturn of some of SE's targets, in terms of investment in R&D, equity finance and capital investment, as companies and investors have deferred planned projects or investments.

## MANAGEMENT COMMENTARY (continued)

Issues over the difficulties in accessing finance continue to dominate. While there has been progress in terms of take-up of funding from the Scottish Loan Fund, with a number of deals nearing completion, we have undertaken significant action to address the funding issues facing growth companies and exporters, increasing our advisory support to help companies access capital for investment and working with banks and other investors to explore actions that could be taken to secure funding for growth.

### Growth Companies and Internationalisation

A major feature of our results for 2011/12 has been a very strong performance in two key areas that are of vital importance to the economic recovery: the growth of companies and increasing the level of exports from Scotland. This has been reflected in a very strong performance in terms of the growth and increased international trade achieved by our client companies.

This represents a significant response to the challenge set out in the up-dated Government Economic Strategy, published during this year, which highlighted the need to respond to the continuing difficult economic conditions by reiterating a focus on the long-term objective of increasing Scotland's sustainable economic growth.

The returns achieved by our account managed customers confirm that some companies are achieving their growth objectives, despite the difficult trading conditions. The Turnover Growth measure for account managed companies for 2011/12 was £1.2 billion in total – a record result. With a higher proportion of account managed firms reporting growth in sales and profits than last year, this represents a significant achievement by our client companies. The results in relation to productivity improvements and innovation are similarly encouraging.

Despite some pressure over the 'project pipeline', we have seen continued performance in terms of the development of entrepreneurial companies from our commercialisation activities, with success in meeting our targets and evidence from evaluation which has shown sustained growth by many of our high-growth start-up companies, with increased impact and return on investment, with evidence of results being achieved from the stronger integration we have developed between advisory and funding support.

The increased prominence given to exports in our strategy has borne fruit, with the number of companies working to increase their international sales by more than £1m landing above the target range. This progress was reflected across all sectors, with some encouraging growth in some key international markets. For instance, the Food and Drink Sector Strategy's export targets have been surpassed a full six years ahead of schedule, reflecting a very strong performance.

The *Smart Exporter* programme, which is seeking to build capacity among Scotland's potential exports is now firmly established and is well placed to contribute to the ambitious target set in Scotland's International Trade and Investment Strategy of raising Scotland's exports by 50% by 2017.

The success in relation to International Trade has also been reflected in the achievement of our target in terms of High-Value jobs through Inward Investment, with 1,800 planned jobs secured over the year. This represents a significant outcome in the current difficult trading environment.

### Renewables and the Transition to a Low-Carbon Economy

We have also seen progress towards the number one strategic priority in our Business Plan: Renewables, with significant investments announced from Gamesa and Samsung Heavy Industries, and the announcement that the headquarters of the Green Investment Bank will be in Edinburgh. The work with companies in the renewables supply-chain has been developing, with the number of companies being assisted rising to 188. Reflecting the difficult economic conditions the take-up of grants such as Regional Selective Assistance and R&D grants by companies in the renewables sector has been low, however, with the deferral of some projects and investments.

There has been significant progress in terms of the development of the International Technology and Renewable Energy Zone (ITREZ) being led by the University of Strathclyde in Glasgow. A significant achievement was signalled by the announcement made by the Technology Strategy Board in February to locate the Offshore Renewable Energy Catapult Centre in ITREZ. This will become a significant strategic asset for Scotland, building on the significant strengths we have in our Universities.

This progress is complemented by the preparatory work being undertaken in relation to the National Renewables Infrastructure Fund (NRIF), launched a year ago to attract significant investment into the infrastructure required to build on Scotland's advantages in the offshore renewables sector. This is vital to the realisation of our ambition in this area and it will have a significant long-term impact in terms of economic growth and job creation.

As these developments in renewables came relatively late in 2011/12, we are seeking to maintain this momentum over the coming three years, to deliver our objective of developing a globally-competitive Offshore Renewables (wind and marine) sector in Scotland by 2015.

## MANAGEMENT COMMENTARY (continued)

Another major area of success in our Plan this year was the progress made in our strategic priority of supporting Scotland's *Transition to a Low-Carbon Economy*. This was also identified as a significant economic development objective for Scotland in the Government Economic Strategy.

The result of our main target in this area, in terms of CO<sub>2</sub> reductions arising from our work with companies, with a predicted saving of 31,608 tonnes of CO<sub>2</sub> is above the target range for this measure. We have also achieved the objective set out in our Low Carbon Implementation Plan in terms of making progress on the low-carbon agenda across all of Scottish Enterprise, including within our key sectors.

This outcome represents a successful start for our work against this important priority, which works across the entire range of our operations. We are seeking to build on this progress, embedding issues like resource-efficiency across our business. In particular, there is a need to step up our efforts to address some of the significant growth opportunities that Scotland has in this area, for instance in terms of our sectors and in terms of new technologies such as clean-tech. This is an important feature of our 2012/15 Business Plan.

### Industry Sectors

We have also seen progress across our Key Sectors. The returns in terms of sector activity in relation to innovation were strong, with significant take up of sector market intelligence in sectors like Tourism and Food and Drink, with the former showing positive evaluation results in terms of economic impact. Likewise, the roll-out of the Food & Health Innovation Service has been successfully achieved.

Progress has also been made in terms of export development, with significant export success for sectors such as Oil & Gas, Food and Drink and Textiles. There have also been successes in inward investment, in projects such as Gamesa (Renewables), Avaloq (Financial Services), Vion Foods and GSK in Life Sciences. The Information and Communications Technology sector performed particularly strongly, accounting for almost half of the high-value jobs secured over the year.

In Financial Services, Scotland continues to attract new investment, such as the Avaloq project, despite the difficulties in this industry. We have also been working closely with the banks and other providers of finance to address the need to increase investment into growth companies and growth sectors, to support the economic recovery.

In Life Sciences, while the difficult global market conditions meant we did not achieve our milestone of attracting a major anchor tenant into the Edinburgh BioQuarter during 2011/12, a significant programme is under way to attract new investment and ensure we achieve our ambition of making the BioQuarter a major world centre, building on progress made in terms of Translational Medicine, Regenerative Medicine and medical technologies.

An important part of this work in Key Sectors over the last year has been to build in strong leadership by industry, reflected this year in a strengthening of our Industry Leadership Groups, to help develop clear ownership by industry of Sector Strategies and to connect with the work of the entire range of government agencies in Scotland, including partner bodies such as Skills Development Scotland, the Scottish Funding Council, VisitScotland, Creative Scotland and Highlands & Islands Enterprise, as well as the Scottish Government.

Another important aspect of this work is to ensure this leadership by industry is fully reflected in the strategy in each of our key sectors. Over the last year, we have been refreshing the Sector Strategies in relation to Oil & Gas, Chemicals, and Tourism, taking account of the changing economy and the progress made against objectives.

### PERFORMANCE MEASURES

Scottish Enterprise plays an important role in contributing to the Government's high-level targets for increasing Scotland's sustainable economic growth alongside private and public sector partners through activities which focus on a number of the key national indicators and outcomes.

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

In recent years, we have sought to enhance the evidence that underpins our operations and our plans, reflected in a stronger evidence of impact and cost-effectiveness drawn from evaluation of some of our key programmes, from appraisal of major investments, and from wider economic research. Among the evaluations completed this year were reviews of the Scottish Seed Fund and the Scottish Venture Fund, which operate as part of the Scottish Investment Bank. Our economic research included a review of High Growth Firms, in terms of their contribution to the economy and the characteristics of their performance. We use the evidence derived from this work to shape our priorities and activities, to show how our work contributes to the economy and the goals of the Government Economic Strategy.

## MANAGEMENT COMMENTARY (continued)

We also seek to measure the effectiveness of our operations, to track progress against objectives and improve our performance. In 2011/12, we used a range of milestones and measures, as part of an overall Measurement Framework that we use to monitor the progress of our Business Plan. The milestones help us to keep on track and be focused on our measures. The measures are more complex in nature in that some cover in year outputs, some cover longer timeframes and some, due to their more qualitative nature, do not have forecast ranges.

The table below presents a summary of the target ranges (where applicable) and actual performance for 2011/12, together with the related actual performance from 2010/11 (where applicable).

**Table 1 Scottish Enterprise Business Plan, 2011/12: Performance against Targets**

2010-11 Actual	Measure description	2011/12 Target Range	2011/12 Actual
<b>Renewables:</b> develop a globally competitive offshore renewables (wind and marine) sector in Scotland by 2015			
<i>Commentary:</i> During the year, we have continued to push forward on our renewables priorities and have made progress towards our three year goals. While there have been some delays in decision making by key potential inward investors, progress is being made, for example in terms of high value jobs. We also have a programme of R&D calls underway which will enable us to achieve our ambitious targets for R&D and Innovation grant awards next year.			
New Measures	a) Secure 1 - 3 anchor private investors in key NRIF project(s)	1 - 3	} Work in progress – to be achieved by 2015
	b) Leverage of £130m - £150m of private sector investment to public support on NRIF	£130m - £150m	
	c) Leverage of private sector investment in offshore renewables	n/a	£10m
	d) Increased coverage through: – Account Management	n/a	Working with 155 companies in renewables
	– R&D and Innovation Grant Awards (£15m - £25m additional investment)	£15m - £25m	£7m (renewables) of which £6m offshore
	– Inward Investment (450 high-value jobs)	450	188 high-value jobs in renewables
	– Export activity (20 companies helped to internationalise)	20	48 companies (renewables) of which 28 offshore
	– Regional Selective Assistance	n/a	£8m (renewables) of which £4m offshore
<b>Internationalisation:</b> stimulate the globally competitive position of Scotland's companies and sectors			
<i>Commentary:</i> The increased prominence given to exports in our strategy has borne fruit with the number of companies working to increase significantly their international sales being higher than the top of the target range. In addition, despite the ongoing difficult trading environment, we had a good result with planned high value jobs from inward investment, with some significant projects secured.			
2,046	a) 1,600 - 2,400 new High Value Jobs from inward investment	1,600 – 2,400	1,800 high value jobs
136	b) 110 - 170 additional companies achieving significant turnover growth from exporting	110 - 170	191 companies
New	c) Number of new companies into exporting	n/a	112 companies
New	d) Significant inward investment and talent attracted to key sector infrastructure (Advanced Forming Research Centre, Edinburgh Bio Quarter and Informatics Scotland)	n/a	£3m attracted into Advanced Forming Research Centre

## MANAGEMENT COMMENTARY (continued)

2010-11 Actual	Measure description	2011/12 Target Range	2011/12 Actual
<p><b>Growth companies:</b> support increased growth from the companies and sectors we work with</p> <p><i>Commentary:</i> Record returns from our account managed firms confirm that many are continuing to invest and achieve their growth objectives despite difficult trading conditions. It is evident that difficulties in accessing finance continue to be an issue for some growth companies reflected in the relatively modest results for RSA grants and investment leveraged which, while achieved, are both in the lower end of their target ranges.</p>			
£790m	a) £500m - £700m additional turnover growth by account- managed firms	£500m - £700m	£1.2bn
5	b) 4 - 6 new entrepreneurial companies achieving £5m turnover after 5 years of trading	4 - 6	5 companies
New	c) £200m - £250m of additional Capital Investment in projects supported by Regional Selective assistance (RSA) grants	£200m - £250m	£215m
New	d) £55m - £75m of leveraged investment from equity provision through the Scottish Investment Bank	£55m - £75m	£57m
555	e) 400 - 500 companies achieving significant productivity improvements through projects like SMAS	400 - 500	484 companies
<p><b>Innovation:</b> improve the operational efficiency or competitiveness of companies and sectors through the exploitation of new ideas</p> <p><i>Commentary:</i> During the year, we have seen good results from companies undertaking innovation projects such as those aimed at introducing new products and processes. However, market conditions mean companies are curtailing or deferring their investment, which has resulted in additional business R&amp;D investment being lower than targeted. That said, the new measure of collaborative funds from other public sources showed strong results in a number of key projects and programmes such as the Advance Forming Research Centre, ITREZ and the EU FP7 programme.</p>			
£74m	a) Between £65m to £75m of additional business R&D investment from SE-assisted projects (R&D and SMART grants)	£65m - £75m	£56m
458	b) 350 - 450 Companies introducing new products/ services/process that generate significant value	350 - 450	427 companies
New	c) Increased leverage of collaborative R&D funds from other public sources (Technology Strategy Board, Framework Programme 7 and Small Business Research Initiative)	n/a	£48m
New	d) Number of companies accessing key sector market intelligence initiatives	n/a	2,861 companies
<p><b>The transition to a low carbon economy:</b> increase economic impact of reduced CO<sub>2</sub> emissions across all aspects of our operations</p> <p><i>Commentary:</i> Strong results were achieved with companies on the Low Carbon agenda to improve productivity impacting on CO<sub>2</sub> savings. Wider progress was also achieved across SE to implement our Low Carbon Implementation Plan including embedding issues like resource-efficiency across our business. There are significant market opportunities that Scotland has in Low Carbon and this is an important feature in our Business Plan for next year.</p>			
New	a) Between 25,000 - 30,000 tonnes of CO <sub>2</sub> savings arising from SE company support that improves productivity	25,000 - 30,000	31,609 tonnes

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

## MANAGEMENT COMMENTARY (continued)

### FINANCIAL PERFORMANCE

#### Financial Overview

The results for the year ended 31 March 2012 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 main financial objective for Scottish Enterprise is to ensure that the financial outturn for the year is within the Resource Budget allocated by the Scottish Ministers.

The Resource Budget is intended to cover capital and revenue expenditure (on an accruals basis) net of in-year income from sources such as European Union funding, and 'non-cash' costs, including depreciation. A further budget allocation 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 2011/12, after in year adjustments, amounted to £273m. This comprised a grant in aid provision of £245m and a non-cash allocation of £28m

Scottish Enterprise successfully achieved its main financial objective for the year. A detailed analysis of the resource outturn is provided later in this section.

The Resource Budget for 2012/13 amounts to £259m, including £231m of grant in aid and a ring fenced non-cash budget provision of £28m. As noted previously, the Resource Budget is supplemented by income generated and applied against expenditure incurred during the year. In addition, further transfers of budget from the Scottish Government are anticipated through the normal operation of the Scottish Government's Budget revision process.

#### Summary of Resource Outturn

Scottish Enterprise's net expenditure (excluding non-cash costs) against its funding provision for the year to 31 March 2012 was as follows:

	<i>£000</i>	<i>£000</i>
<b>Operational Delivery Costs</b>		
Supporting Globally Competitive Businesses	96,602	
Supporting Globally Competitive Sectors	13,268	
Globally Competitive Business Environment	<u>98,991</u>	
		208,861
<b>Support Costs</b>		
Staff costs, including customer facing staff	56,385	
Marketing, research & stakeholder engagement	8,552	
Premises, information services and other support costs	<u>30,827</u>	
		<u>95,764</u>
		304,625
<b>Less: Income</b>		<u>51,917</u>
		252,708
<b>Funded by</b>		
Grant-in-Aid	245,288	
Net investment by the Scottish Co – Investment and Scottish Loan Funds	<u>8,319</u>	
		<u>253,607</u>
<b>Net underspend</b>		<u>899</u>

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

	<i>Outturn £000</i>	<i>Budget £000</i>
Grant in Aid	244,389	245,288
Non –cash costs including depreciation	5,423	27,772
Total resource budget	<u>249,812</u>	<u>273,060</u>
Annually managed expenditure	<u>17,459</u>	<u>23,300</u>



## MANAGEMENT COMMENTARY (continued)

### Cash Balances

Due to the nature of its business and activities, Scottish Enterprise requires to retain cash balances. As at 31 March 2012 these amounted to £93m (2011: £102m).

A significant element of the total cash balance, amounting to £61m (2011: £72m), relates to the activities of the Scottish Co-Investment Fund and the Scottish Loan Fund. These balances cannot be applied to fund any business activity other than that relating to the delivery and management of the Funds.

### Income from the European Union

European Union funds amounting to £14m (2011: £17m) were receivable in support of the operations of the Scottish Enterprise Group, including the activities of the Scottish Co-Investment and Scottish Loan Funds.

### Non-Current Assets

During the year ended 31 March 2012, expenditure on non-current assets and investments and proceeds from disposal were:

	<i>Expenditure</i>		<i>Disposals</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Property, plant and equipment	15	30	4	20
Investments, including loan repayments	31	25	4	12

### Property

The Scottish Enterprise Group property portfolio, which includes land, site development and buildings, including buildings under construction, was independently revalued at 31 March 2012 and is included in the accounts at £189m (2011: £190m). In addition, property classified as held for sale was valued at £4m (2011: £4m).

### Retirement Benefits Scheme

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

### Payment Policy

Scottish Enterprise has a stated service commitment to pay its suppliers within 30 days of receipt of agreed and valid invoices, or as provided for under the terms of an agreed contract. However, as advised by the Scottish Government in November 2008, Scottish Enterprise implemented a revised payment policy of 10 days for all suppliers. In the year ended 31 March 2012, Scottish Enterprise paid 82% (2011: 81%) of suppliers' invoices within the revised standard. The average number of days taken to pay valid invoices during the year was 8.3 days (2011: 8.8 days).

### FUTURE DEVELOPMENTS

Our new Business Plan for 2012/15 sets out what we are doing to achieve our ambitions and how we are responding to the economic challenge that Scotland currently faces.

It is clear that the economic recovery remains fragile in Scotland, the UK and across most developed nations. Significant risks to growth persist including: weak demand; constrained access to finance which is inhibiting business investment; inflation; falling real household incomes; and a sluggish recovery in many of our key trading partners.

Our new Business Plan reflects the newly-refreshed Government Economic Strategy, with its sharp focus on growth companies, growth markets and growth sectors. This Plan outlines what we will deliver in these areas, by increasing our support for growth companies, and for the sectors in Scotland that have the greatest opportunities to improve productivity and competitiveness and to create jobs. We will also make the most of the opportunities that Scotland has in global markets, growing our international trade and attracting significant new investment. This involves increasing the number of Scottish companies that can compete effectively in high growth markets.

While we will continue to focus on actions that will make the biggest difference to raising Scotland's long-term sustainable economic growth, we will also give particular attention to two issues that are important in the short-term:

- Jobs – we will help companies to create and sustain employment, reflecting the need to address the challenge of unemployment – particularly among young people; and
- Investment – we will tackle the current constraints that companies face in unlocking finance for growth, both by providing investment support and attracting new investment to support the growth of our companies and sectors;

## MANAGEMENT COMMENTARY (continued)

The economic downturn has had a greater impact on some areas of Scotland than others. We will work with partners throughout the country to take advantage of new opportunities and to ensure that our contribution to recovery is tailored to the different economic circumstances in Scotland's cities, towns and rural areas.

Partnership is fundamental to what we do and how we do it. Working together with partners helps to create efficiencies, manage risks and maximise returns on investment. It helps to build business networks and broker relationships. It helps us to learn from others and build the evidence base which is so important in prioritising and delivering the activities which lay the foundation for long term economic impact. This "Team Scotland" approach will ensure we can make the biggest difference to the competitiveness of the Scottish economy with the resources we have available.

The way that we work with our partners and customers is also of great importance and we are committed to delivering excellent customer service. As an organisation we strive to follow the standards set out in our Customer Charter and are committed to delivering the best service possible to all our customers. We have also placed greater emphasis on measuring our performance. This includes identifying the impact we have from our activities and the contribution we make to the Scottish Government's objectives.

The Scottish Enterprise Business Plan for 2012/15 can be found on our web-site at [www.scottish-enterprise.com](http://www.scottish-enterprise.com).

### CORPORATE GOVERNANCE

#### Codes of Conduct

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

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

#### Board Members

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

		Audit	Investment	Economic Policy	Nominations / Governance	Remuneration	Urgent Approvals
Crawford Gillies	Chairman				C		C
Lena Wilson	Chief Executive		M	M	M		M
Ian Crawford			M		M	M	
Professor Russel Griggs OBE				M			
Iain Macdonald	Retired 31 December 2011		C		M	M	M
Professor Sir Jim McDonald			M	M			
John McGlynn			M	M			
Iain McLaren		C			M	M	M
Jeremy Peat OBE			M	C			M
Grahame Smith		M		M			
Linda Urquhart OBE		M	C				M
Graeme Waddell		M			M	C	

C - Chair  
M - Member

## MANAGEMENT COMMENTARY (continued)

The Board operates a number of Committees to scrutinise certain areas of activity in greater depth and make recommendations to the Board. These include an Audit Committee; a Remuneration Committee, the work of which is considered in the Remuneration Report; an Investment Committee which examines the progress of major initiatives; a Nominations and Governance Committee, which reviews the organisation's governance structure and leadership; an Urgent Approvals Committee; and an Economic Policy Committee which monitors Scottish economic performance.

### Executive Leadership Team

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

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

### RESOURCES AND RISKS

#### Financial

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

#### Employees

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

Recognising that our own people are a major source of competitive advantage in delivering more for Scotland, our robust approach to employee communication and engagement is designed to increase productivity, reduce absence, foster wellbeing and improve customer and partner relationships, facilitating the achievement of our ambitious targets. We are committed to open, timely and effective employee communication and to becoming an employer of choice through our 'Great Place to Work' engagement programme which includes regular cascade briefings, all staff e-mails, intranet updates, an all staff conference every two years, and face to face updates to keep our people informed and involved on business news and employee issues. As part of our community engagement programme, we encourage our people to volunteer to support the local communities we live and work in and support local and national charities and good causes through our staff charity fund. Through the Healthy Working Lives programme, we promote health, safety and wellbeing and have recently achieved silver level accreditation. We ensure that we fully understand issues concerning staff through our regular engagement surveys and forums, the results of which provide a measurement to allow us to make continual improvements in employee engagement.

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

Through the implementation of practices which recognise the diversity of our people, and in line with our public sector duties under race, disability, gender and age, we aim to develop a working environment which values the creativity, talents, energies and working styles of all present and potential employees. At Scottish Enterprise, we value and recognise individuals' contributions regardless of age, colour, disability, ethnic origin, gender, marital status, religion or sexual orientation, and embrace a culture based on fair treatment. To reinforce the awareness of these programmes and

## **MANAGEMENT COMMENTARY** (continued)

related policy changes, we implement a mandatory process (Policymatters), which requires all staff to complete an intranet update on each specific change. We hold “Scottish Living Wage”, “Two Tick” and “Age Positive” standards for our employment practices and are recognised as an employer for supporting diversity.

### **Sickness Absence**

The absence record for Scottish Enterprise employees for the year to end March 2012 was 5,612 (2011: 6,344) sick days out of a possible 223,904 (2011: 225,323) working days representing a lost time through sickness absence of 2.51% (2011: 2.82%).

### **Estate management**

Scottish Enterprise acquires, invests in and manages a portfolio of property and land assets. The objective in maintaining and developing this estate is to maximise the economic development benefits for Scotland. Income derived from the holding and disposal of these assets is utilised to support Scottish Enterprise’s Business Plan and the delivery of its economic development objectives. As Scottish Enterprise holds its property portfolio for economic development purposes, the majority of property and land sales are for business use. Where appropriate a use restriction is applied which can be enforced in the event of a future change of use to a higher value land use, such as retail, residential, hotel and leisure etc. Where a site is sold for an alternative use, the sale price reflects market value for the alternative land use.

Valuations of the estate are prepared annually by external valuers based on Fair Value as defined in the Valuation Standards 2012 (Red Book) issued by the Royal Institution of Chartered Surveyors. They reflect the existing zoning and planning consents, adjusted to reflect any realistic potential for change of use and incorporating an element of hope value where appropriate.

### **Risks**

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

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

### **Data Loss**

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

### **EQUITY**

In pursuit of sustainable economic growth, Scottish Enterprise contributes to the Scottish Government’s strategic objectives for environmental sustainability, social and regional equity. Our focus is on those opportunities that promote both sustainable economic growth and equity. This work continues to be embedded in our mainstream operational activities as an intrinsic part of our approach to building globally competitive companies, sectors and business environment.

### **Environmental Matters**

Scottish Enterprise supports the Government’s agenda of sustainable economic growth. Our Low Carbon Implementation Plan demonstrates our support for a low-carbon economy, including achievements for 2011/12 and actions for the year ahead. We have set an ambitious target to reduce our internal carbon emissions by 42% by 2020 from a 2009/10 baseline. Our progress for 2011/12 is reported in our Sustainability Report which can be found on our website, along with the Low Carbon Implementation Plan, at

<http://www.scottish-enterprise.com/grow-your-business/operations/low-carbon/low-carbon-role-of-scottish-enterprise.aspx>

## MANAGEMENT COMMENTARY (continued)

### Social and Regional Equity

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

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

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

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

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

- improving partnership work through more effective communication,
- mainstreaming the work in our operational activities by considering regional equity in our relevant projects,
- tracking baseline measures to assess progress and
- developing Scotland's approach to Enterprise Areas which provided a further opportunity to link opportunity and need.

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

### Equal Opportunities

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

*To 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 resident and business in the country and we ensure that our products and services will be provided to individuals regardless of their:

- |                      |                           |
|----------------------|---------------------------|
| • age                | • disability              |
| • gender             | • pregnancy and maternity |
| • religion or belief | • sexual orientation      |
| • race               | • gender reassignment     |

Our activities last year focused on promoting the business case for equality in industry in Scotland, tackling occupational segregation through partnership working and carrying out inequality impact assessments on areas of business including the Scottish Investment Bank and our work on leadership development. We have also been pro-active in developing our approach on human rights with companies trading or locating overseas.

We are committed to complying with the Equality Act 2010 and an internal audit was carried out during 2011/12 which confirmed we are adhering to the requirements of the new legislation and that we are giving due regard to eliminating discrimination, advancing equality of opportunity and fostering good relations between different groups. We are now preparing to implement the Specific Duties which have recently been enacted.

### AUDITORS

The accounts of Scottish Enterprise are audited by auditors appointed by the Auditor General for Scotland. KPMG LLP's 5 year term as Scottish Enterprise's auditors ended and the Auditor General appointed Audit Scotland to be the auditors of Scottish Enterprise. Fees payable for audit services provided by the appointed auditors for the year ended 31 March 2012 were £159,000 (2011: £168,000). There were no fees payable to Audit Scotland for non-audit services in the year ended 31 March 2012.

## **MANAGEMENT COMMENTARY** (continued)

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

**Lena C Wilson**  
**Accountable Officer**  
**29 June 2012**

# REMUNERATION REPORT

for the year ended 31 March 2012

This report explains the remuneration policy of Scottish Enterprise for Board Members and for the senior management team, the Executive Leadership Team, and provides details of members' remuneration for the year ended 31 March 2012.

## Scottish Enterprise Board

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

The Chairman was appointed in February 2009 for an initial period of three years and four months. In April 2012, the Scottish Government announced that the Chairman had been re-appointed for a further term which will run until 30 June 2015. The Scottish Government sets the level of remuneration for the Chairman and informs Scottish Enterprise on an annual basis of any increase to be awarded.

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

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

## Executive Leadership Team

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

The Chief Executive and other Executive Leadership Team members are on standard Scottish Enterprise contracts of employment. Their contracts provide for a notice period of up to 12 months. For 2011/12 there was no bonus scheme operated in Scottish Enterprise.

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

## Remuneration Committee

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

The members of the Remuneration Committee who served during the year to 31 March 2012 were:-

Graeme Waddell	Chair
Ian Crawford	
Iain Macdonald (retired 31 December 2011)	
Iain McLaren (appointed 1 January 2012)	

## Executive Leadership Team Remuneration

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

## REMUNERATION REPORT (continued)

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

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

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

A bonus of up to 10% for the Chief Executive, can be awarded based on the assessment of the achievement of performance objectives, however, since the Scottish Government's announcement in November 2010, even when those performance objectives have been achieved, no performance bonuses have been payable in the public sector.

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. As a result of the latest triennial valuation Scottish Enterprise will contribute 18% of the employees' pensionable salary from 1 April 2012. This is a defined benefits scheme that provides benefits at a normal retirement age of 60, or 65 for staff who joined on or after 1 December 2006. These benefits consist of an annual pension, based on final pensionable salary and pensionable service, and a tax-free lump sum, payable on retirement, equivalent to three times the annual pension. Pensions increase annually in accordance with the percentage uplift set out in The Pension Increase (Review) Order announced by the United Kingdom Government each year.

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

### Remuneration

Remuneration paid to the Chairman and other non-executive board members who served during the year to 31 March 2012 was:-

		<i>2012</i> <i>Remuneration</i> £	<i>2011</i> <i>Remuneration</i> £
Crawford Gillies	Chairman	38,721	38,721
Ian Crawford		12,581	12,581
Russel Griggs		13,781	13,981
Iain Macdonald	Retired 31 December 2011	11,324	15,098
Jim McDonald		12,581	12,581
John McGlynn		12,581	3,145
Iain McLaren		15,098	13,210
Jeremy Peat		15,098	3,775
Grahame Smith		12,581	12,581
Linda Urquhart		13,839	3,145
Graeme Waddell		15,098	15,098



**REMUNERATION REPORT** (continued)

Remuneration of the Chief Executive, Lena Wilson, and other Executive Leadership Team members who served during the year to 31 March 2012 was:-

	2012				2011			
	<i>Salary</i> £000	<i>Bonus</i> £000	<i>Other benefits</i> £000	<i>Total</i> £000	<i>Salary</i> £000	<i>Bonus</i> £000	<i>Other benefits</i> £000	<i>Total</i> £000
Lena Wilson (i)	200	-	-	200	200	-	-	200
Paul Lewis (iv)	130	-	-	130	127	-	-	127
Anne MacColl (ii) (iii)	101	-	11	112	57	-	72	129
Linda McDowall (iii)	116	-	-	116	112	-	-	112
Jim McFarlane (iv)	142	-	-	142	138	-	-	138
Iain Scott (iii)	121	-	-	121	109	-	-	109
Carolyn Stewart (iii)	111	-	-	111	107	-	-	107
Julian Taylor (iii)	101	-	-	101	97	-	-	97

- (i) In accordance with the Scottish Government's announcement on the performance bonuses payable to senior public sector staff, no bonuses are payable to the Chief Executive for the year 2011/12.
- (ii) Anne MacColl's remuneration package includes the residual element of her relocation package agreed when she was required to relocate from France to Scotland. As previously reported, at that time Anne MacColl's duties in Scotland became non-incidental and consequently her earnings became liable to tax in the United Kingdom as well as in France and Scottish Enterprise agreed to settle the tax liability in the United Kingdom. In the year 2012/13 Scottish Enterprise will recover £2,572 of the tax previously paid.
- (iii) In line with all Scottish Enterprise staff, if they were eligible, Executive Leadership Team members, other than the Chief Executive, received a pay increment of 1.5% with effect from 1 July 2011. The apparent higher percentage increase in salary detailed above is a consequence of members not being on substantive Executive Leadership Team salaries for the whole of 2010/11.
- (iv) In the 2010 pay award, all Scottish Enterprise staff whose performance was assessed at a pre-determined level were granted a salary increase based on their performance. Staff who had previously reached the top for their salary band were entitled to non-consolidated payments based on the maximum salary for the band and the level of their performance. These non-consolidated payments were made in April 2011 and are therefore included in the 2012 salary figure noted above.

**REMUNERATION REPORT** (continued)

(v) Retirement benefits of the Executive Leadership Team members for the year to 31 March 2012 are as follows:-

	<i>Accrued Pension at age 60 as at 31 March 2012 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)</i>		
			<i>At 31 March 2012 £000</i>	<i>At 31 March 2011 £000</i>	<i>Increase/ (decrease) net of members' contributions £000</i>
Lena Wilson	55 – 60 plus lump sum of 165 - 180	0 – 2.5 plus lump sum of 0 – 2.5	1,257	967	278
Paul Lewis	40 - 45 plus lump sum of 120 - 135	0 – 2.5 plus lump sum of 0 – 2.5	882	681	193
Anne MacColl	5 - 10 plus lump sum of 15 - 30	0 – 2.5 plus lump sum of 2.5 – 5	194	128	61
Linda McDowall	35 - 40 plus lump sum of 105 - 120	0 – 2.5 plus lump sum of 0 – 2.5	1,078	878	193
Jim McFarlane	55 - 60 plus lump sum of 165 - 180	-2.5 – 0 plus lump sum of -2.5 – 0	1,575	1,325	243
Iain Scott	30 - 35 plus lump sum of 90 - 105	0 – 2.5 plus lump sum of 2.5 – 5	688	517	164
Carolyn Stewart	20 - 25 plus lump sum of 60 - 75	0 – 2.5 plus lump sum of 2.5 – 5	445	321	118
Julian Taylor	25 - 30 plus lump sum of 75 - 90	0 – 2.5 plus lump sum of 0 – 2.5	555	410	140

(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 increases/ (decreases) in the cash equivalent transfer value are determined by market conditions. This year they have been particularly affected by 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. Of the average 27% increase in Cash Equivalent Transfer Values this year, 18% is attributable to the decrease in interest rates. The balance of the increase relates to the routine application of factors which impact on the calculation of retirement benefits.

## REMUNERATION REPORT (continued)

### Median Pay Multiples

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

	2012 £	2011 £
Total remuneration of the highest paid member of the Executive Leadership Team	200,000	200,000
Median total remuneration of Scottish Enterprise's employees	37,186	36,948
Remuneration ratio	5.4	5.4

The total median remuneration of Scottish Enterprise's employees is based upon the annualised full-time equivalent salary of the employees at 31 March 2012.

Including severance payments, 3 employees (2011:1 employee) received remuneration in excess of the highest paid member of the Executive Leadership Team.

**Graeme Waddell**  
Remuneration Committee Chair  
29 June 2012

**Lena C Wilson**  
Accountable Officer  
29 June 2012

## **STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES**

**for the year ended 31 March 2012**

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

In preparing the accounts, Scottish Enterprise is required to:

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

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

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

**Lena C Wilson**  
**Accountable Officer**  
**29 June 2012**

# GOVERNANCE STATEMENT

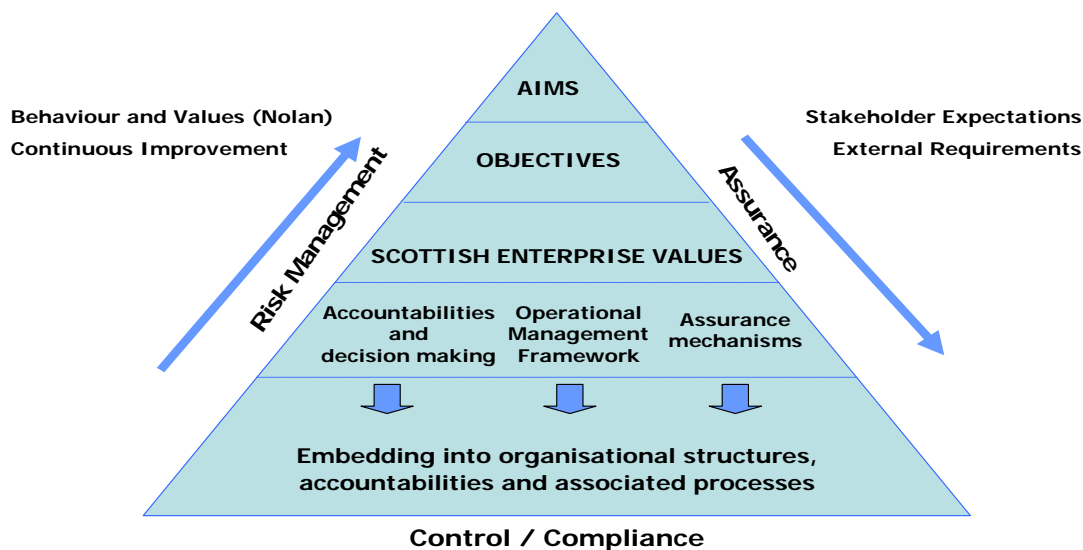
for the year ended 31 March 2012

## Introduction

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

## Scottish Enterprise Governance Framework

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



## Aims and Objectives

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

## Scottish Enterprise Values

### *Scottish Enterprise Board*

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

### *Management and Staff*

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

## Accountabilities and Decision Making

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

### *Scottish Enterprise Board*

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

## **GOVERNANCE STATEMENT** (continued)

six sub-Committees: Economic Policy; Nominations and Governance; Remuneration; Investment; Urgent Approvals and Audit. The Board meets monthly and has amended agenda items with greater focus on feedback from Committees and further strategic discussions. The Board and its Committee's structure, terms of reference and performance are regularly reviewed.

### *Scottish Enterprise Chief Executive*

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

### *Organisational Model*

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

### **Operational Management Framework**

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

These form an essential part of the overall system of internal control which is in place. The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the organisation's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. These span Scottish Enterprise's entire range of activities and include:

#### *Strategy and Planning*

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

#### *Resource Management*

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

#### *Performance Management*

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

#### *Budgetary Control*

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

#### *Human Resources*

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

#### *Risk Management*

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

A Corporate Risk Register has been established to consider those risks that impact the organisation as a whole, and are likely to affect the organisation's ability to achieve its strategic goals and objectives. The register is reviewed and discussed by the ELT on a regular basis, including consideration of progress on agreed actions to manage the risks.

Management teams are responsible for maintaining a system of risk management and internal control, consistent with corporate risk arrangements, and designed to enable it to deliver its business objectives in an efficient and effective manner in accordance with our values and policies. Ownership is assigned for each identified risk, both at a corporate and management team level, with the risk owner responsible for monitoring the risk and ensuring that any identified mitigating actions are implemented.

## GOVERNANCE STATEMENT (continued)

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

The Audit Committee is responsible for reviewing the effectiveness of the entire approach to risk management within the organisation. It received reports on a six monthly basis, and may also consider risk management on a more frequent basis if either the Chairman of the Audit Committee or the ELT considers this necessary.

### Assurance

#### *Role of Scottish Enterprise Audit Committee*

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

#### *Management Assurance Statements*

As Accountable Officer, I am required to provide a Certificate of Assurance to the Scottish Government on an annual basis. To enable the signing of this Statement, I require assurances on the maintenance and review of internal control systems throughout the organisation. All Scottish Enterprise ELT members and the Chief Executives of 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 we are currently working with Atos (our IT service provider) to agree an assurance mechanism which includes considering the steps required to develop and obtain an ISAE 3402 report.

I have confirmed for 2011/12 that controls have been, and are, working well within Scottish Enterprise. There are no significant matters arising which would require to be raised.

#### *Internal Audit*

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

For 2011/12 the overall conclusion of internal audit work carried out identifies a good level of assurance in the areas reviewed. A number of audit issues were highlighted during the year which were reported to the ELT and Audit Committee. All issues were addressed through an action plan and appropriate action has been taken to mitigate any losses and prevent future occurrence.

#### *External Audit*

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

The external auditors have given unqualified audit opinions on the accounts for the year ended 31 March 2012 and on the regularity of transactions reflected in the accounts. No further significant issues have been identified as part of their audit process.

**Lena C Wilson**  
**Accountable Officer**  
**29 June 2012**

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

I have audited the financial statements of Scottish Enterprise for the year ended 31 March 2012 under the Enterprise and New Towns (Scotland) Act 1990. The financial statements comprise the Group Statement of Comprehensive Net Expenditure, the Group Statement of Financial Position, the Statement of Financial Position, the Group Statement of Cash Flows, the Group Statement of Changes in Taxpayers' Equity, the Statement of Changes in Taxpayers' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2011/12 Government Financial Reporting Manual (the 2011/12 FReM).

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

## **Respective responsibilities of Accountable Officer and auditor**

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

## **Scope of the audit of the financial statements**

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

## **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2012 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2011/12 FReM; and
- have been prepared in accordance with the requirements of the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers.

## **Opinion on regularity**

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



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

## Opinion on other prescribed matters

In my opinion:

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

## Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Brian Howarth ACMA CGMA  
Assistant Director  
Audit Scotland  
7th Floor, Plaza Tower  
East Kilbride  
GLASGOW  
G74 1LW

29 June 2012

**GROUP STATEMENT OF COMPREHENSIVE NET EXPENDITURE**

for the year ended 31 March 2012

	Notes	2012 £000	Restated 2011 £000
Expenditure			
Operating expenditure	3	208,524	202,775
Net management expenditure on staff costs	3	57,606	55,136
Other management expenditure, incl. depreciation	3	31,597	30,219
		<u>297,727</u>	<u>288,130</u>
Income			
Income from Activities	2	(16,637)	(15,708)
Other Income	2	(30,314)	(41,586)
		<u>(46,951)</u>	<u>(57,294)</u>
<b>Net Operating Expenditure</b>		250,776	230,836
Share of losses/(profits) in equity accounted investees	9	141	(10)
Income from investments	2	(377)	(277)
Interest receivable	2	(4,730)	(2,153)
Other finance income	2	(8,564)	(3,221)
<b>Net Expenditure after interest</b>		237,246	225,175
Taxation	6	164	366
<b>Net Expenditure after taxation</b>		<u>237,410</u>	<u>225,541</u>
Minority interests	24	(152)	1
Appropriations	10	34	-
<b>Net Expenditure</b>		<u>237,292</u>	<u>225,542</u>
<b>Other Comprehensive Expenditure/ (Income)</b>			
Net losses/(gains) on revaluation of property, plant and equipment		758	(1,960)
Net gains on revaluation of property, plant and equipment held by Equity Accounted Investee		(462)	-
Net gains in fair value of available for sale assets		(24,603)	(768)
Net actuarial gains recognised in retirement benefit scheme		(15,494)	(67,761)
<b>Other Comprehensive Net Expenditure for the year</b>		<u>(39,801)</u>	<u>(70,489)</u>
<b>Total Comprehensive Net Expenditure for the year</b>		<u>197,491</u>	<u>155,053</u>

The notes on pages 32 to 78 form part of these accounts.

**GROUP STATEMENT OF FINANCIAL POSITION**

as at 31 March 2012

	Notes	2012 £000	Restated 2011 £000	Restated 2010 £000
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	7	189,898	193,255	183,618
Intangible assets	8	-	-	-
		<u>189,898</u>	<u>193,255</u>	<u>183,618</u>
Financial assets				
Investments in equity accounted investees	9	7,716	4,946	2,677
Other investments	10	134,487	103,347	100,555
Total financial assets		<u>142,203</u>	<u>108,293</u>	<u>103,232</u>
Retirement benefit scheme	5	58,516	35,679	-
Other non-current receivables	12	3,586	5,309	2,873
		<u>394,203</u>	<u>342,536</u>	<u>289,723</u>
<b>TOTAL NON-CURRENT ASSETS</b>				
<b>CURRENT ASSETS</b>				
Other investments	10	4,788	2,690	6,489
Assets classified as held for sale	13	4,305	4,290	18,675
Inventories	14	101	96	110
Income tax receivable		68	263	630
Trade and other receivables	15	22,181	22,618	24,955
Cash and cash equivalents	16	92,506	101,970	107,653
<b>TOTAL CURRENT ASSETS</b>		<u>123,949</u>	<u>131,927</u>	<u>158,512</u>
<b>TOTAL ASSETS</b>		<u>518,152</u>	<u>474,463</u>	<u>448,235</u>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	17	(39,589)	(44,775)	(40,141)
Other borrowings	18	-	-	(32)
Income tax payable		(24)	(226)	(342)
Provisions	19	(43)	(41)	(1,564)
<b>TOTAL CURRENT LIABILITIES</b>		<u>(39,656)</u>	<u>(45,042)</u>	<u>(42,079)</u>
<b>NON-CURRENT ASSETS PLUS NET CURRENT ASSETS</b>				
		<u>478,496</u>	<u>429,421</u>	<u>406,156</u>
<b>NON-CURRENT LIABILITIES</b>				
Other payables	17	(4,966)	(3,536)	(3,110)
Other borrowings	18	-	-	(540)
Retirement benefit obligations	5	-	-	(44,526)
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>(4,966)</u>	<u>(3,536)</u>	<u>(48,176)</u>
<b>ASSETS LESS LIABILITIES</b>				
		<u>473,530</u>	<u>425,885</u>	<u>357,980</u>
<b>MINORITY INTERESTS</b>				
	24	<u>(1,424)</u>	<u>(1,576)</u>	<u>(1,604)</u>
		<u>472,106</u>	<u>424,309</u>	<u>356,376</u>
<b>TAXPAYERS' EQUITY</b>				
General Reserve		390,810	364,642	291,489
Specific Reserve		1,618	2,481	2,591
Revaluation Reserve		79,678	57,186	62,296
<b>TOTAL EQUITY</b>		<u>472,106</u>	<u>424,309</u>	<u>356,376</u>

The notes on pages 32 to 78 form part of these accounts.

The accountable officer authorised these financial statements for issue on 29 June 2012.

**Lena C Wilson**  
Accountable Officer  
29 June 2012

## STATEMENT OF FINANCIAL POSITION

as at 31 March 2012

	Notes	2012 £000	Restated 2011 £000	Restated 2010 £000
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	7	143,767	115,651	102,617
Intangible assets	8	-	-	-
		<u>143,767</u>	<u>115,651</u>	<u>102,617</u>
Financial assets				
Other investments	10	142,668	101,413	94,490
Retirement benefit scheme	5	58,516	35,679	-
Other non-current receivables	12	19,985	54,812	54,144
<b>TOTAL NON-CURRENT ASSETS</b>		<u>364,936</u>	<u>307,555</u>	<u>251,251</u>
<b>CURRENT ASSETS</b>				
Other investments	10	4,216	2,422	6,197
Assets classified as held for sale	13	4,305	4,225	18,015
Trade and other receivables	15	20,112	20,034	21,153
Income tax receivable		-	261	611
Cash and cash equivalents	16	84,867	88,424	93,014
<b>TOTAL CURRENT ASSETS</b>		<u>113,500</u>	<u>115,366</u>	<u>138,990</u>
<b>TOTAL ASSETS</b>		<u>478,436</u>	<u>422,921</u>	<u>390,241</u>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	17	(37,759)	(43,457)	(34,672)
Provisions	19	(43)	(41)	(1,564)
<b>TOTAL CURRENT LIABILITIES</b>		<u>(37,802)</u>	<u>(43,498)</u>	<u>(36,236)</u>
<b>NON-CURRENT ASSETS PLUS NET CURRENT ASSETS</b>		<u>440,634</u>	<u>379,423</u>	<u>354,005</u>
<b>NON-CURRENT LIABILITIES</b>				
Other payables	17	(4,966)	(3,303)	(2,865)
Retirement benefit obligations	5	-	-	(44,526)
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>(4,966)</u>	<u>(3,303)</u>	<u>(47,391)</u>
<b>ASSETS LESS LIABILITIES</b>		<u>435,668</u>	<u>376,120</u>	<u>306,614</u>
<b>TAXPAYERS' EQUITY</b>				
General Reserve		377,607	342,432	266,352
Revaluation Reserve		58,061	33,688	40,262
<b>TOTAL EQUITY</b>		<u>435,668</u>	<u>376,120</u>	<u>306,614</u>

The notes on pages 32 to 78 form part of these accounts.

The accountable officer authorised these financial statements for issue on 29 June 2012.

**Lena C Wilson**  
Accountable Officer  
29 June 2012

**GROUP STATEMENT OF CASH FLOWS**

for the year ended 31 March 2012

	Notes	2012 £000	<i>Restated</i> 2011 £000
<b>Cash flows from operating activities</b>			
Net expenditure after interest		(237,246)	(225,175)
Adjustments for:			
Depreciation and assets written off		2,696	3,156
Increase in investment provision and write off		23,014	17,401
Property revaluation deficit		12,096	15,395
Investment revaluation deficit		159	72
Interest receivable	2	(4,730)	(2,153)
Dividends received	2	(377)	(277)
Retirement benefit scheme net charges		(7,343)	(6,806)
Share of loss/(profit) in equity accounted investees	9	141	(10)
Transfer of interests in equity accounted investees		188	266
(Surplus)/Loss on disposal of property, plant and equipment	2	(2,025)	664
Surplus on disposal of investments	2	(2,587)	(3,573)
		<u>(216,014)</u>	<u>(201,040)</u>
(Increase)/Decrease in inventories		(5)	14
Decrease in trade and other receivables		2,188	1,653
(Decrease)/Increase in trade payables		(2,485)	1,827
Increase/(Decrease) in provision for future liabilities		2	(1,523)
		<u>(216,314)</u>	<u>(199,069)</u>
Income tax expense		(171)	(115)
Appropriations paid		-	(138)
<b>Net cash outflow from operating activities</b>		<u>(216,485)</u>	<u>(199,322)</u>
<b>Cash flows from investing activities</b>			
Proceeds of disposal of property, plant and equipment		3,836	20,321
Proceeds of disposal of financial assets		3,631	10,219
Repayments of other investments		831	2,118
Interest received		1,610	1,182
Dividends received		377	277
Distributions received from equity accounted investees	9	91	487
Purchase of property, plant and equipment		(15,190)	(29,537)
Property, plant and equipment acquired from business combinations		-	(83)
Purchase of financial assets		(33,453)	(27,924)
<b>Net cash outflow from investing activities</b>		<u>(38,267)</u>	<u>(22,940)</u>
<b>Cash flows from financing activities</b>			
Decrease in finance lease liabilities	18	-	(572)
Grants from Scottish Government		245,288	217,151
<b>Net cash inflow from financing activities</b>		<u>245,288</u>	<u>216,579</u>
<b>Net (decrease)/increase in cash and cash equivalents in the period</b>		(9,464)	(5,683)
<b>Cash and cash equivalents at the beginning of the period</b>	16	101,970	107,653
<b>Cash and cash equivalents at the end of the period</b>	16	<u>92,506</u>	<u>101,970</u>

The notes on pages 32 to 78 form part of these accounts.

## GROUP STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

for the year ended 31 March 2012

	<i>General Reserve £000</i>	<i>Specific Reserve £000</i>	<i>Revaluation Reserve £000</i>	<i>Total £000</i>
Restated Balance at 1 April 2010	291,489	2,591	62,296	356,376
Restated Net expenditure during the year	(225,432)	(110)	-	(225,542)
Actuarial gains in retirement benefit scheme	67,761	-	-	67,761
Adoption of former Skills Development Scotland assets and liabilities in retirement benefit scheme (Note 5)	5,638	-	-	5,638
Surpluses on revaluation of investments	197	-	768	965
Surpluses / (deficits) on revaluation of property, plant and equipment	7,838	-	(5,878)	1,960
Total recognised income and expense for year to 31 March 2011	<u>(143,998)</u>	<u>(110)</u>	<u>(5,110)</u>	<u>(149,218)</u>
Grant in Aid from Scottish Government	217,151	-	-	217,151
Restated Balance at 31 March 2011	<u>364,642</u>	<u>2,481</u>	<u>57,186</u>	<u>424,309</u>
Net expenditure during the year	(237,013)	(279)	-	(237,292)
Actuarial gains in retirement benefit scheme	15,494	-	-	15,494
Transfer from LEC reserves	591	(591)	-	-
Surpluses on revaluation of investments	99	7	24,497	24,603
Surpluses on revaluation of property, plant & equipment held by Equity Accounted Investees (Note 9)	-	-	462	462
Surpluses / (deficits) on revaluation of property, plant and equipment	1,709	-	(2,467)	(758)
Total recognised income and expense for year to 31 March 2012	<u>(219,120)</u>	<u>(863)</u>	<u>22,492</u>	<u>(197,491)</u>
Grant in Aid from Scottish Government	245,288	-	-	245,288
At 31 March 2012	<u>390,810</u>	<u>1,618</u>	<u>79,678</u>	<u>472,106</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 £8,080m (2011: £7,835m). The grant in aid provision of £245m for 2011/12 included £34.2m 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 £80m (2011: £57m) is £50m (2011: £52m) attributable to net unrealised surpluses on Land and Buildings.

**STATEMENT OF CHANGES IN TAXPAYERS' EQUITY**

for the year ended 31 March 2012

	<i>General Reserve</i> £000	<i>Revaluation Reserve</i> £000	<i>Total</i> £000
Restated Balance at 1 April 2010	266,352	40,262	306,614
Restated Net expenditure during the year	(221,596)	-	(221,596)
Actuarial gains in retirement benefit scheme	67,761	-	67,761
Adoption of former Skills Development Scotland assets and liabilities in retirement benefit scheme (Note 5)	5,638	-	5,638
Surpluses on revaluation of investments	197	731	928
Surpluses / (deficits) on revaluation of property, plant and equipment	6,929	(7,305)	(376)
Total recognised income and expense for year to 31 March 2011	<u>(141,071)</u>	<u>(6,574)</u>	<u>(147,645)</u>
Grant in Aid from Scottish Government	217,151	-	217,151
Restated Balance at 31 March 2011	<u>342,432</u>	<u>33,688</u>	<u>376,120</u>
Net expenditure during the year	(225,994)	-	(225,994)
Actuarial gains in retirement benefit scheme	15,494	-	15,494
Surpluses on revaluation of investments	99	24,270	24,369
Surpluses / (deficits) on revaluation of property, plant and equipment	288	103	391
Total recognised income and expense for year to 31 March 2012	<u>(210,113)</u>	<u>24,373</u>	<u>(185,740)</u>
Grant in Aid from Scottish Government	245,288	-	245,288
Balance at 31 March 2012	<u>377,607</u>	<u>58,061</u>	<u>435,668</u>

Included within the Revaluation Reserve total of £58m (2011: £34m) is £29m (2011: £29m) 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. In prior years the European funded element of the cost of investments was deducted from the cost of investments made by Scottish Enterprise. The FRoM withdrew the option contained in IAS20 *Government Grants* on which this policy was based and the European funded element is now regarded as income in the year in which the associated investment is made. Consequently prior year figures have been restated. The FRoM also removed the option in IAS 20 *Government Grants* to defer capital grant income received to finance the cost of assets unless there are conditions imposed by the funder that require the grant to be consumed as specified by the grantor or returned to them. Consequently, the policy of holding capital grant income to be released over the useful economic lives of the associated assets is no longer permitted under the FRoM. From the year ended 31 March 2012, any income received to fund a non-current asset will be recognised as income in the Statement of Comprehensive Net Expenditure, unless the funds are conditional on use, and the full depreciation charge of any grant funded assets will be recognised as expenditure in the Statement of Comprehensive Net Expenditure without the corresponding benefit of the release of deferred income. Scottish Enterprise has adjusted comparative amounts disclosed in each prior period as if the new accounting policy had always applied. Details of prior period adjustments are given in Note 27.

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

The Board and Accountable Officer have considered the Resource Budget for 2012/13, 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 2012/13 are given in the Management Commentary. Details of the liquidity position are given in Note 25.

### 2. Basis of consolidation

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

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

#### (a) *Subsidiaries*

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



## STATEMENT OF ACCOUNTING POLICIES (continued)

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

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

### (b) *Associates and jointly controlled entities*

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

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

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

### (c) *Other*

In respect of other invested companies, Scottish Enterprise considers that in general, the role of the Group is normally that of a passive investor and that investment holdings taken will be disposed of at the earliest opportunity. Scottish Enterprise's role is to provide funding, primarily alongside venture capital co-investment partners, to individual companies to drive economic growth in Scotland and therefore, although a holding may at any particular time be in excess of 20% of the equity, these companies are not accounted for as associated undertakings, in view of the absence of influence over their financial and operating policies.

## 3. Funding

Scottish Enterprise receives Grant in Aid from the Scottish Ministers on an annual basis coincident with the Group's financial year to finance its net operating costs. Grant in Aid is credited to the General Reserve and the net cost of activities funded by Grant in Aid is charged to this reserve.

## 4. Property, plant and equipment

### (a) *Land*

Land held for or under development, or for the Group's own use, is held at fair value and is valued annually in accordance with The Royal Institution of Chartered Surveyors Valuation Standards 2012 (Red Book) and specifically the basis valuation for IFRS.

Increases in the carrying amount arising on revaluation of land are credited to the Revaluation Reserve. Decreases that offset previous increases on the same asset are charged against the Revaluation Reserve relating to the asset; all other decreases are charged to the Statement of Comprehensive Net Expenditure.

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

When land assets are sold, any amounts included in Revaluation Reserve in respect of previously recognised surpluses are transferred to the General Reserve.

Land is not depreciated.

## STATEMENT OF ACCOUNTING POLICIES (continued)

### (b) Property

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

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

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

Increases in the carrying amount arising on revaluation of buildings are credited to the Revaluation Reserve with the exception of increases that offset previous decreases charged to the Statement of Comprehensive Net Expenditure on the same asset. In these cases increases are credited to the Statement of Comprehensive Net Expenditure to the extent of previous decreases and subsequently to the Revaluation Reserve.

Decreases that offset previous increases on the same asset are charged against the Revaluation Reserve relating to the asset; all other decreases are charged to the Statement of Comprehensive Net Expenditure.

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

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

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

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

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

### (c) Non property assets

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

Non property assets are depreciated on a straight line basis to allocate their cost to their residual values over their estimated useful lives as follows:-

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

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

### (d) Subsequent expenditure

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

## 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.

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## 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.

### 8. Assets held by Local Enterprise Companies

Certain property, plant and equipment assets and investments purchased by Local Enterprise Companies, in their own name with funds provided under the operating contract with Scottish Enterprise, are included in the accounts of the relevant Local Enterprise Company at their fair value, or where fair value cannot be established reliably, at cost less a provision for impairment. Under the terms of the operating contract all sums due from the disposal of these assets and investments and income arising from these assets fall to be repaid to Scottish Enterprise.

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

A small number of financial assets were retained by a minority of Local Enterprise Companies pending resolution of outstanding financial or legal matters and the net book values of these investments are included in the Statement of Financial Position of Scottish Enterprise under other non-current receivables.

### 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. 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.

**15. Employee benefits***(a) Retirement benefits*

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

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

The expected return on the plan's assets less the interest cost of the plans' obligations is recognised in the Statement of Comprehensive Net Expenditure as Other Finance Income or as Other Finance Charges where the interest cost exceeds the expected return on plan assets. The interest cost of the plans' obligations represents the increase in obligations arising from unwinding of the discount due to the passage of time.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to taxpayers' funds in the Statement of Other Comprehensive Income in the period in which they arise.

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

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

*(b) Short term employee benefits*

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

## STATEMENT OF ACCOUNTING POLICIES (continued)

### 16. Exchange Gains and Losses

#### (a) *Functional and presentation currency*

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

#### (b) *Transactions and balances*

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

### 17. Cash and cash equivalents

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

### 18. Financial Liabilities

#### Classification

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

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

#### Recognition and measurement

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

A financial liability is removed from the Statement of Financial Position when it is extinguished, that is when the obligation is discharged, cancelled or expired.

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

### 19. Provisions

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

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

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

### 20. Critical accounting estimates and judgements

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

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

## STATEMENT OF ACCOUNTING POLICIES (continued)

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

(a) *Retirement benefit obligations*

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

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

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

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

(b) *Fair value of financial instruments*

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

(c) *Held-to-maturity investments*

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

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

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

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

### 22. Accounting standards issued not yet adopted

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

- IAS 1 – Presentation of financial statements (Other Comprehensive Income)  
Mandatory for accounting periods commencing on or after 1 June 2012. The adoption of this standard will result in presentational changes to the consolidated accounts.
- IAS19 – Post-employment benefits (pensions)  
Mandatory for accounting periods commencing on or after 1 January 2013. The adoption of this standard will result in presentational and disclosure changes to the consolidated accounts.
- IFRS 7 – Financial Instruments: Disclosures (annual improvements)  
Mandatory for accounting periods commencing on or after 1 July 2011. The adoption of this standard will result in increased disclosure requirements in the consolidated accounts.



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**STATEMENT OF ACCOUNTING POLICIES** (continued)

- IFRS 9 – Financial Instruments  
Mandatory for accounting periods commencing on or after 1 January 2015. The adoption of this standard could change the classification and measurement of financial assets. The impact on the consolidated accounts has not been determined.
  
- IFRS 10 – Consolidated Financial Statements  
IFRS 11 – Joint Arrangements  
IFRS 12 – Disclosure of Interests in Other Entities  
IAS 27 – Separate Financial Statements  
IAS 28 – Investments in Associated and Joint Ventures  
Mandatory for accounting periods commencing on or after 1 January 2013. The adoption of these standards affects the consolidation and reporting of subsidiaries, associated and joint ventures. The impact on the consolidated accounts has not been determined.
  
- IFRS 13 – Fair Value Measurement  
Mandatory for accounting periods commencing on or after 1 January 2013. The adoption of this standard could change the measurement techniques used when determining fair value. The impact on the consolidated accounts has not been determined.

## NOTES TO THE ACCOUNTS

### 1. EXPENDITURE

	2012 £000	<i>Restated</i> 2011 £000
<b>Operational Expenditure</b>	<u>208,524</u>	<u>207,775</u>
<b>Management Expenditure</b>	<u>89,203</u>	<u>85,355</u>
Expenditure noted above includes:		
Rentals under operating leases		
Buildings	5,229	5,251
Other	128	384
Foreign exchange losses	44	36
Depreciation	6,360	6,845
Auditors' remuneration		
- audit of these accounts (i)	159	168
- audit of subsidiary companies' accounts	-	72
amounts receivable by auditors in respect of:		
- other services relating to taxation	-	399
- all other services	-	1
	<u>159</u>	<u>640</u>
Amounts paid to other auditors in respect of:		
- audit of subsidiary companies' accounts	80	5
- non-audit fees	345	-
	<u>425</u>	<u>5</u>

- (i) The accounts of Scottish Enterprise are audited by auditors appointed by the Auditor General for Scotland. During 2011/12, the Auditor General appointed Audit Scotland as Scottish Enterprise's auditors, replacing KPMG LLP.

### 2. INCOME

	2012 £000	<i>Restated</i> 2011 £000
<b>Income from Activities</b>		
Property Services:		
Rents	7,662	9,318
Sundry property income	4,363	3,481
Surplus/(Loss) on disposal of property	2,025	(664)
Investment Management:		
Surplus on disposal of investments and equity accounted investees	2,587	3,573
	<u>16,637</u>	<u>15,708</u>
<b>Other Income</b>		
European Funding	14,001	17,219
UK Government funds	1,050	11,973
Contributions and other fees	15,263	12,394
	<u>30,314</u>	<u>41,586</u>
<b>Income from Investments</b>		
Dividends and other investment income	<u>377</u>	<u>277</u>
<b>Interest Receivable</b>	<u>4,730</u>	<u>2,153</u>
<b>Other Finance Income/(Charges)</b>		
Expected return on retirement benefit scheme assets	32,700	29,769
Interest on retirement benefit scheme obligations	(24,136)	(26,548)
	<u>8,564</u>	<u>3,221</u>

**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.

	2012 £000	<i>Restated</i> 2011 £000
<b>Operating Expenditure</b>		
<b>Supporting Globally Competitive Businesses</b>		
Account Management & Specialist Advisory Services	11,833	16,844
Innovation and R&D Support	17,540	16,599
Enterprise Support Programme	6,535	4,602
Internationalisation	14,960	12,131
Commercialisation	9,650	20,666
Regional Selective Assistance and SMART Support (i)	36,122	-
<b>Supporting Globally Competitive Sectors</b>		
Industry Sector Project Support	13,057	13,908
<b>Globally Competitive Business Environment</b>		
Business Infrastructure Projects	47,054	61,199
Equity Investment & Loans	23,925	18,491
Urban & Local Regeneration	12,110	19,560
Property Portfolio Operational Costs	7,217	9,877
<b>Marketing, Research and Stakeholder Engagement</b>		
Marketing & Research – Domestic	2,438	2,947
Marketing & Research – Overseas	6,083	5,951
<b>Total Segmental Expenditure</b>	<u>208,524</u>	<u>202,775</u>
<b>Management Expenditure</b>		
Management expenditure on staff costs	57,606	55,136
Premises, ICT, business services and other management costs	31,597	30,219
	<u>89,203</u>	<u>85,355</u>
<b>Income</b>	(46,951)	(57,294)
<b>Net Operating Expenditure</b>	<u>250,776</u>	<u>230,836</u>

(i) The funding responsibility for Regional Selective Assistance and SMART grants transferred from Scottish Government to Scottish Enterprise on 1 April 2011.

**4. STAFF NUMBERS AND RELATED COSTS**

	2012 £	2011 £
<b>(a) Non-executive board members</b>		
Remuneration (i)	172,083	174,600
Pension and social security costs	26,454	26,725
Travel	1,200	3,065
	<u>199,737</u>	<u>204,390</u>
Chairman's remuneration	<u>38,721</u>	<u>38,721</u>

- (i) Remuneration paid to non-executive board members is detailed in the Remuneration Report.
- (ii) Scottish Enterprise's Chief Executive, Lena Wilson, is also a member of the board. Her remuneration is not included above but details are provided in the Remuneration Report.
- (iii) Scottish Enterprise is required to meet the retirement benefits due to past Chairmen of Scottish Development Agency and Scottish Enterprise who are not members of the Scottish Enterprise Pension & Life Assurance Scheme. Provision has been made in these accounts for £157,000 (2011: £127,000) within the total retirement benefit liabilities at 31 March 2012, as assessed by Mercer Limited, Scottish Enterprise's advising actuaries.

**NOTES TO THE ACCOUNTS** (continued)

- (iv) During the year the following transactions were conducted between Scottish Enterprise and businesses in which Scottish Enterprise board members had declared an interest. All transactions involving companies or organisations in which a member may have an interest are conducted at arms length and in accordance with normal project and programme rules.

<b>Company</b>	<b>Board Member</b>	<b>Position</b>	<b>£</b>	<b>Description</b>
Standard Life plc	Crawford Gillies	Director	2,962,034	Office rental and Insurance
Ateeda Limited	Crawford Gillies	Shareholder	69,395	Grant funding
Appshare Limited	Crawford Gillies	Shareholder	131,101	Equity investment
			50,000	Loan
			3,588	Grant funding
Cascade Technologies Limited	Crawford Gillies	Shareholder	54,077	Equity investment
			131,938	Grant funding
Ciqal Limited	Crawford Gillies	Shareholder	233,000	Loan
			59,600	Grant funding
Design LED Products Limited	Crawford Gillies	Shareholder	250,547	Equity investment
			24,056	Grant funding
Ectopharma Limited	Crawford Gillies	Shareholder	25,702	Grant funding
Mled Limited	Crawford Gillies	Shareholder	44,344	Grant funding
Powerphotonic Limited	Crawford Gillies	Shareholder	50,000	Loan
			95,627	Grant funding
Pufferfish Limited	Crawford Gillies	Shareholder	37,440	Supply of equipment
Pyreos Limited	Crawford Gillies	Shareholder	400,000	Equity investment
			298,779	Loan
Touch EMAS Limited	Crawford Gillies	Shareholder	1,227,780	Equity investment
Vascular Flow Technologies Limited	Crawford Gillies	Shareholder	10,000	Loan
Vitrology Limited	Crawford Gillies	Shareholder	125,976	Grant funding
University of Strathclyde	Jim McDonald	Principal and Vice Chancellor	4,636,859	Grant funding
			489,426	Joint project costs
			17,235	Event sponsorship, attendance and course fees
Glasgow Caledonian University	Graeme Waddell	Member- Business Advisory Board	18,000	Project fees
			2,225	Grant funding
			6,981	Venue hire and catering
David Hume Institute	Jeremy Peat	Director	600	Subscription
Institute of Occupational Medicine	Russel Griggs	Chairman	54,719	Grant funding
Business and Enterprise Group	Russel Griggs	Director	99,456	Conference organisation

**NOTES TO THE ACCOUNTS** (continued)

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

<b>Organisation</b>	<b>Board Member</b>	<b>Position</b>
Riverside Inverclyde	Ian Crawford	Director
Visit Scotland	Russel Griggs	Board member
Scottish and Southern Energy	Jim McDonald	Technical Adviser
Heriot Watt University	Iain McLaren	Member of Court
The Royal Zoological Society of Edinburgh	Jeremy Peat	Chair of the Board of Trustees
Scottish Council Development and Industry	Grahame Smith	Director
CBI	Linda Urquhart	Board member
The Prince's Scottish Youth Business Trust	Lena Wilson	Board member
University of Strathclyde	Lena Wilson	Advisory Board Member

**(b) Staff costs comprise:**

	<i>Permanent staff £000</i>	<i>Others £000</i>	<i>2012 £000</i>	<i>2011 £000</i>
Wages and salaries	45,582	-	45,582	46,896
Social security costs	3,785	-	3,785	3,859
Pension costs	8,847	-	8,847	9,749
Inward seconded and temporary staff costs	-	465	465	285
Travel and subsistence	2,199	-	2,199	1,703
Less: recoveries in respect of outward secondments	(1,429)	-	(1,429)	(1,579)
	58,984	465	59,449	60,913
Severance costs	1,770	-	1,770	3,358
Costs of staff employed during the year	60,754	465	61,219	64,271
Deduct retirement benefit scheme curtailment/settlement credit	-	-	-	(4,320)
Total staff costs	60,754	465	61,219	59,951

**(c) Staff costs are included in the Statement of Comprehensive Net Expenditure as follows:-**

	<i>2012 £000</i>	<i>2011 £000</i>
Operating expenditure	5,042	6,394
Management expenditure on staff costs	57,606	55,136
Other Income	(1,429)	(1,579)
	61,219	59,951

**NOTES TO THE ACCOUNTS** (continued)**(d) Severance costs**

The number of staff who left or agreed to leave Scottish Enterprise under voluntary severance in the year to 31 March 2012 amounted to 18 (2011: 20), at a total cost of £1,712,628 (2011: £3,358,586). This comprises payments to individuals of £1,120,428 (2011: £1,016,163) for compensation for loss of office and pay in lieu of notice and payments to the Scottish Enterprise Pension & Life Assurance Scheme of £592,200 (2011: £2,342,423) which are based on actuarial calculations in relation to future pension benefits. These costs include an accrual of £402,107 for the cost of 6 staff who have agreed to leave under the severance programme during 2012/13. In addition to the staff leaving under voluntary severance there were a further 7 (2011: 2) individuals who left Scottish Enterprise or a subsidiary company at a cost of £93,086 (2011: £28,746).

<i>Exit package cost band</i>	<i>Compulsary redundancies No.</i>	<i>Other departures agreed No.</i>	<i>Total 2012 No.</i>	<i>Total 2011 No.</i>
< £10,000	-	2	2	1
£10,000 - £25,000	-	8	8	2
£25,000 - £50,000	-	5	5	8
£50,000 - £75,000	-	4	4	-
£75,000 - £100,000	-	-	-	-
£100,000 - £150,000	-	4	4	2
£150,000 - £200,000	-	1	1	1
£200,000 - £250,000	-	-	-	1
£250,000 - £300,000	-	-	-	2
£300,000 - £350,000	-	-	-	1
£350,000 - £400,000	-	-	-	3
£400,000 - £450,000	-	-	-	1
£450,000 - £500,000	-	-	-	-
£500,000 - £550,000	-	1	1	-
£550,000 - £600,000	-	-	-	-
	-	25	25	22

The total cost of exit packages in the year to 31 March 2012 amounted to £1,805,714 (2011: £3,387,332).

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

	<i>Permanent staff No.</i>	<i>Others No.</i>	<i>2012 No.</i>	<i>2011 No.</i>
Executive Leadership Team	8	-	8	8
Operations	941	-	941	1,003
Administration and support function	305	-	305	288
Inward Secondments and temporary staff	-	8	8	8
	1,254	8	1,262	1,307

**NOTES TO THE ACCOUNTS** (continued)**5. RETIREMENT BENEFIT SCHEME**

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

A full actuarial valuation of the Scottish Enterprise Pension & Life Assurance Scheme was carried out using membership data at 31 March 2011 and the results of that valuation have been projected to 31 March 2012 by Mercer Limited, qualified independent actuaries. The next formal valuation is due at 31 March 2014.

	2012 £000	2011 £000
Present value of funded defined benefit obligations	(427,337)	(439,474)
Fair value of plan assets	485,853	475,153
Recognised surplus in the scheme	<u>58,516</u>	<u>35,679</u>

**Movements in the present value of defined benefit obligations**

	2012 £000	2011 £000
At 1 April	(439,474)	(481,836)
Transferred from Skills Development Scotland	-	(4,207)
Current service cost	(8,615)	(9,661)
Past service cost	(464)	(2,342)
Interest cost	(24,136)	(26,548)
Actuarial gains	35,015	47,652
Benefits paid	12,555	12,667
Contributions by members	(2,218)	(2,362)
Plan curtailments and settlements	-	27,163
	<u>(427,337)</u>	<u>(439,474)</u>

**Movements in the present value of defined benefit scheme assets**

	2012 £000	2011 £000
At 1 April	475,153	437,310
Transferred from Skills Development Scotland	-	9,845
Expected return on plan assets	32,700	29,769
Actuarial (losses) / gains	(19,521)	20,109
Contributions by the employer	7,858	11,268
Contributions by members	2,218	2,362
Benefits paid by the plan	(12,555)	(12,667)
Plan settlements	-	(22,843)
	<u>485,853</u>	<u>475,153</u>

**Expense recognised in the Statement of Comprehensive Net Expenditure**

	2012 £000	2011 £000
Current service cost	8,615	9,661
Past service cost	464	2,342
Expected return on retirement benefit scheme assets	(32,700)	(29,769)
Interest on retirement benefit scheme obligations	24,136	26,548
Curtailment and settlement gains	-	(4,320)
Total retirement benefit scheme expense	<u>515</u>	<u>4,462</u>

**NOTES TO THE ACCOUNTS** (continued)**The expense is recognised in the following lines in the Statement of Comprehensive Net Expenditure**

	2012 £000	2011 £000
Management Expenditure	9,079	7,683
Other Finance (Income)/Charges	(8,564)	(3,221)
	<u>515</u>	<u>4,462</u>

The total gain amount recognised in the statement of other comprehensive income in respect of net actuarial gains and losses is £15,494,000 (2011: £67,761,000).

Cumulative actuarial gains and losses recognised in the statement of other comprehensive income since 1 April 2002 are net losses of £5,086,000 (2011: £20,580,000 (losses))

The fair value and the expected rates of return on scheme assets at 31 March 2012 were as follows:

	<i>Long term return</i>	2012 <i>Value £m</i>	<i>Long term return</i>	2011 <i>Value £m</i>
Equities	6.10%	354.3	7.40%	344.5
Corporate Bonds	4.60%	66.2	5.50%	58.4
Property	5.10%	49.0	6.40%	49.0
Gilts	3.10%	14.5	4.40%	18.1
Cash	2.60%	1.9	3.90%	5.2
Total fair value of assets	5.70%	<u>485.9</u>	6.90%	<u>475.2</u>

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

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

	2012 <i>% per annum</i>	2011 <i>% per annum</i>
Discount rate	4.90%	5.50%
Expected rate of return on plan assets	5.70%	6.90%
Future salary increases	3.30%	5.00%
Rate of increase in retirement benefits	2.40%	2.80%
Price inflation	2.40%	2.80%

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

	2012 <i>Years</i>	2011 <i>Years</i>
Male – at the current retirement age of 60	30.5	25.7
Male – future retiree	31.6	27.7
Female – at the current retirement age of 60	29.9	28.3
Female – future retiree	29.9	30.2



**NOTES TO THE ACCOUNTS** (continued)

History of the Scottish Enterprise Pension & Life Assurance Scheme for the current and prior periods and for Scottish Enterprise's share of the Strathclyde Pension Scheme for periods prior to 2011 is as follows:

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Fair value of plan assets	485,853	475,153	437,310	321,371	508,561
Present value of defined benefit obligation	(427,337)	(439,474)	(481,836)	(327,642)	(465,042)
Surplus / (deficit)	58,516	35,679	(44,526)	(6,271)	43,519
Experience adjustments on scheme assets	(12,313) (2.5%)	20,109 4.2%	95,413 21.8%	(129,327) (40.2%)	(50,444) (9.9%)
Experience adjustments on scheme obligations	(45,012) (10.5%)	3,364 0.7%	6,500 1.3%	28,234 8.6%	560 0.1%
Total actuarial gains/(losses) on obligation	35,015 8.2%	47,652 10.8%	(133,265) (27.7%)	71,306 21.8%	96,415 20.7%

A reduction in the net discount rate will increase the value of scheme obligations. The overall effect of a change in the net discount rate of 0.25% would increase / decrease scheme obligations by approximately 5% (£20.9m) at March 2012. The effect of increasing the assumed life expectancies by one year would be to increase the value of obligations by approximately 2% (£8.7m) at 31 March 2012.

During the year to 31 March 2013, Scottish Enterprise estimates that contributions of £7.4m will be paid to the Scottish Enterprise Pension & Life Assurance Scheme.

**6. TAXATION**

	2012 £000	Restated 2011 £000
UK Corporation tax @ 26% (2011: 28%)	163	491
Corporation tax under/(over) provided in previous years	1	(125)
Share of equity accounted investees' tax	-	-
Total current tax	164	366
Factors affecting current tax charge:		
	2012 £000	2011 £000
Net expenditure after interest	237,246	225,175
Current tax @ 26% (2011: 28%)	(61,684)	(63,049)
Effect of:		
Non-taxable income and disallowed expenditure	61,847	63,540
Capital allowances	-	-
Tax under/(over) provided in previous years	1	(125)
Current tax charge	164	366

**NOTES TO THE ACCOUNTS** (continued)**7. 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 &amp; Fittings</i>	<i>Leasehold Improvement</i>	<i>Total</i>
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost and valuation</b>									
At 1 April 2011	106,011	74,483	9,958	162	19,983	4,493	2,855	888	218,833
Reclassification	-	9,958	(9,958)	-	-	-	-	-	-
Additions	3,601	8,951	295	33	301	131	506	67	13,885
Disposals	(1,507)	(95)	-	(28)	(54)	(473)	(102)	(29)	(2,288)
Transfer to Held for Sale	(80)	-	-	-	-	-	-	-	(80)
Written off	-	-	-	-	-	-	-	(313)	(313)
Revaluation	(3,299)	(9,555)	-	-	-	-	-	-	(12,854)
At 31 March 2012	104,726	83,742	295	167	20,230	4,151	3,259	613	217,183
<b>Depreciation</b>									
At 1 April 2011	-	26	-	88	18,575	4,037	2,255	597	25,578
Charge for year	-	4,103	-	42	1,341	452	392	30	6,360
Revaluation	-	(3,797)	-	-	-	-	-	-	(3,797)
Disposals	-	-	-	(24)	(54)	(467)	(102)	(29)	(676)
Written Off	-	-	-	-	-	-	-	(180)	(180)
At 31 March 2012	-	332	-	106	19,862	4,022	2,545	418	27,285
<b>Net book value</b>									
At 31 March 2012	104,726	83,410	295	61	368	129	714	195	189,898
At 31 March 2011	106,011	74,457	9,958	74	1,408	456	600	291	193,255
<b>Asset financing</b>									
Owned	104,726	83,410	295	61	368	129	714	195	189,898
<b>Net book value</b>									
At 31 March 2012	104,726	83,410	295	61	368	129	714	195	189,898

Included within Land is land on long leasehold (over 50 years) with a value of £Nil (2011: £0.2m).

Land & Buildings held for industrial and commercial use were valued at 31 March 2012 by James Barr, Chartered Surveyors, on a fair value basis as defined in the Valuation Standards 2012 (Red Book) issued by The Royal Institution of Chartered Surveyors and had a total value of £188m (2011: £180m).

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

At 31 March 2012 the net carrying value of leased equipment was £Nil (2011: £Nil).

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

	<i>Land £000</i>	<i>Buildings £000</i>	<i>Assets Under Construction £000</i>	<i>Transport Equipment £000</i>	<i>Plant and Equipment £000</i>	<i>Information Technology £000</i>	<i>Furniture &amp; Fittings £000</i>	<i>Leasehold Improvement £000</i>	<i>Total £000</i>
<b>Cost and valuation</b>									
At 1 April 2010	98,525	79,835	-	204	20,271	4,420	2,410	1,063	206,728
Acquisition through business combination	-	-	-	-	33	373	101	-	507
Additions	21,849	55	9,958	26	421	94	439	37	32,879
Disposals	(4,940)	(125)	-	(68)	(742)	(379)	(87)	-	(6,341)
Transfer to Held for Sale	530	(2,500)	-	-	-	-	-	-	(1,970)
Written off	-	-	-	-	-	(15)	(8)	(212)	(235)
Revaluation	(9,953)	(2,782)	-	-	-	-	-	-	(12,735)
At 31 March 2011	106,011	74,483	9,958	162	19,983	4,493	2,855	888	218,833
<b>Depreciation</b>									
At 1 April 2010	-	-	-	120	17,023	3,619	1,706	642	23,110
Charge through business combination	-	-	-	-	31	358	35	-	424
Charge for year	-	3,845	-	33	1,885	436	609	37	6,845
Revaluation	-	(3,819)	-	-	-	-	-	-	(3,819)
Disposals	-	-	-	(65)	(364)	(361)	(87)	-	(877)
Written Off	-	-	-	-	-	(15)	(8)	(82)	(105)
At 31 March 2011	-	26	-	88	18,575	4,037	2,255	597	25,578
<b>Net book value</b>									
At 31 March 2011	106,011	74,457	9,958	74	1,408	456	600	291	193,255
At 1 April 2010	98,525	79,835	-	84	3,248	801	704	421	183,618

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

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

Included within Land is land on long leasehold (over 50 years) with a value of £Nil (2011: £0.2m).

Land & Buildings held for industrial and commercial use were valued at 31 March 2012 by James Barr, Chartered Surveyors, on a fair value basis as defined in the Valuation Standards 2012 (Red Book) issued by The Royal Institution of Chartered Surveyors and had a total value of £143m (2011: £105m).

On 29 March 2012, the Local Enterprise Companies agreed to transfer their remaining property interests to Scottish Enterprise for no consideration. Under the terms of the operating contract with Scottish Enterprise any proceeds from the sale of these assets was to be remitted to Scottish Enterprise and the value of these assets has been reclassified from other non-current receivables.

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

	<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 &amp; Fittings</i>	<i>Leasehold Improvement</i>	<i>Total</i>
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost and valuation</b>									
At 1 April 2010	71,179	29,933	-	110	1,486	3,152	2,237	527	108,624
Additions	21,849	-	9,958	26	-	-	403	-	32,236
Disposals	(4,582)	(125)	-	(54)	-	-	(56)	-	(4,817)
Transfer from/(to)									
Held for Sale	410	(2,500)	-	-	-	-	-	-	(2,090)
Written off	-	-	-	-	-	(15)	(8)	(212)	(235)
Revaluation	(11,026)	(370)	-	-	-	-	-	-	(11,396)
At 31 March 2011	<u>77,830</u>	<u>26,938</u>	<u>9,958</u>	<u>82</u>	<u>1,486</u>	<u>3,137</u>	<u>2,576</u>	<u>315</u>	<u>122,322</u>
<b>Depreciation</b>									
At 1 April 2010	-	-	-	73	1,486	2,585	1,615	248	6,007
Charge for year	-	738	-	13	-	297	526	15	1,589
Disposals	-	-	-	(52)	-	-	(56)	-	(108)
Revaluation	-	(712)	-	-	-	-	-	-	(712)
Written off	-	-	-	-	-	(15)	(8)	(82)	(105)
At 31 March 2011	<u>-</u>	<u>26</u>	<u>-</u>	<u>34</u>	<u>1,486</u>	<u>2,867</u>	<u>2,077</u>	<u>181</u>	<u>6,671</u>
<b>Net book value</b>									
At 31 March 2011	<u>77,830</u>	<u>26,912</u>	<u>9,958</u>	<u>48</u>	<u>-</u>	<u>270</u>	<u>499</u>	<u>134</u>	<u>115,651</u>
At 1 April 2010	<u>71,179</u>	<u>29,933</u>	<u>-</u>	<u>37</u>	<u>-</u>	<u>567</u>	<u>622</u>	<u>279</u>	<u>102,617</u>

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

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

**GROUP**

	<i>Patents and other rights £000</i>	<i>Software Licences £000</i>	<i>Total £000</i>
<b>Cost</b>			
At 1 April 2010	925	855	1,780
Additions	-	-	-
As at 31 March 2011	<u>925</u>	<u>855</u>	<u>1,780</u>
At 1 April 2011	925	855	1,780
Additions	-	-	-
As at 31 March 2012	<u>925</u>	<u>855</u>	<u>1,780</u>
<b>Amortisation</b>			
At 1 April 2010	925	855	1,780
Charge for year	-	-	-
As at 31 March 2011	<u>925</u>	<u>855</u>	<u>1,780</u>
At 1 April 2011	925	855	1,780
Charge for year	-	-	-
As at 31 March 2012	<u>925</u>	<u>855</u>	<u>1,780</u>
Net book value at 31 March 2012	<u>-</u>	<u>-</u>	<u>-</u>
Net book value at 31 March 2011	<u>-</u>	<u>-</u>	<u>-</u>
Net book value at 1 April 2010	<u>-</u>	<u>-</u>	<u>-</u>

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	<i>Patents and other rights £000</i>	<i>Software Licences £000</i>	<i>Total £000</i>
<b>Cost</b>			
At 1 April 2010	633	846	1,479
Additions	-	-	-
As at 31 March 2011	<u>633</u>	<u>846</u>	<u>1,479</u>
At 1 April 2011	633	846	1,479
Additions	-	-	-
As at 31 March 2012	<u>633</u>	<u>846</u>	<u>1,479</u>
<b>Amortisation</b>			
At 1 April 2010	633	846	1,479
Charge for year	-	-	-
As at 31 March 2011	<u>633</u>	<u>846</u>	<u>1,479</u>
At 1 April 2011	633	846	1,479
Charge for year	-	-	-
As at 31 March 2012	<u>633</u>	<u>846</u>	<u>1,479</u>
Net book value at 31 March 2012	<u>-</u>	<u>-</u>	<u>-</u>
Net book value at 31 March 2011	<u>-</u>	<u>-</u>	<u>-</u>
Net book value at 1 April 2010	<u>-</u>	<u>-</u>	<u>-</u>

## NOTES TO THE ACCOUNTS (continued)

### 9. EQUITY ACCOUNTED INVESTEEES

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

<b>Limited by shares</b>	<b>Accounting period end</b>	<b>Nature of Business</b>	<b>% of Voting rights</b>
Discovery Quay Developments Limited	31 December	Property development	33.33
The Kelvin Institute (in liquidation)	30 June	Commercialisation of research	28.70
Ravenscraig Limited	31 December	Property development	33.33
Katalyst Projects Limited	31 December	Property development	25.00
AMCET Limited	31 July	Promoting technology commercialisation	26.00
SESMOS Limited (iii)	31 March	Commercialisation of technology	50.00
<b>Limited by guarantee</b>	<b>Accounting period end</b>	<b>Nature of Business</b>	<b>% of Membership</b>
Renfrewshire Investment Fund Limited (i)	31 March	Investment fund	50.00
Design Dundee Limited (dormant)	31 March	Advancement of cultural facility	20.00
Dunbartonshire Enterprise Fund Limited (ii)	31 March	Investment fund	50.00
Scottish Health Innovations Limited	31 March	Commercialisation of intellectual assets	50.00
Headstart Capital Fund	31 March	Investment Fund	50.00
7 Stanes Mountain Biking Community Interest Company	31 March	Promotion of tourist activity	50.00
<b>Limited Partnership</b>	<b>Accounting period end</b>	<b>Nature of Business</b>	<b>% Interest</b>
Aberdeen Science Parks LP	31 October	Property management and development	80.00
<b>Joint arrangement</b>		<b>Nature of Business</b>	<b>% Interest</b>
SE Forth Valley / Kemfine UK		Property development	60.00

(i) Renfrewshire Investment Fund Limited was dissolved on 23 December 2011.

(ii) Dunbartonshire Enterprise Fund Limited was dissolved on 16 September 2011.

(iii) Scottish Enterprise's interest in SESMOS was acquired on 12 August 2011.

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 2010	47,228	1,567	48,795	(4,154)	(46,972)	(51,126)	1,702	(2,634)	(932)
At 31 March 2011	48,616	5,283	53,899	(5,989)	(49,382)	(55,371)	2,178	(3,337)	(1,159)
At 31 March 2012	52,704	4,318	57,022	(5,733)	(51,532)	(57,265)	2,865	(4,347)	(1,482)

Movements in carrying amount of investment in equity accounted investees:

	<i>£000</i>
Carrying amount at 1 April 2010	2,677
Transfer of interest in equity accounted investee	(454)
Acquisition	3,200
Share of net profit	10
Distributions received	(487)
Carrying amount at 31 March 2011	<u>4,946</u>
Carrying amount at 1 April 2011	4,946
Acquisition	2,540
Share of net losses	(141)
Share of surplus on revaluation	462
Distributions received	(91)
Carrying amount at 31 March 2012	<u>7,716</u>

**NOTES TO THE ACCOUNTS** (continued)**10. FINANCIAL ASSETS – OTHER INVESTMENTS**

	<i>Restated</i>		<i>Group</i>	<i>Restated</i>		<i>Scottish</i>
	<i>2012</i>	<i>2011</i>	<i>Restated</i>	<i>2012</i>	<i>2011</i>	<i>Enterprise</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>Restated</i>
						<i>2010</i>
						<i>£000</i>
<b>Non-Current Other Investments</b>						
Available for sale financial assets	107,633	79,445	83,832	116,055	78,875	79,574
Held to Maturity Investments	3,565	1,935	1,854	3,565	1,910	1,820
Loans and other receivables	23,289	21,967	14,869	23,048	20,628	13,096
	<u>134,487</u>	<u>103,347</u>	<u>100,555</u>	<u>142,668</u>	<u>101,413</u>	<u>94,490</u>
<b>Current Other Investments</b>						
Held to Maturity Investments	330	-	51	330	-	51
Loans and other receivables	4,458	2,690	6,438	3,886	2,422	6,146
	<u>4,788</u>	<u>2,690</u>	<u>6,489</u>	<u>4,216</u>	<u>2,422</u>	<u>6,197</u>
<b>Total Other Investments</b>	<u>139,275</u>	<u>106,037</u>	<u>107,044</u>	<u>146,884</u>	<u>103,835</u>	<u>100,687</u>

The above financial assets have been funded as follows:

	<i>Restated</i>		<i>Group</i>	<i>Restated</i>		<i>Scottish</i>
	<i>2012</i>	<i>2011</i>	<i>Restated</i>	<i>2012</i>	<i>2011</i>	<i>Enterprise</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>Restated</i>
						<i>2010</i>
						<i>£000</i>
Grant in Aid	138,404	105,624	106,618	146,013	103,422	100,261
Voted Loans	234	399	412	234	399	412
Public Dividend Capital	637	14	14	637	14	14
	<u>139,275</u>	<u>106,037</u>	<u>107,044</u>	<u>146,884</u>	<u>103,835</u>	<u>100,687</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 payable to the Treasury are disclosed as appropriations in the Statement of Comprehensive Net Expenditure and amounted to £33,652 (2011: £Nil).

In prior years the European funded element of the cost of investments was deducted from the cost of investments made by Scottish Enterprise. The FReM withdrew the option contained in IAS20 *Government Grants* on which the policy was based and consequently prior year figures have been restated. The effect of the restatement on the comparative figures in these financial statements is detailed in Note 27.

**Listed Investments**

Stock Exchange investments included in the above at 31 March 2012 are valued £4,642,731 (2011: £6,513,209) which includes unrealised surpluses on valuation of £937,386 (2011: £1,268,406). Income from listed investments in the year to 31 March 2012 was £80,541 (2011: £56,808).

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



## NOTES TO THE ACCOUNTS (continued)

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

### Subsidiary Undertakings

<b>Limited by shares</b>	<b>Nature of Business</b>	<b>% of Voting rights</b>
Ayrshire Development Fund Limited (i)	Investment fund	100
Co-operative Development Scotland Limited	Assisting new and emerging co-operative businesses	100
Glasgow Science Centre Limited (ii)	Visitor attraction operator	100
Glasgow Science Centre (Trading) Limited (ii)	Commercial operations management	100
Katalyst Projects (2005) Limited (i)	Property development	100
Loch Lomond Shores Management Company Limited (i)	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 (i)	Investment fund	100
Tay Euro Fund Limited (i)	Investment fund	100
Enterprise Services Scotland Limited	Dormant	100
GDA Investments Limited (i)	Dormant	100
Scottish Investment Bank Limited	Dormant	100
Scottish Development Finance Limited	Dormant	100
Scottish Development Overseas Limited	Dormant	100

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

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

- (i) These companies were previously subsidiary companies of the Local Enterprise Companies. On 29 March 2012, the Local Enterprise Companies agreed to transfer their interests in these companies to Scottish Enterprise for no consideration.
- (ii) Glasgow Science Centre Limited and Glasgow Science Centre (Trading) Limited are subsidiary companies of Glasgow Science Centre Charitable Trust.

### Local Enterprise Companies

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

**NOTES TO THE ACCOUNTS** (continued)**11. REVALUATIONS TO FAIR VALUE AND IMPAIRMENTS**

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

**GROUP**

	<i>Statement of Comprehensive Net Expenditure</i>	<i>Revaluation reserve</i>	<i>Total</i>	<i>Total</i>
	<i>2012</i>	<i>2012</i>	<i>2012</i>	<i>2011</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Revaluations to fair value</b>				
Property, plant and equipment	-	1,249	1,249	2,164
Equity accounted investees	-	462	462	-
Financial assets	(59)	24,497	24,438	761
	<u>(59)</u>	<u>26,208</u>	<u>26,149</u>	<u>2,925</u>
<b>Impairments</b>				
Property plant and equipment	8,299	2,007	10,306	11,344
Assets classified as held for sale	-	-	-	700
Financial assets	23,821	-	23,821	17,396
	<u>32,120</u>	<u>2,007</u>	<u>34,127</u>	<u>29,440</u>

**SCOTTISH ENTERPRISE**

	<i>Statement of Comprehensive Net Expenditure</i>	<i>Revaluation reserve</i>	<i>Total</i>	<i>Total</i>
	<i>2012</i>	<i>2012</i>	<i>2012</i>	<i>2011</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Revaluations to fair value</b>				
Property, plant and equipment	-	1,074	1,074	767
Financial assets	(59)	24,270	24,211	724
	<u>(59)</u>	<u>25,344</u>	<u>25,285</u>	<u>1,491</u>
<b>Impairments</b>				
Property plant and equipment	8,299	683	8,982	11,451
Assets classified as held for sale	-	-	-	700
Financial assets	24,251	-	24,251	17,690
	<u>32,550</u>	<u>683</u>	<u>33,233</u>	<u>29,841</u>

**NOTES TO THE ACCOUNTS** (continued)**12. OTHER NON-CURRENT RECEIVABLES**

	2012	2011	Group	2012	2011	Scottish
	£000	£000	2010	£000	£000	Enterprise
			£000			2010
						£000
Assets and investments held by Local Enterprise Companies	-	-	-	10,341	43,791	45,119
Subsidiary undertakings	-	-	-	6,152	6,152	6,152
Other receivables	3,586	5,309	2,873	3,492	4,869	2,873
	<u>3,586</u>	<u>5,309</u>	<u>2,873</u>	<u>19,985</u>	<u>54,812</u>	<u>54,144</u>

**Assets and investments held by Local Enterprise Companies**

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

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

	2012	2011	Scottish
	£000	£000	Enterprise
			2010
			£000
Land	7,300	34,432	35,236
Investments	3,041	9,290	9,814
Other	-	69	69
	<u>10,341</u>	<u>43,791</u>	<u>45,119</u>

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

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

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

## NOTES TO THE ACCOUNTS (continued)

### 13. ASSETS CLASSIFIED AS HELD FOR SALE

#### GROUP

	<i>Property, plant and equipment</i> £000	<i>Total</i> £000
At 1 April 2010	18,675	18,675
Transfers to assets held for sale	1,970	1,970
Losses recognised on re-measurement	(700)	(700)
Disposals of non-current assets held for sale	<u>(15,655)</u>	<u>(15,655)</u>
As at 31 March 2011	<u>4,290</u>	<u>4,290</u>
At 1 April 2011	4,290	4,290
Transfers to assets held for sale	80	80
Disposals of non-current assets held for sale	<u>(65)</u>	<u>(65)</u>
As at 31 March 2012	<u>4,305</u>	<u>4,305</u>

#### SCOTTISH ENTERPRISE

	<i>Property, plant and equipment</i> £000	<i>Total</i> £000
At 1 April 2010	18,015	18,015
Transfers to/(from) assets held for sale	2,090	2,090
Impairment recognised on re-measurement	(700)	(700)
Disposal of non-current assets held for sale	<u>(15,180)</u>	<u>(15,180)</u>
As at 31 March 2011	<u>4,225</u>	<u>4,225</u>
At 1 April 2011	4,225	4,225
Transfers to/(from) assets held for sale	80	80
Impairment recognised on re-measurement	-	-
Disposal of non-current assets held for sale	<u>-</u>	<u>-</u>
As at 31 March 2012	<u>4,305</u>	<u>4,305</u>

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

### 14. INVENTORIES

	<i>2012</i> £000	<i>2011</i> £000	<i>Group</i> <i>2010</i> £000	<i>2012</i> £000	<i>2011</i> £000	<i>Scottish Enterprise</i> <i>2010</i> £000
Finished Goods	101	96	110	-	-	-

**NOTES TO THE ACCOUNTS** (continued)**15. TRADE AND OTHER RECEIVABLES**

	2012	2011	Group	2012	2011	Scottish Enterprise
	£000	£000	2010	£000	£000	2010
			£000			£000
Local Enterprise Companies	-	-	-	180	959	737
Other Subsidiary undertakings	-	-	-	4	5	63
Other receivables	13,745	10,037	15,344	12,719	8,437	13,179
Prepayments	2,295	3,448	2,685	2,243	7,578	2,456
Accrued income	6,141	9,133	6,926	4,966	3,055	4,718
	<u>22,181</u>	<u>22,618</u>	<u>24,955</u>	<u>20,112</u>	<u>20,034</u>	<u>21,153</u>

**(i) Provisions for impairments**

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

**GROUP**

	At 1 April 2010	Utilised during year	Movements in Provisions	At 31 March 2011
	£000	£000	£000	£000
Other receivables	7,131	(4,176)	488	3,443

	At 1 April 2011	Utilised during year	Movements in Provisions	At 31 March 2012
	£000	£000	£000	£000
Other receivables	3,443	(416)	168	3,195

**SCOTTISH ENTERPRISE**

	At 1 April 2010	Utilised during year	Movements in Provisions	At 31 March 2011
	£000	£000	£000	£000
Other receivables	3,055	(101)	488	3,442

	At 1 April 2011	Utilised during year	Movements in Provisions	At 31 March 2012
	£000	£000	£000	£000
Other receivables	3,442	(416)	167	3,193

**(ii) Public Sector balances**

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

	2012	2011	Group	2012	2011	Scottish Enterprise
	£000	£000	2010	£000	£000	2010
			£000			£000
Central Government	3,484	3,281	470	3,172	3,236	431
Local Authorities	198	786	650	186	765	636
	<u>3,682</u>	<u>4,067</u>	<u>1,120</u>	<u>3,358</u>	<u>4,001</u>	<u>1,067</u>

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

	2012	2011	Group	2012	2011	Scottish Enterprise
	£000	£000	2010	£000	£000	2010
			£000			£000
Balance at 1 April	101,970	107,653	101,504	88,424	93,014	84,759
Net change in cash and cash equivalent balances	(9,464)	(5,683)	6,149	(3,557)	(4,590)	8,255
	<u>92,506</u>	<u>101,970</u>	<u>107,653</u>	<u>84,867</u>	<u>88,424</u>	<u>93,014</u>

	2012	2011	Group	2012	2011	Scottish Enterprise
	£000	£000	2010	£000	£000	2010
			£000			£000
Scottish Enterprise	24,301	16,880	24,285	24,301	16,880	24,285
Investment Funds	60,566	71,544	68,729	60,566	71,544	68,729
Local Enterprise Companies	182	5,422	4,412	-	-	-
Other subsidiary undertakings	7,457	8,124	10,227	-	-	-
	<u>92,506</u>	<u>101,970</u>	<u>107,653</u>	<u>84,867</u>	<u>88,424</u>	<u>93,014</u>

The balances at 31 March were held at:

Commercial banks and cash in hand	<u>92,506</u>	<u>101,970</u>	<u>107,653</u>	<u>84,867</u>	<u>88,424</u>	<u>93,014</u>
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The Investment Funds balance relates to bank accounts held in respect of The Scottish Co-Investment Fund and The Scottish Loan Fund. Both funds are part funded by the European Union and are intended to finance direct investment activity in association with private sector partners.

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

	2012	2011	Group	2012	2011	Scottish Enterprise
	£000	£000	2010	£000	£000	2010
			£000			£000
Other taxation and social security	1,181	1,162	1,160	1,137	945	896
Local Enterprise Companies	-	-	-	-	1,763	1,742
Other subsidiary undertakings	-	-	-	1,261	1,132	2,134
Trade payables	15,770	24,577	11,658	15,346	22,758	11,204
Other payables	266	240	1,900	215	180	1,692
Accrued charges	12,817	12,760	20,339	11,634	11,308	12,369
Prepaid revenue	3,487	1,844	1,578	2,098	1,179	1,129
EU Funding for Investment Funds	6,034	4,192	3,397	6,034	4,192	3,397
Treasury appropriations	34	-	109	34	-	109
	<u>39,589</u>	<u>44,775</u>	<u>40,141</u>	<u>37,759</u>	<u>43,457</u>	<u>34,672</u>

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

	2012	2011	Group	2012	2011	Scottish Enterprise
	£000	£000	2010	£000	£000	2010
			£000			£000
Other payables and accrued charges	1,601	1,358	1,358	1,601	1,145	1,145
Deferred income	1,464	1,611	1,752	1,464	1,591	1,720
EU Funding for Investment Funds	1,901	567	-	1,901	567	-
	<u>4,966</u>	<u>3,536</u>	<u>3,110</u>	<u>4,966</u>	<u>3,303</u>	<u>2,865</u>

**(i) Public Sector balances**

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

	2012	2011	Group	2012	2011	Scottish Enterprise
	£000	£000	2010	£000	£000	2010
			£000			£000
Central Government	4,611	3,959	1,432	4,377	3,528	1,110
Local Authorities	2,850	1,408	1,646	2,850	1,390	1,636
	<u>7,461</u>	<u>5,367</u>	<u>3,078</u>	<u>7,227</u>	<u>4,918</u>	<u>2,746</u>

**18. OTHER BORROWINGS**

Obligations under finance leases are as follows:

	2012	2011	Group	2012	2011	Scottish Enterprise
	£000	£000	2010	£000	£000	2010
			£000			£000
Current liabilities						
Finance lease obligations	-	-	32	-	-	-
Non-current liabilities						
Finance lease obligations	-	-	540	-	-	-

Scottish Enterprise has no finance lease obligations.

## NOTES TO THE ACCOUNTS (continued)

### 19. PROVISIONS

#### GROUP AND SCOTTISH ENTERPRISE

	<i>Support costs for leavers £000</i>	<i>Retirement benefit contributions £000</i>	<i>Total £000</i>
Balance at 1 April 2010	1,485	79	1,564
Provided in the year	41	-	41
Provisions not required written back	(94)	-	(94)
Provisions utilised in the year	(1,391)	(79)	(1,470)
Balance at 1 April 2011	41	-	41
Provided in the year	43	-	43
Provisions not required written back	(34)	-	(34)
Provisions utilised in the year	(7)	-	(7)
Balance at 31 March 2012	43	-	43

Amounts are expected to be paid in respect of all provisions in the year ending 31 March 2013 and therefore the liabilities recognised have not been discounted.

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

### 20. CAPITAL COMMITMENTS

#### GROUP AND SCOTTISH ENTERPRISE

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

	<i>2012 £000</i>	<i>2011 £000</i>
Financial Assets	52,312	2,110

During the year Scottish Enterprise entered into an agreement to invest £55,000,000 in the Scottish Loan Fund LP. The capital commitment at 31 March 2012 includes the balance of funds still to be invested.

### 21. CONTINGENT LIABILITIES

#### GROUP AND SCOTTISH ENTERPRISE

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

	<i>2012 £000</i>	<i>2011 £000</i>
Contingent liabilities arising from legal actions	-	-
Other contingent liabilities (i) (ii) (iii) (iv)	1,252	2,150

(i) Scottish Enterprise has invested and continues to make significant investment in the development of the site at Fife Energy Park including sums spent on the costs of addressing coastal defence and erosion problems. Consequently, the previously disclosed contingent liability of £2,000,000 is no longer considered to be appropriate.

(ii) Since 31 March 2010, Scottish Enterprise has provided a guarantee of up to £135,000 (2011: £150,000) to Social Investment Scotland in respect of a loan provided to Glencraft (Aberdeen) Limited. This guarantee remains in place and will continue until 31 March 2015



**NOTES TO THE ACCOUNTS** (continued)

- (iii) On 8 February 2012, Scottish Enterprise agreed to provide a guarantee of up to £480,000 to the Clydesdale Bank PLC in respect of short term credit facilities granted to a company which was seeking external investment.
- (iv) The carrying value of investments funded by Public Dividend Capital is £637,000. Any proceeds from the sale of these investments is due to be remitted to the Scottish Government (see Note 10).

**22. COMMITMENTS****OPERATING LEASES**

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

			<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>2012</i>	<i>2011</i>	<i>2010</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Obligations under operating leases comprise:</b>						
Land and buildings:						
within one year	5,986	6,289	6,396	5,038	5,322	5,206
after one year but not more than five years	17,511	20,791	22,860	15,223	18,409	19,154
After more than five years	6,107	10,322	14,697	6,081	9,792	12,916
	<u>29,604</u>	<u>37,402</u>	<u>43,953</u>	<u>26,342</u>	<u>33,523</u>	<u>37,276</u>
Other:						
within one year	24	27	29	-	-	-
after one year but not more than five years	19	37	35	-	-	-
After more than five years	-	-	-	-	-	-
	<u>43</u>	<u>64</u>	<u>64</u>	<u>-</u>	<u>-</u>	<u>-</u>

**FINANCIAL COMMITMENTS**

During the year, Glasgow Science Centre entered into an agreement with IMAX Corporation to terminate the existing agreement under which it bore a cost for maintenance of the IMAX projection system and royalties from film admissions. Following the termination of the agreement with IMAX Corporation on 31 March 2012 the group no longer has any financial commitments under non-cancellable financial agreements (2011: £148,040 per annum until 30 September 2020).

Scottish Enterprise has no financial commitments.

**23. SUMMARY OF LOSSES AND AMOUNTS WRITTEN OFF**

	<i>No. of cases</i>	<i>£000</i>
Claims abandoned or waived	<u>95</u>	<u>4,684</u>

Due to the high risk nature of many of its investments, there are occasions when Scottish Enterprise is required to write off balances which are no longer recoverable. In the year to 31 March 2012, balances in excess of £250,000 written off were as follows:-

			<i>2012</i>
			<i>£000</i>
Brand 1602 Ltd	Ordinary Shares & Loan	Company Dissolved	<u>290</u>
Quantum Filament Technologies Ltd	Ordinary Shares & Loan	Company Dissolved	<u>626</u>
Biofilm Holdings	Loans – Interest Waived		<u>354</u>
Adventi Ltd	Ordinary Shares	Company Dissolved	<u>916</u>
Surion Energy Limited	Ordinary Shares & Loan	Members Voluntary Liquidation	<u>378</u>

**NOTES TO THE ACCOUNTS** (continued)**24. MINORITY INTERESTS**

	2012	2011	<i>Group</i> 2010
	£000	£000	£000
Share of profits carried forward	1,576	1,604	1,463
Share of post tax (loss)/profit for year	(152)	(28)	454
Share of partnership appropriations	-	-	(313)
	<u>1,424</u>	<u>1,576</u>	<u>1,604</u>

**25. FINANCIAL INSTRUMENTS**

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

Liquidity risk  
Credit risk  
Market risk

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

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

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

**Liquidity risk**

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

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

The table below details the contractual maturities of financial liabilities.

**GROUP**

	2012	2012	2012	2012
	<i>Carrying</i> <i>Amount</i>	<i>Contractual</i> <i>Cashflows</i>	<i>Within one</i> <i>year</i>	<i>After more</i> <i>than one</i> <i>year</i>
	£000	£000	£000	£000
<b>Financial liabilities</b>				
Trade and other payables	30,454	30,454	28,853	1,601
	<u>30,454</u>	<u>30,454</u>	<u>28,853</u>	<u>1,601</u>

**SCOTTISH ENTERPRISE**

	2012	2012	2012	2012
	<i>Carrying</i> <i>Amount</i>	<i>Contractual</i> <i>Cashflows</i>	<i>Within one</i> <i>year</i>	<i>After more</i> <i>than one</i> <i>year</i>
	£000	£000	£000	£000
<b>Financial liabilities</b>				
Trade and other payables	28,830	28,830	27,229	1,601
	<u>28,830</u>	<u>28,830</u>	<u>27,229</u>	<u>1,601</u>

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

	2011	2011	2011	2011
	<i>Carrying</i>	<i>Contractual</i>	<i>Within one</i>	<i>After more</i>
	<i>Amount</i>	<i>Cashflows</i>	<i>year</i>	<i>than one</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>year</i>
				<i>£000</i>
<b>Financial liabilities</b>				
Trade and other payables	38,935	38,935	37,577	1,358
Finance lease obligations	-	-	-	-
	<u>38,935</u>	<u>38,935</u>	<u>37,577</u>	<u>1,358</u>

**SCOTTISH ENTERPRISE**

	2011	2011	2011	2011
	<i>Carrying</i>	<i>Contractual</i>	<i>Within one</i>	<i>After more</i>
	<i>Amount</i>	<i>Cashflows</i>	<i>year</i>	<i>than one</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>year</i>
				<i>£000</i>
<b>Financial liabilities</b>				
Trade and other payables	35,391	35,391	34,246	1,145
	<u>35,391</u>	<u>35,391</u>	<u>34,246</u>	<u>1,145</u>

**GROUP**

	2010	2010	2010	2010
	<i>Carrying</i>	<i>Contractual</i>	<i>Within one</i>	<i>After more</i>
	<i>Amount</i>	<i>Cashflows</i>	<i>year</i>	<i>than one</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>year</i>
				<i>£000</i>
<b>Financial liabilities</b>				
Trade and other payables	35,255	35,255	33,897	1,358
Finance lease obligations	572	925	32	540
	<u>35,827</u>	<u>36,180</u>	<u>33,929</u>	<u>1,898</u>

**SCOTTISH ENTERPRISE**

	2010	2010	2010	2010
	<i>Carrying</i>	<i>Contractual</i>	<i>Within one</i>	<i>After more</i>
	<i>Amount</i>	<i>Cashflows</i>	<i>year</i>	<i>than one</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>year</i>
				<i>£000</i>
<b>Financial liabilities</b>				
Trade and other payables	26,410	26,410	25,265	1,145
	<u>26,410</u>	<u>26,410</u>	<u>25,265</u>	<u>1,145</u>

The Group and Scottish Enterprise have no outstanding borrowings at 31 March 2012 (2010, 2011: £nil).

**Credit risk**

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

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

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

## NOTES TO THE ACCOUNTS (continued)

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:-

	<i>2012</i> <i>Carrying</i> <i>Amount</i> <i>£000</i>	<i>Restated</i> <i>2011</i> <i>Carrying</i> <i>Amount</i> <i>£000</i>	<i>Restated</i> <i>2010</i> <i>Carrying</i> <i>Amount</i> <i>£000</i>
<b>GROUP</b>			
<b>Financial assets – other investments</b>			
Assets available for sale	107,633	79,445	83,832
Held to maturity assets	3,895	1,935	1,905
Loans and other receivables	27,747	24,657	21,307
<b>Financial assets</b>			
Trade and other receivables	23,472	24,479	25,143
Cash and cash equivalents	92,506	101,970	107,653
	<u>255,253</u>	<u>232,486</u>	<u>239,840</u>
	<i>2012</i> <i>Carrying</i> <i>Amount</i> <i>£000</i>	<i>Restated</i> <i>2011</i> <i>Carrying</i> <i>Amount</i> <i>£000</i>	<i>Restated</i> <i>2010</i> <i>Carrying</i> <i>Amount</i> <i>£000</i>
<b>SCOTTISH ENTERPRISE</b>			
<b>Financial assets – other investments</b>			
Assets available for sale	116,055	78,875	79,574
Held to maturity assets	3,895	1,910	1,871
Loans and other receivables	26,934	23,050	19,242
<b>Financial assets</b>			
Trade and other receivables	21,177	20,884	20,770
Cash and cash equivalents	84,867	88,424	93,014
	<u>252,928</u>	<u>213,143</u>	<u>214,471</u>

**NOTES TO THE ACCOUNTS** (continued)

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

<b>GROUP</b>	2012		2011		2010	
	Gross £000	Impairment £000	Gross £000	Impairment £000	Gross £000	Impairment £000
Not past due	14,621	-	21,827	-	13,245	-
Past due 0 to 30 days	2,319	-	1,585	-	10,297	-
Past due 31 to 120 days	1,182	-	1,004	-	742	-
Past due more than 120 days	8,545	(3,195)	3,506	(3,443)	7,990	(7,131)
	<u>26,667</u>	<u>(3,195)</u>	<u>27,922</u>	<u>(3,443)</u>	<u>32,274</u>	<u>(7,131)</u>

<b>SCOTTISH ENTERPRISE</b>	2012		2011		2010	
	Gross £000	Impairment £000	Gross £000	Impairment £000	Gross £000	Impairment £000
Not past due	12,326	-	18,299	-	9,360	-
Past due 0 to 30 days	2,319	-	1,574	-	9,971	-
Past due 31 to 120 days	1,181	-	948	-	637	-
Past due more than 120 days	8,544	(3,193)	3,505	(3,442)	3,857	(3,055)
	<u>24,370</u>	<u>(3,193)</u>	<u>24,326</u>	<u>(3,442)</u>	<u>23,825</u>	<u>(3,055)</u>

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

**Market risk**

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

*Interest rate risk*

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

<b>GROUP</b>	2012	Restated	Restated
	Carrying Amount £000	2011 Carrying Amount £000	2010 Carrying Amount £000
<b>Fixed rate instruments</b>			
Financial assets	40,709	27,346	27,179
Financial liabilities	-	-	(572)
	<u>40,709</u>	<u>27,346</u>	<u>26,607</u>
<b>Variable rate instruments</b>			
Cash and cash equivalents	92,506	101,970	107,653
	<u>92,506</u>	<u>101,970</u>	<u>107,653</u>

**NOTES TO THE ACCOUNTS** (continued)

	<i>2012</i> <i>Carrying</i> <i>Amount</i> <i>£000</i>	<i>Restated</i> <i>2011</i> <i>Carrying</i> <i>Amount</i> <i>£000</i>	<i>Restated</i> <i>2010</i> <i>Carrying</i> <i>Amount</i> <i>£000</i>
<b>SCOTTISH ENTERPRISE</b>			
<b>Fixed rate instruments</b>			
Financial assets	39,950	26,450	26,096
	<u>39,950</u>	<u>26,450</u>	<u>26,096</u>
<b>Variable rate instruments</b>			
Cash and cash equivalents	84,867	88,424	93,014
	<u>84,867</u>	<u>88,424</u>	<u>93,014</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</i> <i>100 basis</i> <i>points change</i> <i>£000</i>	<i>Scottish</i> <i>Enterprise</i> <i>100 basis</i> <i>points change</i> <i>£000</i>
Cash and cash equivalents		
31 March 2010	1,046	889
31 March 2011	1,048	907
31 March 2012	972	866

*Currency risk*

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

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

**Fair values**

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

	<i>2012</i> <i>Carrying</i> <i>Amount</i> <i>£000</i>	<i>2012</i> <i>Fair</i> <i>Value</i> <i>£000</i>	<i>Restated</i> <i>2011</i> <i>Carrying</i> <i>Amount</i> <i>£000</i>	<i>Restated</i> <i>2011</i> <i>Fair Value</i> <i>£000</i>	<i>Restated</i> <i>2010</i> <i>Carrying</i> <i>Amount</i> <i>£000</i>	<i>Restated</i> <i>2010</i> <i>Fair Value</i> <i>£000</i>
<b>GROUP</b>						
Financial assets available for sale (i)	107,633	107,633	79,445	79,445	83,832	83,832
Financial assets held to maturity	3,895	3,895	1,935	1,935	1,905	1,905
Loans and other receivables	27,747	27,747	24,657	24,657	21,307	21,307
Trade and other receivables	23,472	23,472	24,479	24,479	25,143	25,143
Cash and cash equivalents	92,506	92,506	101,970	101,970	107,653	107,653
Trade and other payables	(30,454)	(30,454)	(38,935)	(38,935)	(35,255)	(35,255)
Other borrowings	-	-	-	-	(572)	(572)
	<u>224,799</u>	<u>224,799</u>	<u>193,551</u>	<u>193,551</u>	<u>204,013</u>	<u>204,013</u>

**NOTES TO THE ACCOUNTS** (continued)

<b>SCOTTISH ENTERPRISE</b>	<i>2012 Carrying Amount £000</i>	<i>2012 Fair Value £000</i>	<i>Restated 2011 Carrying Amount £000</i>	<i>Restated 2011 Fair Value £000</i>	<i>Restated 2010 Carrying Amount £000</i>	<i>Restated 2010 Fair Value £000</i>
Financial assets available for sale (i)	116,055	116,055	78,875	78,875	79,574	79,574
Financial assets held to maturity	3,895	3,895	1,910	1,910	1,871	1,871
Loans and other receivables	26,934	26,934	23,050	23,050	19,242	19,242
Trade and other receivables	21,177	21,177	20,884	20,884	20,770	20,770
Cash and cash equivalents	84,867	84,867	88,424	88,424	93,014	93,014
Trade and other payables	(28,830)	(28,830)	(35,391)	(35,391)	(26,410)	(26,410)
	<u>224,098</u>	<u>224,098</u>	<u>177,752</u>	<u>177,752</u>	<u>188,061</u>	<u>188,061</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**

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

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

All material Group and Scottish Enterprise financial assets and liabilities are defined as level 3 instruments, with the exception of Stock Exchange investments carried at fair value of £4,642,731 (2011: £6,513,209) at 31 March.

**Estimation of fair values**

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

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

## NOTES TO THE ACCOUNTS (continued)

### 26. RELATED PARTY TRANSACTIONS

Scottish Enterprise is a non-departmental public body sponsored by the Scottish Government. The Scottish Government is regarded as a related party. During the year Scottish Enterprise has had material transactions with the Scottish Government and for other entities for which the Scottish Government is regarded as the parent body.

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

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

Audit Scotland	City of Edinburgh Council	Creative Scotland
Dundee City Council	Fife Council	Foreign & Commonwealth Office
Glasgow City Council	Highlands and Islands Enterprise	London Development Agency
North Lanarkshire Council	Scottish Environmental Protection Agency	Scottish Government
Skills Development Scotland Limited	Visit Scotland	West Dunbartonshire Council

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.

### 27. PRIOR PERIOD ADJUSTMENT

This note explains how any changes in Accounting Policies have affected the reported financial position, financial performance and cash flows of the Group and Scottish Enterprise.

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

#### GROUP

	<i>Audited Accounts</i> £000	<i>European Funding Adjustment</i> £000	<i>Deferred Capital Income Adjustment</i> £000	<i>Restated Balance</i> £000
<b>2010/11 Group Statement of Comprehensive Net Expenditure</b>				
Operating Expenditure	199,587	-	3,188	202,775
Other Income	(32,960)	(8,053)	(573)	(41,586)
Net Expenditure	230,980	(8,053)	2,615	225,542
<b>Group Statement of Financial Position at 31 March 2010</b>				
Financial assets – Other investments	68,423	38,621	-	107,044
Non-Current Liabilities – Other payables	(31,161)	-	28,051	(3,110)
General Reserve	224,817	38,621	28,051	291,489
<b>Group Statement of Financial Position at 31 March 2011</b>				
Financial assets – Other investments	59,363	46,674	-	106,037
Non-Current Liabilities – Other payables	(28,972)	-	25,436	(3,536)
General Reserve	292,532	46,674	25,436	364,642



## NOTES TO THE ACCOUNTS (continued)

### SCOTTISH ENTERPRISE

	<i>Audited Accounts</i> £000	<i>European Funding Adjustment</i> £000	<i>Restated Balance</i> £000
<b>Statement of Financial Position at 31 March 2010</b>			
Financial assets – Other investments	62,066	38,621	100,687
General Reserve	227,731	38,621	266,352
<b>Statement of Financial Position at 31 March 2011</b>			
Financial assets – Other investments	57,161	46,674	103,835
General Reserve	295,758	46,674	342,432

The adjustments are explained below:

#### Change in accounting policies

In prior years the European funded proportion of the cost of investments was deducted from the cost of the investments made by Scottish Enterprise. The FReM withdrew the option contained in IAS20 *Government Grants* on which this policy was based. The proportion of cost attributed to European support will now be treated as income in the year in which the related investment is made. This represents a change in accounting policy under IAS8 *Accounting Policies, Changes in Accounting Estimates and Errors* and consequently Scottish Enterprise has adjusted comparative amounts disclosed for each prior period as if the new accounting policy had always been applied. This change in accounting policy results in an increase in other investments and a decrease in Net Expenditure/General Reserve balance.

The FReM removed the option in IAS 20 *Government Grants* to defer capital grant income received to finance the cost of assets unless there are conditions imposed by the funder that require the grant to be consumed as specified by the grantor or returned to them. Consequently, the policy of holding capital grant income to be released over the useful economic lives of the associated assets is no longer permitted under the FReM. From the year ended 31 March 2012, any income received to fund a non-current asset will be recognised as income in the Statement of Comprehensive Net Expenditure, unless the funds are conditional on use, and the full depreciation charge of any grant funded assets will be recognised as expenditure in the Statement of Comprehensive Net Expenditure without the corresponding benefit of the release of deferred income. Scottish Enterprise has adjusted comparative amounts disclosed in each prior period as if the new accounting policy had always applied.

**NOTES TO THE ACCOUNTS** (continued)**28. SCHEDULES OF INVESTMENTS AT 31 MARCH 2012**

Disclosure of all Scottish Enterprise's investments, particularly in small businesses, would create a schedule of excessive length. This schedule discloses all investments where Scottish Enterprise holds more than 20% of the voting rights, and where the total investment is in excess of £100,000 but excludes equity accounted investees which are disclosed in Note 9. Investment amounts are stated at cost before provisions.

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

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

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

	<i>% of Voting rights</i>	<i>Shares £000</i>	<i>Loans £000</i>
3D Diagnostic Imaging plc Health care technology	22.21	1,890	-
Actual Analytics Ltd Chemical – waste disposal	24.79	467	-
Advanced Microwave Technologies Limited Microwave treatment and purification of animal blood	29.94	458	222
Airframe Components Europe Limited Maintenance solutions to the aviation industry	20.00	24 116 (P)	85
Ambicare Limited Medical technology	28.40	1,997	168
Amoebics Limited Development of anti bacteria measures	22.83	272	-
Antoxis Limited Design and synthesis of therapeutic antioxidants	24.72	329	-
AppShare Ltd Software development	28.22	502	-
Apsu Environmental Water treatment and waste recycling	29.99	119	-
Arrayjet Biotechnology development	29.90	1,185	-
Ateeda Software development	22.74	639	125
Bibliographic Data Services Ltd Information on book publication etc	20.00	25	-
Biofilm Limited Medical technology	28.25	2,200	-
Biopta Limited Services to the biotechnology industry	29.83	800	4
Bloxx Ltd Web, email and media filtering technology provider	24.66	642 100(P)	-
Calnex Solutions Limited Development of next generation test equipment	27.37	575	-
Centeo Biosciences Limited Design and supply instrumentation which improves the R&D process	29.98	584	103
CiQual Limited Software solutions for Wireless Service Providers to understand and interpret the needs users	26.21	967	233
Cloudsoft Corporation Limited Software development	28.94	1,100	-
Conjunct Optical Communications	21.33	488	-
Critical Blue Limited Development of electronic automation design software	29.42	1,800	-

**NOTES TO THE ACCOUNTS** (continued)

	<i>% of Voting rights</i>	<i>Shares £000</i>	<i>Loans £000</i>
DEM Solutions Limited Provider of engineering software and consultancy	20.97	600	-
Design Led Products Limited Design and development of light guide technology	25.90	756	-
Dimensional Imaging Limited Services to the medical industry	23.44	261	52
Dollar Top Limited Distribution of wines and spirits	29.90	199	767
Eaglewood Systems Limited Development & supply of business m/ment software	24.74	397	-
Energyflo Construction Technologies Limited Clean technology company	26.50	850	250
Exerity Limited Design and sale of audio visual technology	23.66	749	-
Extramed Limited Healthcare software	29.94	330	-
Factonomy Limited Technology partner for the agile and flexible development of web- enabled business solutions	29.73	801	-
Fanduel Ltd (Formerly Hubdub Limited) Designed and implemented software to run information markets	26.17	1,178	164
Gas Sensing Solutions Limited Development of gas sensing device	28.38	1,000	-
Helixion Limited Developing a new direction for Mobility device security in next generation Convergence networks	20.63	200	-
Ice Factor International Multi adventure centres	29.83	445	-
iCs2 Limited Cable industry	23.29	103	30
Kabu Social media software	20.00	100	-
Kowalski TV Limited TV content production, specialising in factual entertainment, specialist factual series and documentaries	25.00	75	50
Lamellar Biomedical Limited Development and manufacture of synthetic lamellar bodies	28.38	729	351
Larosco Limited Online marketing software	21.00	206	-
Leading Software Limited Software development	22.09	622	50
LUX Innovate Limited Development of light based detection solutions	29.82	667	-
Metaforic Software development	24.31	2,200	-
MGB Biopharma Development of antibacterial drug	26.43	971	-
Mobile Sport Ltd Software developer & systems provider	28.53	511	-
Mullin Ink Jet Media Niche producer of specialist paper	29.07	10 90 (P)	-
Nandi Proteins Limited Sales, marketing IP & licensing	22.78	390	-

**NOTES TO THE ACCOUNTS** (continued)

	<i>% of Voting rights</i>	<i>Shares £000</i>	<i>Loans £000</i>
Ncimb Limited Maintains the National Collections of Industrial, Marine and Food Bacteria	21.23	252	-
NGentec Limited Generator technology development (wind power)	21.11	1,000	-
Ocutec Limited Medical Technology Devices - Ophthalmogy	26.69	1,003	-
Outplay Entertainment Development & publication of social digital games	20.61	1,000	-
Pincer Vodka Limited Functional Drinks supplier / inventor	26.67	100	-
Pufferfish Limited Design, develop and sell experiential AV products	29.43	369	-
Pyreos Limited Development of infrared sensor technology	22.09	2,245	-
Reactec Limited Noise and vibration control solutions through products, consultancy and design services	26.55	516	-
Reisswolf Scotland Document security business	29.91	200	-
Scalar Technologies Non-contact measurement systems development	21.22	253	-
Sentient Medical Developing a miniature Middle Ear Implant (MEI)	27.90	235	-
SFX Technologies Limited Innovative speaker technology	24.04	930	40
Sigma Offshore Limited Engineers – offshore oil and gas industry	20.83	1,076 1,122 (P)	-
Simple Audio Production of digital home audio equipment	22.21	437	65
Sistemic Scotland Limited Biotechnology development	25.88	220	-
SIT Corporation Scotlands internet TV	20.50	68	-
Smarter Grid Solutions Limited Grid solution to renewable generators and network operators	29.90	250	-
Spaceright Europe Limited Specialist provider of noticeboards, display equipment and school dining furniture	29.74	366	170
Symbiosis Pharma Services Limited Contract manufacturing and services for supply and storage of drugs	29.74	1,150	-
Syntropharma Pharmaceutical company	29.95	1,105	-
Tayeco Limited Developer of energy consumption in house displays	29.79	913	-
The One Place Capital Limited Software development	28.58	902	139
Traak Systems Limited Developing intelligent self-learning radio frequency identification ('RFID') and sensor network products	29.87	238	-
Treegreen Limited Manufacturer of electronic energy saving devices	20.00	74	-
Verisim Limited Software development for financial services sector	29.92	1,145	50

**NOTES TO THE ACCOUNTS** (continued)

	<i>% of Voting rights</i>	<i>Shares £000</i>	<i>Loans £000</i>
Visible Ink Limited Media	21.37	100	-
Water Evolution Designing and producing grey water recycling units	26.20	200	525
XI Engineering Consultants Limited Engineering consultancy	26.71	108	-
<b>Total of items listed</b>		<b>49,296</b>	<b>3,643</b>

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

	<i>% of Voting rights</i>	<i>Shares £000</i>	<i>Loans £000</i>
Amor Group Limited Business technology solutions	7.46	23	1,651
Aquamarine Power Limited Marine energy	8.95	5,900	-
Big DNA Limited Biotechnology	19.39	1,750	-
Compound Semiconductor Technologies Global Opto-electronic devices designer/development	8.29	1,500	-
Cxr Biotechnology – innovative technology to improve drug discovery and development	16.21	1,395	-
Cyclacel Pharmaceuticals Inc. Drug development Registered in USA & quoted on NASDAQ	2.23	5,000	-
DYSIS Medical Limited Medical device	13.08	2,000	-
GC Holdings Inc Fibre optical communications	7.39	2,000	-
IE CHP (UK & Eire) Limited Development of fuel cell powered CHP systems	7.49	1,012	-
Nessco Group Holdings Limited Telecoms network support - oil & gas	15.94	325	1,550
Netidme Limited Software identity verification	19.98	1,142	85
Novabiotics Limited Biotechnology – anti infectives for disease treatment	12.43	1,373	887
NuCana Biomed Limited Biopharmaceutical	13.76	1,500	-
Pelamis Limited Generation of renewable energy from ocean waves	13.80	3,466	1,935
Prismtech Limited Supply of computer middleware platform solutions	8.36	1,500	60
Survivex Limited Oil and Gas industry training	15.00	500	1,500
Touch Emas Limited Life sciences	18.02	2,376	-
TPP Global Development Start up drug development	10.21	2,000	-
Twig Rights Limited Digital media	6.77	425	575

**NOTES TO THE ACCOUNTS** (continued)

	<i>% of Voting rights</i>	<i>Shares £000</i>	<i>Loans £000</i>
Vascular Flow Technologies Limited (Formerly Tayside Flow Technologies Limited) Development of vascular devices	11.51	1,802	-
Volo Limited In-train entertainment systems	10.98	1,181	123
Scottish Loan Fund Lp Investment Fund	-		5,593
City of Edinburgh Council Development of visitor attraction conference facility	-	-	5,915
Glasgow Harbour Limited Property development	-	-	4,000
<b>Total of items listed</b>		<u>38,170</u>	<u>23,874</u>
		<i>Shares £000</i>	<i>Loans £000</i>
Total of items listed – Note 28A		49,296	3,643
Total of items listed – Note 28B		38,170	23,874
		<u>87,466</u>	<u>27,517</u>
Other shares and loans			73,414
<b>Total cost of shares and loans before provisions</b>			<u>188,397</u>
			<i>No. of Companies</i>
<b>Total number of companies</b>			<u>571</u>

# ACCOUNTS DIRECTION



## SCOTTISH ENTERPRISE

### DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in pursuance of Section 30(1) of the Enterprise and New Towns (Scotland) Act 1990, hereby give the following direction.
2. The statement of accounts for the financial year ended 31 March 2010, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year. Additional disclosure requirements are set out in Schedule 1 attached.
4. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 14 December 2005 is hereby revoked.

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