

SCOTTISH ENTERPRISE

ANNUAL REPORT AND ACCOUNTS

For the year ended 31 March 2016

Enterprise and New Towns (Scotland) Act 1990

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

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PERFORMANCE REPORT

for the year ended 31 March 2016

OVERVIEW

STATEMENT OF PURPOSE AND ACTIVITIES

Scottish Enterprise is an executive Non-Departmental Public Body of the Scottish Government, acting as a public agency with a statutory duty to undertake economic development for lowland Scotland. A separate agency, Highlands and Islands Enterprise, covers the Highlands and Islands. Scottish Enterprise was established under the Enterprise and New Towns (Scotland) Act 1990 for the purposes of furthering the development of Scotland's economy.

As a public agency, Scottish Enterprise's functions are defined by legislation, the [Enterprise and New Towns \(Scotland\) Act 1990](#). This defines Scottish Enterprise's key functions as:

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

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

STRATEGY AND OBJECTIVES

The approach to achieving the Scottish Government's purpose is set out in the Government Economic Strategy, originally launched in 2007, up-dated in 2011 and re launched as [Scotland's Economic Strategy](#) in March 2015. Scotland's Economic Strategy sets out the overarching framework for creating a more productive, cohesive and fairer Scotland. The Strategy is based on two mutually supportive pillars of boosting productivity and tackling inequality which in turn are underpinned by four priority areas of innovation, internationalisation, investment and inclusive growth.

Scottish Enterprise makes a distinctive contribution to the goals of the Economic Strategy. Our 2015-18 [Business Plan](#), launched in April 2015, set out our approach to help deliver long term, inclusive economic growth for Scotland.

The Scottish Enterprise Business Plan for 2015-18 was built around a clear purpose: to build Scotland's international competitiveness and growth, guided by the four critical, closely inter-connected drivers of growth identified in Scotland's Economic Strategy:

- **Innovation:** to address our goal of helping to transform Scotland's innovation performance to equal the best-performing nations by 2020, by helping more Scottish companies to achieve successful innovation, by developing new products and services, and investing in marketing, skills and new technology, including using new business models and digital communications, to reach new international markets. This represents an important contribution to the Scottish Government's [Scotland Can Do](#) framework for innovation and entrepreneurship.
- **Internationalisation:** to support Scotland's international trade and investment ambitions, including integrated export support for companies, utilising the global network of overseas offices we operate through Scottish Development International; this includes targeted trade promotion activities in key overseas markets, as well as activity to attract investment and jobs to Scotland, building on Scotland's reputation as one of the top regions in Europe for foreign direct investment.
- **Investment:** increasing investment in Scotland's growth companies and business infrastructure, to increase competitiveness and attract new investment into Scotland. This includes helping companies secure funding through the Scottish Investment Bank (SIB) for growth and, in exceptional circumstances, survival, and addressing supply and demand issues for companies seeking risk finance. This also includes developing a world-class business infrastructure in Scotland, with strong global connections, making the most of Scotland's economic assets, including the strategic assets of our major city regions.
- **Inclusive Growth:** as recognised in Scotland's Economic Strategy, the task of building Scotland's international competitiveness is strongly linked to the critical task of *tackling inequality*, to create an economy that is both sustainable and growing. This is underpinned by the development of our *people and talent* - addressing the challenge of creating more and better jobs and encouraging many more people to contribute to and benefit from economic growth. Through our engagement with businesses and industries we help to realise growth opportunities and, working with partners, connect these to more of Scotland's people and places. We also have an important role to play in supporting the [Scottish Business Pledge](#) to stimulate progressive workplace practices within companies and support firms to employ young people, raise wage levels and invest in tomorrow's talent.

PERFORMANCE REPORT (continued)

In addressing these goals, Scottish Enterprise focuses on industry sectors identified as offering the opportunity to strengthen Scotland's competitive advantage through achieving critical mass and boosting productivity:

- **Energy** – renewables, oil and gas and low carbon technologies
- **Food and Drink** – whisky, premium products
- **Life Sciences** – regenerative medicine and stratified medicine, pharma services
- **Enabling Technologies** – informatics, advanced manufacturing and engineering, aerospace
- **Tourism** – key destinations, golf, business tourism
- **Financial and Business Services** – asset management, insurance, business process operations
- **Universities** – higher education institutes, research institutes
- **Creative Industries** – digital media, games

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

- Chemical Sciences
- Construction
- Forestry and Timber
- Textiles

Along with the Scottish Government, we have sought to increase the level of 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 catalysts for change. Scottish Enterprise's work in sectors is informed by the detailed long-term industry strategies developed by these Industry Leadership Groups.

BUSINESS MODEL

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

The sponsor Directorate within the Scottish Government determines Scottish Enterprise's performance framework in the light of the Scottish Ministers' wider strategic aims. Scottish Enterprise's objectives and key targets are agreed within its business planning process. Scottish Enterprise operates with its own independent Board reporting to the Enterprise Minister within the Scottish Government.

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, to secure the alignment of strategies and resources across the public sector behind growth opportunities.

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

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

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

PERFORMANCE SUMMARY

Scottish Enterprise has successfully delivered all but one of its business plan measure targets for 2015/16. Eight of our fifteen business plan measures completed the year above their target range with a further one in the top half of its target range and five in the lower half.

This has been achieved despite the challenging market conditions faced over the course of the year, in particular the negative effects from the downturn in the oil and gas sector and its supply chain, and uncertainty in some of our key target markets.

Nine out of the twelve milestones set out in our plan for 2015/16 have been met. This includes implementing the key actions from the Energy Jobs Taskforce and implementing an enhanced approach to support companies develop invest in youth policies. Actions Plans were completed to attract new international capital to Scotland. We also delivered our

PERFORMANCE REPORT (continued)

contribution to key Scottish initiatives likely to underpin policy development in the coming years, including the development of the Scottish Business Development Bank, the Scottish Business Pledge, the Innovation and Investment Hubs and launch of the Manufacturing Action Plan and Scotland's Trade & Investment (T&I) Strategy 2016-2021.

We have also successfully introduced new digital services to support exporting and innovation, along with a new dedicated service in partnership with Scottish Government and Highlands & Islands Enterprise to build and increase the number of high-growth businesses.

Three of our milestones for 2015/16 have not been concluded within the year, including our contribution to local outcome plans; productivity plans for tourism, food & drink and construction; and, a revised approach to tackling inequality, including how we measure success. We continue to work to achieve these milestones during 2016/17, including, where necessary, in collaboration with our partners.

On the third milestone, relating to our approach to tackling inequality, significant work has taken place over the last year to establish and embed a revised approach to inequality across SE. We have taken the lead with partners and stakeholders in better understanding what the inclusive growth agenda means for our role as an economic development agency. We will continue to work with Scottish Government and partners to further embed our approach in 2016/17.

We have also seen progress on some significant elements of our longer-term strategy during 2015/16 including:

- Extensive work with the Oil & Gas industry to build resilience and innovative solutions to address the challenges facing the sector
- Negotiated new direct flights from Scottish airports, including Stuttgart, Montreal, Toronto, New York (JFK) and Helsinki
- Supported Scotland's transition to a low-carbon economy through the Renewable Energy Investment Fund
- Significant progress on some of our key infrastructure investments, including *Dundee Waterfront*, Scotland's Energy Ports
- Encouraged companies securing support through Regional Selective Assistance to invest in youth employment

STATEMENT BY CHIEF EXECUTIVE ON 2015/16 PERFORMANCE

This year's performance report highlights the contribution Scottish Enterprise has made to the growth of Scotland's economy during 2015/16. We achieved or exceeded all but one of the targets and achieved all but three of the milestones set in the plan we published a year ago.

We have made significant progress in all four areas of priority in our plan:

- **Internationalisation:** working closely with our partners, we have helped more companies to export – including helping 340 companies to export for the first time. Through the market intelligence and connections available from our network of overseas offices, the specialist support available from our export advisers and the direct support offered through our account managers, we are seeking to increase the £27.5 billion overseas exports contribute to the economy and the significant boost exporting gives to productivity, innovation, financial performance and growth.
- **Innovation:** we have supported 1,000 businesses to become innovation active, reaching an increasing number of companies through enhanced digital services. We launched the *Open Innovation* Programme to help large corporates and public agencies benefit from the innovation potential that can be released through smaller companies. At over £190m, we also achieved a record result in terms of additional investment in R&D through Scottish Enterprise supported companies.
- **Investment:** through the Scottish Investment Bank we have increased the supply and diversity of growth capital available to ambitious companies, including £180m leveraged through a single deal with the globally-successful Scottish company *Fanduel*. We have raised the international profile of investment opportunities in Scotland.
- **Inclusive Growth:** we have secured more than 4,000 jobs across Scotland, supporting companies through Regional Selective Assistance. We have promoted the benefits of the Scottish Business Pledge principles to companies. We have introduced new programmes to increase the number of entrepreneurs in Scotland with a global mindset including among under-represented groups.

This progress has been achieved in an economic climate that continues to be tough. The growth of world trade remains sluggish and through our *High Growth Market Unit* we have been working closely with companies, building and developing relationships and connections to open up new opportunities in new market niches and subsectors, which is helping to accelerate the rate of growth of Scotland's international sales in the harder to enter but high opportunity markets of China, India and the Middle East.

PERFORMANCE REPORT (continued)

We have maintained our strong track record in the attraction of jobs and inward investment. Scotland has retained its position as the number one UK location for Foreign Direct Investment (FDI) outside London, as confirmed by the latest Ernst and Young annual [Attractiveness Survey report](#) which showed that in 2015 Scotland had a record year in terms of our share of UK investments, with an increase of over 51% in the number of projects. These figures are reflected in Scottish Enterprise's own performance, where our Report shows that over 7,000 jobs were secured through inward investment in 2015/16.

We have responded to some major challenges in our economy such as dealing with the consequences of the drop in oil prices on Scotland's oil and gas sector and working in close collaboration with Government and our partners to support the sector as it faces the significant impact brought about by the global downturn. Through the Energy Jobs Taskforce the sector is pulling together to try and minimise the impact on individuals and companies to ensure we have a successful and sustainable sector in the future.

This work is typical of the important role Scottish Enterprise has to play to play in developing and safeguarding Scotland's economic future. In the last year we have put in place a number of important initiatives to help transform Scotland's economic performance such as through the *Manufacturing Action Plan* and our contribution to Scotland's *Trade & Investment Strategy*, where we will work with industry to help build our international competitiveness, increasing productivity and generating new jobs. A significant development in the last year has been the increasing use we are making of digital services to deliver support to companies in key areas like innovation and internationalisation.

We do not achieve this success alone. This is very much a team effort involving our entire organisation, both in Scotland and overseas, working with Government and partners alongside Scotland's companies and sectors to help Scotland fulfill its economic potential. I am confident we will all rise to the challenges and opportunities that are ahead.

FUTURE DEVELOPMENTS

In developing its Business Plan Scottish Enterprise adopts a 'rolling' planning process with a medium term focus. This process takes account of the changing economic context, the progress against our objectives, consultation with our partners and the strategic guidance received from Ministers. This changing process is reflected in Scottish Enterprise's [Business Plan](#) for 2015-18, which was published in April 2015 and our subsequent [2016/17 update](#) published in March 2016.

This evolving plan reflects the scale of ambition informed by the evidence, our own capabilities and skills, our delivery approach and our current resources and priorities and includes greater recognition of the inter-dependence of priorities across our business plan.

Scottish Enterprise's Business Plan was defined against the priorities set out in [Scotland's Economic Strategy](#), published in March 2015 and reflects the priorities and actions set out in the Scottish Government's [Programme for Government 2015-16](#).

Our focus for 2016/17 remains on the four priorities for growth, reflecting the four themes set out in Scotland's Economic Strategy:

- **Innovation:** to support more companies to innovate to grow, at home and overseas, and increase Scotland's business expenditure on R&D, including:
 - Expanding our digital services to reach more companies and help them grow through innovation
 - Encouraging greater collaboration between the private and public sector to generate more innovation
 - Working with partners to support the Scotland CAN DO Innovation Forum to increase entrepreneurship and business innovation
 - Encourage businesses and sectors to innovate and reach global markets through the use of digital technologies
 - Provide support to the energy sector, including the oil and gas industry, to increase innovation and diversify into new sectors and markets
- **Internationalisation:** to attract new investment into Scotland, and work with an increased number of companies to export more of their products and services, including:
 - Supporting the establishment of Innovation and Investment Hubs in London, Brussels and Dublin to promote Scotland's research and innovation capabilities
 - Increasing the impact of international networks, including GlobalScots, to help Scotland's businesses internationalise and identify new investment opportunities
 - Using international events and the 2016 Year of Innovation, Architecture and Design to showcase Scotland to the world
 - Building on the strengths of Scotland's premium consumer products – golf, whisky, education and textiles – to take advantage of major emerging markets with growing affluence

PERFORMANCE REPORT (continued)

- **Investment:** to build Scotland's assets in key sectors; and help more businesses access growth finance to invest, innovate and expand at home and overseas, including:
 - Improve access to growth funding for a wider range of Scottish businesses, through the Scottish Investment Bank's increased remit under the Scottish Business Development Bank, by stimulating both demand and supply
 - Continue to raise the international profile of Scottish risk capital and investment opportunities to further cement Scotland's position as a key destination for international investment
 - Implement Scotland's Manufacturing Action Plan to boost productivity and grow Scotland's manufacturing base
 - Invest further in air route development, working closely with our partners in Transport Scotland and VisitScotland to make connections to key growth markets
 - Support low carbon opportunities through Scotland's Energy Efficiency Programme, the Low Carbon Transition Programme and the Renewable Energy Investment Fund
- **Inclusive Growth:** to help build workplaces, workforces and places that help businesses and sectors be fairer and more creative in their growth and development, including:
 - Launching a new Workplace Innovation Service to help companies implement progressive workplace practices that will improve business performance
 - Support companies and sectors we engage with to boost productivity through fair work practices by raising awareness of the Scottish Business Pledge and Fair Work Convention's Framework
 - Through Scotland's CAN DO framework, support more individuals and businesses from under-represented groups to grow companies of scale
 - Deepen relationships with Community Planning Partnerships to increase the economic impact of partnership activity delivered at a local level
 - As part of our overall approach to equality, engage companies and sectors to create a more diverse workforce as a route to increasing productivity and performance
 - Support local communities to take control of their own energy through the Renewable Energy Investment Fund and the Local Energy Challenge Fund
 - Work with and support our partners to develop and deliver city and regional growth deals in Glasgow, Aberdeen, Edinburgh, Tayside, Stirling, Ayrshire and the South of Scotland

In taking our plan forward, we will work in close collaboration with partners, including local authority partners, to bring new investment, jobs and greater growth opportunities to their areas.

We continue to actively monitor the progress of our entire range of activities, reviewing the outputs and focusing in particular on the outcomes we achieve and the impact this has on the wider economy. This includes monitoring the contribution our activities make to the high level targets in [Scotland's Economic Strategy](#), as set out in the [National Performance Framework](#).

KEY ISSUES AND RISKS AFFECTING SCOTTISH ENTERPRISE

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

- Growth rates in global economies and the consequent effect on Scottish Enterprise's ability to deliver against priorities
- Scottish Enterprise's ability to attract and retain a highly motivated workforce in order to deliver its ambitious plans
- The effect on budgets of Government Reviews of Spending

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

PERFORMANCE REPORT (continued)

PERFORMANCE ANALYSIS

PERFORMANCE MEASURES (DESCRIPTION)

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

- Transform Scotland's innovation performance
- Increase investment in Scotland's growth companies and business infrastructure
- Increase the impact of Scotland's presence and visibility in overseas markets
- Develop the skills of our people and talent

RESULTS AGAINST KEY PERFORMANCE INDICATORS

Key

Milestone Progress

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

Target Range Results

- ▲ 'Exceeded'
- ◀▶ 'Achieved'
- ▼ 'Not achieved'

BUSINESS PLAN MILESTONES

Start implementing key actions from the Energy Jobs Taskforce, to support the growth of Scotland's Oil and Gas sector.	★	The taskforce has engaged with a significant number of individuals and companies over the year. Specific activities delivered through Scottish Enterprise have included a series of resilience events, masterclasses, leadership programmes and productivity workshops all aimed at building resilience and innovative solutions to address the challenges facing the sector and their supply chain.
Agree with our partners our contribution to Local Outcome Improvement Plans to be delivered through the Community Planning Partnerships , strengthening links between national and local economic development strategies.	●	While this specific milestone was not achieved in 2015/16 we continue to strengthen our engagement with Local Authority partners on local economic development activity. During 2016/17 Scottish Enterprise will respond to the community planning guidance consultation, including local outcome improvement plans. We will continue to work collaboratively with community planning partners to support the local outcomes for which they are responsible and helping to link this with our focus on issues at the national and international level.
Establish a revised approach to tackling Inequality , linked to sustainable economic growth and how we measure success.	●	The evidence and intelligence gathered over the last year has helped to build an understanding across the organisation of Scottish Enterprise's role and approach to inequality and inclusive growth. This has informed the development of a phased approach to embed inclusive growth across Scottish Enterprise. This improved understanding is also helping to inform our thinking around a clear measure of success which will form part of our measurement framework in 2016/17.

PERFORMANCE REPORT (continued)

<p>Implement Scottish Enterprise's enhanced approach to support companies develop Invest in Youth policies</p>	<p>★</p>	<p>Successfully implemented, through Regional Selective Assistance, an approach to support companies develop their commitment to young people as a key part of their workforce. Support is offered through specialists to help companies develop an Invest in Youth policy that targets recruitment, training, work experience and connections to local schools and colleges. Since the approach came into place at the start of 2015/16, all applicants have taken advantage of this support.</p>
<p>Support the new Scottish Business Pledge to foster progressive business practice in Scotland.</p>	<p>★</p>	<p>Almost half of the Scottish Business Pledge signatories are account managed companies (March 2016). Work to promote the business benefits of the Scottish Business Pledge will continue during 2016/17. Case studies have been developed during the year to support this promotion.</p>
<p>Launch an ambitious Manufacturing Action Plan, developed with industry to help re-industrialise Scotland's economy.</p>	<p>★</p>	<p>Launched in February 2016, the Manufacturing Action Plan is a multi-agency and industry initiative to deliver a re-invigorated manufacturing sector in Scotland that is globally competitive. Scottish Enterprise's involvement in further developing and implementing areas of action is multi-dimensional with activities closely linked to the work of our sector teams, Scottish Investment Bank (SIB), account management, Scottish Manufacturing Advisory Service (SMAS) and sector delivery.</p>
<p>Produce a plan for specific sectors and markets to increase the number of inward investors that are new to Scotland.</p>	<p>★</p>	<p>Development and early implementation of the Inward Investment Improvement Plan focuses on activities to generate new investor opportunities and greater utilisation of networks through a targeted approach based on key strengths, niche capabilities and assets.</p>
<p>Launch an action plan to attract more international capital to Scotland, increasing the number of international investors active in Scotland.</p>	<p>★</p>	<p>The Attracting International Investment (All) project was developed and piloted during the year, with the approach now working across Scottish Enterprise. The project is aimed at attracting more international capital to Scotland, increasing the number of international investors active in Scotland and offers practical support to help companies prepare investor propositions.</p>
<p>Working with industry partners, develop and implement actions to address the issue of low productivity in key sectors, including Food & Drink, Tourism and Construction.</p>	<p>●</p>	<p>Scottish Enterprise has been working with the respective Industry Leadership Groups to develop approaches to tackle low productivity in these sectors with productivity plans at advanced stages of development and due for launch in 2016/17.</p>
<p>Help deliver new digital services to support exporting and innovation.</p>	<p>★</p>	<p>New digital services launched as part of Scottish Enterprise's digital first approach include a new online export diagnostic tool to help companies understand how 'export ready' they are.</p>

PERFORMANCE REPORT (continued)

<p>Working in partnership with Scottish Government and Highlands and Islands Enterprise, create a dedicated Scottish service working directly with small and medium enterprises and the financial markets to build and grow levels of high growth businesses.</p>	★	<p>During the year, Scottish Enterprise has worked closely with Scottish Government and other partners to develop the Scottish Business Development Bank concluding with the decision to expand SIB's remit under the Scottish Business Development Bank's agenda. In response, Scottish Enterprise has developed an initial implementation plan which sets out how we will progress actions under three main themes of:</p> <ul style="list-style-type: none"> • increasing advice and support to companies to stimulate more viable demand for finance from small and medium enterprises • improving capital provision by other funders into the market • responding to evidence of gaps in the supply of capital to support growth companies <p>SIB continues to work with the rest of the business on resourcing and establishing a programme team to move the implementation plan into action.</p>
<p>Help establish the first Innovation and Investment Hub to secure international sources of funding and collaboration for Scottish companies.</p>	★	<p>First innovation and investment hub opened in Dublin in January 2016, with Hubs in Brussels and London due to open during 2016/17.</p>

MEASURES

INNOVATION			
<ul style="list-style-type: none"> • Strong performance on 'Innovation Active' firms represents a significant element of our Innovation Strategy and an important contribution to addressing the requirement for improving Scotland's innovation performance • Operational changes to encourage companies to implement large R&D projects has had a positive impact on the target for planned additional R&D investment • Significant contribution to the CO₂ savings target from projects supported through the Renewable Energy Investment Fund (REIF) 			
2014/15	Measure Description	Result	2015/16
-	800-1000 supported businesses becoming innovation active	▲	1,101
£149m	£150m - £200m of planned additional R&D investment through Scottish Enterprise assisted projects	◀▶	£192m
£658m	£200m - £250m of planned additional turnover from innovation by supported companies	▲	£488m
£107m	£90m - £110m of planned efficiency improvements by supported companies	▲	£113m
-	160,000t – 200,000t of planned CO ₂ savings arising from Scottish Enterprise company support and large scale, innovation led projects	▲	200,796t

PERFORMANCE REPORT (continued)

INTERNATIONALISATION			
<ul style="list-style-type: none"> The increase in the number of companies projecting significant export growth has been sustained, supported by our High Growth Markets team This includes targeted support to help Scottish companies access opportunities in high-growth markets such as China, the Middle East and India 			
2014/15	Measure Description	Result	2015/16
-	200 – 250 assisted companies becoming new or active exporters	▼	141
-	200 – 275 companies projecting significant export growth	▲	340

INVESTMENT			
<ul style="list-style-type: none"> Significant private investment leveraged through the Scottish Investment Bank The increased target to increase activity relating to Financial Readiness has been achieved both in terms of the number of companies assisted and the role this service will play in the planned Scottish Business Development Bank Despite changes in eligibility rules the amount of planned capital investment has remained on target 			
2014/15	Measure Description	Result	2015/16
£99m	£75m - £95m of leveraged private investment from the provision of growth finance via the Scottish Investment Bank	▲	£277m
410	400 – 500 businesses with growth and export potential supported to improve financial readiness...	◀▶	418
-	...of which 75 – 100 supported specifically to secure growth funding	◀▶	85
£409m	£150m - £200m of planned capital investment by supported companies	◀▶	£156m

INCLUSIVE GROWTH			
<ul style="list-style-type: none"> Despite a challenging year our inward investment outcomes have been maintained, with targets met for both the number of planned jobs and the number of High Value-Added (HVA) planned jobs The increased target on leadership development has been successfully achieved reflecting the importance of this issues to our Inclusive Growth agenda Significant increase in entrepreneurial activity through the introduction of the <i>Start Global</i> and the <i>CAN DO Scale</i> programmes to increase the number of entrepreneurs in Scotland with a global mindset – including among under represented groups 			
2014/15	Measure Description	Result	2015/16
9,659	7,000 – 9,000 planned jobs through attraction of inward investment...	◀▶	7,090
3,192	...of which 2,000 – 2,500 are HVA planned jobs	◀▶	2,211
-	600 – 650 companies developing their leadership through SE support	▲	686
-	130 – 180 entrepreneurs increasing their capacity to create internationally competitive early stage ventures	▲	231

FINANCIAL PERFORMANCE

Financial Overview

The results for the year ended 31 March 2016 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.

PERFORMANCE REPORT (continued)

The Resource Budget is intended to cover capital and revenue expenditure (on an accruals basis) net of in-year income from sources such as European Union funding and from the use or disposal of Scottish Enterprise's property and investment assets and 'non-cash' costs, including depreciation. A further budget allocation for Annually Managed Expenditure is made by the Scottish Government to cover volatile costs such as provisions and write downs which by their nature are not necessarily capable of being controlled to the same extent as items charged to the Resource Budget.

The approved Resource Budget for 2015/16, after in year adjustments, amounted to £242.503m, comprising a grant in aid provision of £216.980m, a non-cash allocation of £25.523m. During the year Scottish Enterprise was also allocated £20.500m to cover costs designated as Annually Managed Expenditure. Details of Scottish Enterprise's financial outturn against the budget allocated by the Scottish Government for 2015/16 are included within the Parliamentary and Audit Report section of the Accountability Report.

The Resource Budget for 2016/17 amounts to £237.780m, including £212.627m of grant in aid and a ring fenced non-cash budget provision of £25.153m. As noted previously, the Resource Budget is supplemented by income generated and applied against expenditure incurred during the year. In addition, further transfers of budget from the Scottish Government are anticipated through the normal operation of the Scottish Government's Budget revision process.

FINANCIAL POSITION

Scottish Enterprise's Group Statement of Financial Position reflects a further increase in net asset values to £597.9m (2015: £548.5m).

Scottish Enterprise has continued to invest in its land and property however due to valuation changes the total value of the land and property assets within Property, Plant and Equipment and Assets held for sale has decreased to £186.9m (2015: £189.2m).

After accounting for new investments, sales and loan repayments and revaluation adjustments, the value of equity investments and loans to companies has increased to £255.2m (2015: £229.6m). The significant uplift in value is a reflection of on-going commitment to investment in Scottish companies.

The surplus of assets over scheme obligations in the Scottish Enterprise Pension and Life Assurance Scheme has increased to £71.8m (2015: £47.5m). The scheme assets have grown by £2.6m, but scheme liabilities have decreased by £21.7m primarily as a consequence of market conditions affecting the discount rate used to calculate future obligations offset partially by assumptions about future mortality rates. Assumptions about long term inflation rates and salary growth are unchanged.

Cash balances have increased to £106.4m (2015: £97.8m). A significant proportion of cash held is to fund future investments by the Scottish Co-investment Fund and Scottish Loan Fund.

Trade and other receivables (within one year) have decreased to £16.8m (2015: £21.4m) which is a consequence of the timing of the receipt of grant funding from the Scottish Government towards the Renewable Energy Investment Fund and a reduction of the level of European funding receivable to support expenditure on Scottish Enterprise's programmes and projects.

Payment Policy

Scottish Enterprise has a stated service commitment to pay its suppliers within 30 days of receipt of agreed and valid invoices, or as provided for under the terms of an agreed contract. However, as advised by the Scottish Government in November 2008, Scottish Enterprise implemented a revised payment policy of 10 working days for all suppliers. In the year ended 31 March 2016, Scottish Enterprise paid 78% (2015: 81%) of suppliers' invoices within the revised standard. The average number of days taken to pay valid invoices during the year was 8.6 days (2015: 7.6 days).

Lena C Wilson
Accountable Officer
21 July 2016

ACCOUNTABILITY REPORT

for the year ended 31 March 2016

CORPORATE GOVERNANCE REPORT

DIRECTORS' REPORT

The Board

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

The Board 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; an Investment Committee which examines the progress of major initiatives; an Economic Policy Committee which monitors Scottish economic performance; a Remuneration Committee, the work of which is considered in the Remuneration Report; a Nominations and Governance Committee, which reviews the organisation's governance structure and leadership and an Urgent Approvals Committee.

The Board Members who held office during the year, and their respective committee memberships, were as follows:

		Audit	Investment	Economic Policy	Remuneration	Nominations / Governance	Urgent Approvals
Bob Keiller	Chairman, appointed 1 January 2016					C	C
Crawford Gillies	Former Chairman, retired 31 December 2015					C	C
Lena Wilson	Chief Executive			M		M	M
Melfort Campbell		M			M	M	
Anne Glover				M			
Russel Griggs	retired 31 December 2015			M			
Willie Mackie (i)	appointed 1 January 2016	C			M	M	M
Alison McGregor		M					
Iain McLaren	retired 31 December 2015	C			M	M	M
Gavin Nicol			M				
Jeremy Peat			M	C			M
Grahame Smith		M		M			
Carmel Teusner (i)	appointed 1 January 2016			M			
Linda Urquhart			C		C	M	M
Gillian Watson			M		M	M	

C – Chair
M – Member

(i) Willie Mackie and Carmel Teusner took up their respective appointments to the board committees on 1 March 2016.

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
Adrian Gillespie	Managing Director, Operations
Linda Hanna	Managing Director, Strategy and Sectors
Paul Lewis	Managing Director, International Operations
Jane Martin	Managing Director, Customer Operations
Anne MacColl (i)	Managing Director Operations - Scottish Development International
Iain Scott	Chief Financial Officer
Carolyn Stewart	Managing Director, People

(i) Anne MacColl left the Executive Leadership Team on 13 April 2015. Executive Leadership Team responsibilities were re-ordered and consequently Anne MacColl was not replaced on the Executive Leadership Team.

ACCOUNTABILITY REPORT (continued)

Register of Board Members' Interests

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

Data Loss

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

Estate Management

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

Sustainability

Scottish Enterprise strives to ensure that sustainability issues are addressed both in its own operations, and with the businesses it works with. An Annual Sustainability Report is published on SE.com, detailing our sustainability targets and performance. Scottish Enterprise expects to meet its carbon reduction target of 42% by 2020 (baseline year 2009/10).

STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

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

In preparing the accounts, Scottish Enterprise is required to:

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

The Principal Accountable Officer for The Scottish Administration has designated the Chief Executive of Scottish Enterprise as its Accountable Officer. 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 Framework Agreement and in the Memorandum to Accountable Officers of Other Public Bodies published by the Scottish Government.

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

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

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

GOVERNANCE STATEMENT

Introduction

As Accountable Officer, I have responsibility for maintaining a Governance Framework which supports the achievement of the Scottish Enterprise Group's policies, aims and objectives, set by Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

ACCOUNTABILITY REPORT (continued)

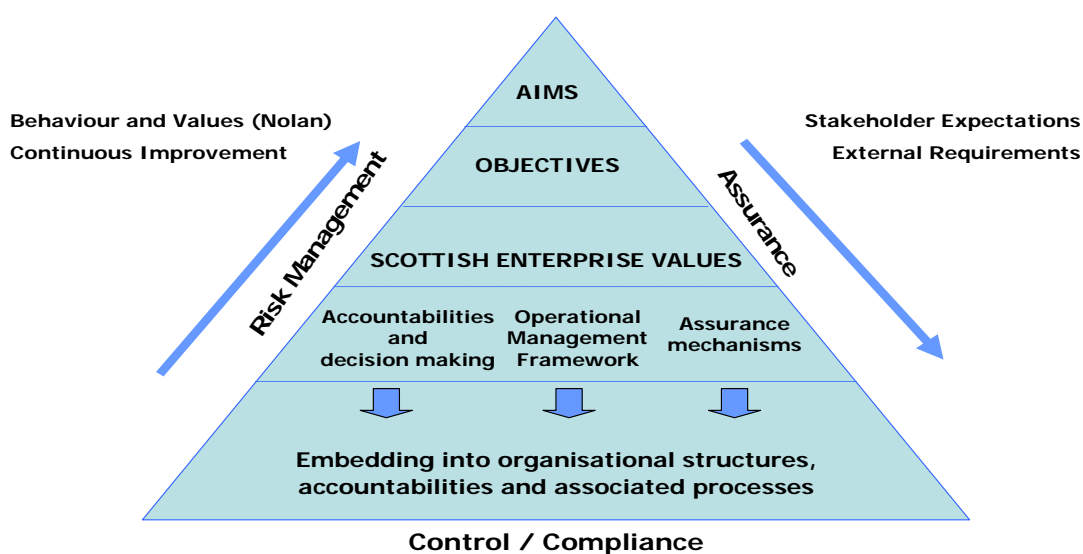
As Accountable Officer I have specific responsibility in relation to:

- Best Value, including the concepts of corporate governance and continuous improvement;
- Planning, performance management and monitoring;
- Advising the Board;
- Managing risk and resources; and
- Accounting for Scottish Enterprise's activities.

Based on my own review and independent assurances received, it is my view that Scottish Enterprise has in place effective governance arrangements which are working well.

Scottish Enterprise Governance Framework

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



Aims and Objectives

Scottish Enterprise operates within the parameters of the Enterprise and New Towns (Scotland) Act 1990, which defines our purpose, and Scotland's Economic Strategy which sets out our strategic priorities. Each year, Scottish Enterprise publishes a 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. The importance of how Scottish Enterprise achieves its goals is recognised within the 'i-review' staff performance system through the introduction of four sets of behaviours, which are based on emotional and social intelligence – self awareness, self management, social awareness and relationship management - against which staff's performance is measured.

Accountabilities and Decision Making

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

ACCOUNTABILITY REPORT (continued)

Scottish Enterprise Board and sub-Committees

The Scottish Enterprise Board is directly accountable to Scottish Ministers and through them to the Scottish Parliament. The Board Members are appointed by the Scottish Ministers from a variety of backgrounds on the basis of their knowledge and experience gained in both the public and private sectors in industry, commerce and academic fields. The appointment is made in line with the Code of Practice issued by the Commissioner for Public Appointments in Scotland.

The Scottish Enterprise Board has established clear terms of reference and operating practices for itself and its sub-Committees. The Board meets monthly and its Committee's structure and terms of reference are regularly reviewed. The Board formally assesses its performance, including an assessment of its own effectiveness, on an annual basis. This includes consideration of members' attendance during the year.

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

As at 31 March 2016, the Board of Scottish Enterprise comprised the Chairman, 10 non-executive members and myself, as Chief Executive. The Board met in full 10 times in the year. The Board is responsible for the overall direction of the organisation within the strategic and funding framework set by Scottish Ministers. It has general corporate responsibility for:

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

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

		Eligible to attend	Attendance
Bob Keiller	Chairman	3	3
Crawford Gillies	Former Chairman	7	7
Lena Wilson	Chief Executive	10	10
Melfort Campbell		10	10
Anne Glover		10	8
Russel Griggs	Retired 31 December 2015	7	6
Willie Mackie	Appointed 1 January 2016	2	1
Alison McGregor		10	10
Iain McLaren	Retired 31 December 2015	7	3
Gavin Nicol		10	9
Jeremy Peat		10	10
Grahame Smith		10	9
Carmel Teusner	Appointed 1 January 2016	2	2
Linda Urquhart		10	8
Gillian Watson		10	8

The Board is supported by six sub-Committees: Audit, Investment, Economic Policy, Remuneration, Nominations & Governance and Urgent Approvals. Following the retirement of three non-executive Board members, including the Chairman at the end of 2015 and the appointment of three new non-executive Board members with effect from 1 January 2016 the membership of the six sub-committees has subsequently been reviewed. The purpose and membership of each committee for the year to 31 March 2016 is summarised below.

Audit Committee

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

ACCOUNTABILITY REPORT (continued)

The Committee is appointed by the Scottish Enterprise Board from amongst the non-executive directors and consists of not less than 3 members. At least one member of the Committee shall have recent and relevant financial experience. All new members undertake formal induction covering the role of the Audit Committee, overview of the organisation's key risks and audit issues. Members also receive appropriate training in relation to their role as a member of the Audit Committee. The Audit Committee meets at least 4 times a year.

Investment Committee

The Investment Committee's key purpose is to support operational performance and provide a strategic overview of the key investment decisions made by the Scottish Enterprise Board. The Committee advises the Board and supports the Executive Leadership Team to help Scottish Enterprise develop and implement better, more strategic projects and groups of projects (portfolios) with a higher impact on the economy. It takes a medium term (3-5 year) overview of the key investment decisions made by the Scottish Enterprise Board which have the most significant impact on Scottish Enterprise's strategy.

The Committee is appointed by the Scottish Enterprise Board from amongst the non-executive directors and consists of not less than 3 members. This includes the Chair of the Economic Policy Committee, reflecting the strong connection between the two Committees. The Investment Committee meets at least quarterly.

Economic Policy Committee

The purpose of this Committee is to produce a set of measures that track the performance of the private sector in the Scottish economy and demonstrate the impact of Scottish Enterprise as it seeks to meet the aspirations of Scotland's Economic Strategy.

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

Remuneration Committee

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

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

Nominations and Governance Committee

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

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

Urgent Approvals Committee

An Urgent Approvals Sub-Committee is established to grant urgent Board approvals between Board Meetings. The project paper and the terms of the approval are circulated for the Board's information at the next Board Meeting.

ACCOUNTABILITY REPORT (continued)

Sub Committee Membership and Attendance Record

Due to the retirement of three board members during the year they were not eligible to attend all sub-committee meeting held during 2015/16. The format of attendance records below shows the number of meetings attended and the number of meetings the board member was eligible to attend.

	Audit	Investment	Economic Policy	Remuneration	Nominations / Governance	Urgent Approvals
Bob Keiller, Chairman						1/2
Crawford Gillies, Former Chairman					2/2	2/2
Lena Wilson						4/4
Melfort Campbell	3/4			2/2	2/2	
Anne Glover			3/5			
Russel Griggs			3/3			
Willie Mackie	1/1					1/1
Alison McGregor	2/4					
Iain McLaren	3/3			0/2	0/2	0/2
Gavin Nicol		3/5				
Jeremy Peat		5/5	5/5			3/4
Grahame Smith	2/4		3/5			
Carmel Teusner			1/1			
Linda Urquhart		5/5		2/2	2/2	1/4
Gillian Watson		2/5		1/2	2/2	

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 take a leading role.

Resource Management

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

Performance Management

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

ACCOUNTABILITY REPORT (continued)

Budgetary Control

Budgets are approved on an annual basis as part of the Business Planning process. Scottish Enterprise has four main operational budget headings and two further budget headings for support services which are aligned with the Business Plan. These headings are further analysed into business areas where there is clear accountability for the budget. The Executive Leadership Team and the Scottish Enterprise Board receives monthly reports on expenditure against budget together with an explanation for significant variances and the proposed corrective action.

Human Resources

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

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 Executive Leadership Team on a regular basis, including consideration of progress on agreed actions to manage the risks.

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

The Scottish Enterprise Board is made aware of and regularly reviews the key risks for the organisation. The Scottish Enterprise 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 receives reports on a six monthly basis, and may also consider risk management on a more frequent basis if either the Chairman of the Audit Committee or the Executive Leadership Team 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 Executive Leadership Team members and the major trading subsidiaries are required to sign a Certificate of Assurance for their areas of responsibility and accountability. In order to assist with this sign-off they will review their internal control arrangements supported by the completion of an Internal Control Checklist. During the year, in order to enhance assurances further in relation to information technology and related processes, an independent ISAE 3402 compliance audit of our outsourced ICT Managed Services provision was completed. An unqualified report covering the year to 31 March 2016 was issued. During the year there were no significant lapses of data security.

I have confirmed for 2015/16 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.

ACCOUNTABILITY REPORT (continued)

For 2015/16 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 Executive Leadership Team and Audit Committee. This included issues for attention in relation to disaster recovery and in particular the lack of disaster recovery testing undertaken or planned since the transfer of IT systems to new suppliers. All issues are being addressed through an action plan and disaster recovery testing is now currently being developed with the new suppliers.

External Audit

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

The external auditors have given unqualified audit opinions on the accounts for the year ended 31 March 2016 and on the regularity of transactions reflected in the accounts. No further significant issues have been identified as part of their audit process.

REMUNERATION REPORT

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 2016.

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.

Crawford Gillies's term of appointment as Chairman which had been due to end on 30 June 2015 was extended for a further 6 months to 31 December 2015. Bob Keiller was subsequently appointed as Chairman with effect from 1 January 2016 for a period of 3 years to 31 December 2018. The Scottish Government sets the level of remuneration for the 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 takes into account additional responsibility arising from holding the chairmanship positions on the board committees. Board members are eligible to receive a travel allowance to attend meetings, which is taxable.

Remuneration is set by the Scottish Government and is reviewed annually. 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 2015/16 there was no bonus scheme operated in Scottish Enterprise.

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

Remuneration Committee

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

ACCOUNTABILITY REPORT (continued)

The members of the Remuneration Committee who served during the year to 31 March 2016 were:-

Linda Urquhart (Chair)
Melfort Campbell
Willie Mackie
Iain McLaren
Gillian Watson

With effect from 1 May 2015, Linda Urquhart assumed the Chair of the Remuneration Committee and Melfort Campbell and Gillian Watson became members of the committee.

On 31 December 2015 Iain McLaren retired from the board of Scottish Enterprise and left the committee.

Willie Mackie became a member of the committee on 1 March 2016.

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.

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

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

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

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

Executive Leadership Team members are all members of the Scottish Enterprise Pension & Life Assurance Scheme. As ordinary members, they contribute 6% of pensionable salary and during the year Scottish Enterprise contributed 20% of the employees' pensionable salary. This is a defined benefits scheme that provides benefits at a normal retirement age of 60, or 65 for staff members 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.

ACCOUNTABILITY REPORT (continued)

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

Remuneration

Remuneration paid to the Chairmen and other non-executive board members who served during the year to 31 March 2016 was:-

		<i>Fee</i>	<i>Travel</i>	<i>2016</i>	<i>Fee</i>	<i>Travel</i>	<i>2015</i>
		<i>£</i>	<i>Allowance</i>	<i>Total</i>	<i>£</i>	<i>Allowance</i>	<i>Total</i>
			<i>£</i>	<i>Remuneration</i>		<i>£</i>	<i>Remuneration</i>
				<i>£</i>			<i>£</i>
Bob Keiller (a)	Chairman	10,023	-	10,023	-	-	-
Crawford Gillies (b)	Former Chairman	30,069	-	30,069	42,600	-	42,600
Melfort Campbell		12,660	2,065	14,725	12,581	2,065	14,646
Anne Glover		12,660	2,705	15,365	1,048	-	1,048
Russel Griggs (b)		9,495	900	10,395	12,581	1,200	13,781
Willie Mackie (c) (e)		3,798	99	3,897	-	-	-
Alison McGregor (d)		-	-	-	-	-	-
Iain McLaren (b) (e)		11,394	-	11,394	15,098	-	15,098
Gavin Nicol		12,660	-	12,660	1,048	-	1,048
Jeremy Peat (e)		15,192	-	15,192	15,098	-	15,098
Grahame Smith		12,660	-	12,660	12,581	-	12,581
Carmel Teusner (c)		3,165	455	3,620	-	-	-
Linda Urquhart (e)		15,192	-	15,192	15,098	-	15,098
Gillian Watson		12,660	562	13,222	12,581	562	13,143

(a) Bob Keiller was appointed as Chairman on 1 January 2016.

(b) Crawford Gillies, Russel Griggs and Iain McLaren all retired from the Scottish Enterprise Board on 31 December 2015.

(c) Willie Mackie and Carmel Teusner were appointed to the Scottish Enterprise Board on 1 January 2016.

(d) Alison McGregor has waived her entitlement to a board fee. Her fee for 2015/16 would have been £12,660.

(e) Fees include sums payable to reflect the additional time commitment from those members holding the chairmanship positions on the board committees.

ACCOUNTABILITY REPORT (continued)

Remuneration of the Chief Executive, Lena Wilson, and other Executive Leadership Team members who served during the year to 31 March 2016 was:-

	2016					2015				
	Salary £000	Bonus £000	Other £000	Pension benefits(v) £000	Total £000	Salary £000	Bonus £000	Other £000	Pension benefits(v) £000	Total £000
Lena Wilson (i)	212	-	-	64	276	208	-	-	41	249
Adrian Gillespie	115	-	-	34	149	112	-	-	25	137
Linda Hanna	112	-	-	40	152	102	-	-	149	251
Paul Lewis	127	-	-	13	140	130	-	-	2	132
Anne MacColl (ii)	4	-	197	-	201	114	-	-	26	140
Jane Martin	112	-	-	34	146	41	-	-	69	110
Iain Scott	127	-	-	27	154	125	-	-	15	140
Carolyn Stewart	120	-	-	36	156	117	-	-	26	143

- (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 2015/16.
- (ii) Anne MacColl left the Executive Leadership Team on 13 April 2015. A settlement agreement was concluded at a cost of £196,525 under which Anne MacColl left Scottish Enterprise on 17 April 2016.
- (iii) In line with all Scottish Enterprise staff, if they were eligible, Executive Leadership Team members, including the Chief Executive, received a pay increment. Increases varied from 1.0% to 3.02% depending upon the position of the existing salary in the pay band. Due to historical issues, a small number of employees, including Paul Lewis, were previously paid above the top of their salary band. During 2015/16 these issues were addressed and all salaries now fall within our salary bands.
- (iv) The value of pension benefits accrued during the year is calculated as the real increase in pensions and applying the HMRC methodology multiplier of 20 plus the real increase in any lump sum. The real increases exclude increases due to inflation and are net of contributions made by the individual. In the event that the calculation of the pension benefit results in a negative value the result is expressed as zero, represented by a dash in the table above.

ACCOUNTABILITY REPORT (continued)

(v) Retirement benefits of the Executive Leadership Team members for the year to 31 March 2016 are as follows:-

	<i>Accrued Pension at age 60 as at 31 March 2016 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 2016 £000</i>	<i>At 31 March 2015 £000</i>	<i>Increase (Decrease) net of members' contributions £000</i>
Lena Wilson	70 – 75 plus lump sum of 210 - 225	2.5 – 5.0 plus lump sum of 10.0 – 12.5	1,913	1,830	70
Adrian Gillespie	20 – 25 plus lump sum of 60 - 75	0 – 2.5 plus lump sum of 5.0 – 7.5	498	481	10
Linda Hanna	35 – 40 plus lump sum of 105 - 120	0 – 2.5 plus lump sum of 5.0 – 7.5	905	864	35
Paul Lewis	45 - 50 plus lump sum of 135 - 150	0 – 2.5 plus lump sum of 2.5 – 5.0	1,289	1,299	(18)
Anne MacColl (b)	10 - 15 plus lump sum of 30 - 45	0 – 2.5 plus lump sum of 0 – 2.5	374	379	(5)
Jane Martin	20 - 25 plus lump sum of 60 - 75	0 – 2.5 plus lump sum of 5.0 – 7.5	495	466	22
Iain Scott	35 - 40 plus lump sum of 105 - 120	0 – 2.5 plus lump sum of 2.5 – 5.0	1,083	1,074	2
Carolyn Stewart	30 - 35 plus lump sum of 90 - 105	0 – 2.5 plus lump sum of 5.0 – 7.5	742	712	23

(a) The cash equivalent transfer value is the actuarially assessed value of the retirement scheme benefits accrued by a member at a point in time. The benefits valued are the member's accrued benefits and include benefits related to service transferred in from previous employment. It represents a payment which would be made by a retirement benefit scheme to secure benefits in another scheme or arrangement should a member leave the scheme and choose to transfer the benefits they have accrued in this and any former scheme.

Annual changes in the cash equivalent transfer value are determined by market conditions. The increase in cash equivalent transfer values is attributable to the routine application of factors which impact on the calculation of retirement benefits, including the reduction in long term interest rates which in turn increases the cost of securing the benefits accrued by scheme members over their total period of service and effect of the passage of time in terms of both additional service and on the time available to generate investment returns prior to retirement. The exceptionally low level of current long term interest rates cause the cash equivalent transfer values to be unusually high and these would reduce substantially if interest rates were to return to historic levels.

(b) Anne MacColl left the Executive Leadership Team on 13 April 2015.

ACCOUNTABILITY REPORT (continued)

Fair Pay Disclosure

The relationship between the remuneration of the highest paid member of the Executive Leadership Team and the median remuneration of the employees of Scottish Enterprise is as follows:-.

	2016 £	2015 £
Annualised remuneration before pension benefits of the highest paid member of the Executive Leadership Team	212,181	207,593
Median remuneration of Scottish Enterprise's employees	39,546	38,567
Remuneration ratio	<u>5.4</u>	<u>5.4</u>

The median remuneration of Scottish Enterprise's employees is based upon the annualised full-time equivalent salary of the employees at 31 March 2016.

Including severance payments, 1 employee (2015: no employees) received remuneration in excess of the highest paid member of the Executive Leadership Team.

The full time equivalent salaries paid to Scottish Enterprise staff ranged from £15,366 to £212,181 (2015: £12,400 to £207,593).

Scottish Enterprise is proud to be an accredited living wage employer and supports a minimum living wage for all.

STAFF REPORT

Staff Numbers

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

	<i>Permanent staff No.</i>	<i>Others No.</i>	<i>2016 No.</i>	<i>2015 No.</i>
Executive Leadership Team	7	-	7	8
Operations	1,101	-	1,101	1,041
Administration and support function	316	-	316	304
Inward Secondments and temporary staff	-	6	6	14
	<u>1,424</u>	<u>6</u>	<u>1,430</u>	<u>1,367</u>

The costs of employing staff are disclosed in Notes to the Accounts at Note 4 People Costs.

Exit Packages

There were no staff who left or agreed to leave Scottish Enterprise under voluntary severance in the years to 31 March 2016 or 2015. There were 7 (2015: 5) individuals who left Scottish Enterprise or companies within the Scottish Enterprise Group at a cost of £348,274 (2015: £104,004).

<i>Exit package cost band</i>	<i>Compulsory redundancies No.</i>	<i>Other departures agreed No.</i>	<i>Total 2016 No.</i>	<i>Total 2015 No.</i>
< £10,000	-	<5	<5	<5
£10,000 - £25,000	-	<5	<5	<5
£25,000 - £50,000	-	<5	<5	<5
£50,000 - £75,000	-	<5	<5	-
£75,000 - £100,000	-	-	-	-
£100,000 - £150,000	-	-	-	-
£150,000 - £200,000	-	<5	<5	-
	<u>-</u>	<u>7</u>	<u>7</u>	<u>5</u>

The total cost of exit packages in the year to 31 March 2016 amounted to £348,274 (2015: £104,004).

ACCOUNTABILITY REPORT (continued)

Staff Composition

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

	Male	Female	Total
Board (i)	6	6	12
Executive Leadership Team	3	3	6
Other employees	631	850	1,481

(i) Lena Wilson, the Chief Executive Officer, is included as a member of the Board in the table above. She is also a member of the Executive Leadership Team.

Off- payroll engagements

All off-payroll engagements are required to be compliant with SE's procurement policies. These are aligned with the Scottish Procurement and Commercial Directorate's 'Procurement Journey' and all current public procurement legislation. Contracts for contractors working for and on behalf of Scottish Enterprise subject to a check utilising the HMRC Employment Status Indicator tool to ensure Scottish Enterprise could not incur any future tax or National Insurance liabilities from contractors claiming employment rights.

Sickness Absence

The absence record for Scottish Enterprise employees for the year to end March 2016 was 7,592 (2015: 7,377) sick days out of a possible 245,601 (2015: 236,862) working days representing a lost time through sickness absence of 3.09% (2015: 3.11%).

Consultancy Expenditure

All consultancy expenditure over £100,000 in value is approved by the Chief Executive Officer in accordance with Scottish Enterprise's Framework Agreement with Scottish Government. Consultancy spend is also subject to 6 monthly reports to the Executive Leadership Team. Expenditure incurred on consultancy for the year to 31 March 2016 was £1.784m.

Staff Policies

During 2015/16 we have continued our focus on an inclusive employee engagement programme designed to engender high levels of workplace engagement as a means to drive continuous improvement and greater productivity in our organisational performance. We recognise that highly engaged organisations perform better, are more innovative and have lower levels of absenteeism, making employee engagement critical in Scottish Enterprise's drive to create a world-class business environment for Scotland. Following our latest employee engagement survey with a 76% response rate, we were reaccredited as a "Best Companies" "Ones to Watch" organisation in 2016 and for the first time entered the Sunday Times top 100 lists.

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

We have co-operative working relationships with our recognised trade unions and ensure they are engaged in business changes through working groups such as the Terms and Conditions Sub Group and our Joint Committee for Negotiation and Consultation (JCNC).

As an organisation, we develop and deliver programmes and services to ensure that we attract, develop, engage and retain talented people, in order to deliver our business plan for Scotland. As an accredited Investors in People (IIP) Gold and Investors in Young People (IYYP) employer, attracting a diverse workforce includes a focus on youth employment through our structured programmes for modern apprenticeships, enterprise apprenticeships, undergraduates and graduates. We also develop talent through a comprehensive range of learning and development opportunities, including career planning support, an SE Academy, people manager development, resonance training for all staff, and a structured talent programme. In addition, we manage employee and industrial relations policies and issues, and also coordinate workforce planning by aligning headcount and skills requirements with the future business plan.

ACCOUNTABILITY REPORT (continued)

At Scottish Enterprise, we value and recognise individuals' contributions regardless of age, disability, ethnic origin, sex, marital and civil partnership status, religion/belief, sexual orientation, pregnancy/maternity or gender re-assignment and embrace a culture based on fair treatment. To reinforce the awareness of these programmes and related policies such as Dignity at Work and Diversity, we require all of our people to review and acknowledge changes online. From job content, recruitment, employment and development our policies and practices ensure that we promote equality and fairness to all individuals. We hold "Scottish Living Wage" and "Two Tick" standards for our employment practices and are recognised as an employer for supporting diversity, including Stonewall membership. We regularly review our equal opportunity data, including running focus groups, with external Equality organisations, and identify actions which will help drive improvements.

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

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

We believe that diversity benefits every colleague and business in the country and we ensure that our activities will be provided to individuals regardless of their age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

Scottish Enterprise's recruitment procedure ensures that selection processes are fair, open and objective. More than one person will always interview and interviewers will have an opportunity to access recruitment and selection training. Monitoring is used to highlight if we have a particular group under represented and activities are actively undertaken to encourage applications from that group. All appointments are made on merit and selection criteria only include requirements that are relevant to the effective performance of the role.

Our wish is to see business and industry embracing equality and realising the business benefits that this can bring. We have also been pro-active in developing our approach on human rights with companies trading or locating overseas. Our equality impact assessments now review human rights as part of the methodology applied and we have carried out assessments on a number of projects and HR policies. Scottish Enterprise also now serves on a working group for international business as part of the Human Rights Scottish National Action Plan (SNAP) development.

We are committed to complying with the Equality Act 2010 and an internal audit was carried out which confirmed that we are adhering to the requirements of the legislation through giving due regard to eliminating discrimination, advancing equality of opportunity and fostering good relations between different groups. A few minor recommendations were made from the audit and all necessary actions have been completed.

In addition we comply with the Equality Act 2010 (Specific Duties) (Scotland) Regulations 2012 and we have published our latest equality report in line with legislative requirements. This outlines our activity to date, presents progress with our outcomes, details work on procurement and provides workforce data including our gender pay gap and statement on equal pay. The report also outlines our mainstreaming work including on-going senior management commitment, continued upward trend for participation of young people and women in our programmes such as Young Edge, Smart Exporter and Venturefest and an improving workforce profile.

Corporate Social Responsibility

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

We have a strong employee supported volunteering programme. Our volunteering policy reflects our commitment to an active role in the communities in which we live and work and the environment as well as the development of our people. This year we again supported National Volunteers' Week in June and provided opportunities across the country so that our colleagues throughout Scotland had a chance to volunteer for a good cause near their own home base. Our volunteering policy allows colleagues to use up to 21 hours paid volunteering leave per year and in 2015 colleagues volunteering totalled over 1,400 hours.

We seek out opportunities with charity partners and colleagues bring forward their own good causes for support. Through payroll giving, our people manage and entirely support our staff charity fund which makes annual donations totalling over £13,000 to a range of charities and good causes nominated by colleagues across the world.

PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

Summary of Resource and Capital Outturn

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

ACCOUNTABILITY REPORT (continued)

Scottish Enterprise's net under-spend of £12.040m against its funding provision for the year to 31 March 2016 includes an under-spend of £9.600m which was agreed with the Scottish Government as part of the Scottish Government's budget management process for the 2015/16 financial year and is detailed as follows:

	<i>£000</i>	<i>£000</i>
Operational Delivery Costs		
Internationalisation	23,546	
Innovation	33,245	
Investment	114,582	
Inclusive Growth	17,477	
Cross cutting activities	<u>16,030</u>	
		204,880
Running the Business		
Staff costs, including customer facing staff	63,770	
Corporate services, domestic premises and facilities management costs	<u>29,786</u>	
		<u>93,556</u>
		298,436
		<u>93,496</u>
		<u>204,940</u>
Less: Income		
		<u>204,940</u>
Funded by		
Grant-in Aid allocation		<u>216,980</u>
Net under-spend:		<u><u>(12,040)</u></u>

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

	<i>Outturn £000</i>	<i>Allocation £000</i>
Resource budget (see below)	144,678	162,280
Capital budget	<u>60,262</u>	<u>54,700</u>
	204,940	216,980
Non –cash costs including depreciation	<u>6,537</u>	<u>25,523</u>
Total resource budget	<u><u>211,477</u></u>	<u><u>242,503</u></u>
Annually managed expenditure	<u><u>9,121</u></u>	<u><u>20,500</u></u>

While the net outturn against the individual resource and capital elements of the budget allocation represents both an under and over spend result the outturn reflects an agreed position with the Scottish Government in order to support the overall Scottish Government budget management position for 2015/16.

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

	<i>£000</i>
Net expenditure before taxation	193,337
Attributable to non-controlling interests in subsidiaries	(155)
Depreciation charge allocated to non cash costs	(6,537)
Asset revaluation adjustments charged to annually managed expenditure	(2,299)
Investment impairments charged to annually managed expenditure	(6,803)
Net pension costs attributed to annually managed expenditure	362
Provisions charged to annually managed expenditure	(380)
Taxation	691
Scottish Government Grant income credited to reserves	(2,347)
Net expenditure attributed to the capital budget	<u>(31,191)</u>
Resource budget	<u><u>144,678</u></u>

ACCOUNTABILITY REPORT (continued)**Losses and Special Payments**

	<i>No. of cases</i>	<i>£000</i>
Claims abandoned or waived	<u>117</u>	<u>19,585</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 2016, balances in excess of £250,000 written off were as follows:-

			<i>2016 £000</i>
Aquamarine Technology Ltd	Ordinary and Preference Shares and Loans	Company in Administration	15,190
Larosco Ltd	Ordinary and Preference Shares, Loans & RSA Grant	Company in Administration	661
Mathiesons Bakeries Ltd	Ordinary and Preference Shares and Loans	Company Dissolved	679
Rapid Mobile Media Ltd	Ordinary Shares and Loans	Company Dissolved	1,314
Scalar Technologies Ltd	Ordinary Shares	Company Dissolved	291
Steel Engineering Ltd	RSA Grant	Company in Administration	535

Fees and charges

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

Remote contingent liabilities

Contingent liabilities that meet the disclosure requirements in IAS37 Provisions and Contingent Liabilities are included in Note 20 of the Notes to the Accounts. In addition, due to the complex nature of the business activities and extensive portfolio of assets of Scottish Enterprise, there are contingent liabilities for which IAS37 does not require disclosure because the probability of any requirement on Scottish Enterprise to meet any future liabilities is considered to be remote.

Long term expenditure trends

As noted previously Scottish Enterprise receives funding from the Scottish Government to meet expenditure plans. Grant in Aid and other Scottish Government grants awarded over the five years to 31 March 2016 was:-

	2015-16	2014-15	2013-14	2012-13	2011-12
	£000	£000	£000	£000	£000
Grant in Aid	<u>216,463</u>	<u>231,922</u>	<u>248,930</u>	<u>235,391</u>	<u>245,288</u>

Lena C Wilson
Accountable Officer
21 July 2016

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 and its group for the year ended 31 March 2016 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 2015/16 Government Financial Reporting Manual (the 2015/16 FReM).

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

Respective responsibilities of Accountable Officer and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers of the state of the affairs of the body and its group as at 31 March 2016 and of their 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 2015/16 FReM; and
- have been prepared in accordance with the requirements of the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers.

Opinion on regularity

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

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

Opinion on other prescribed matters

In my opinion:

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

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

July 2016

GROUP STATEMENT OF COMPREHENSIVE NET EXPENDITURE

for the year ended 31 March 2016

	Notes	2016 £000	2015 £000
Expenditure			
Operating expenditure	3	153,945	189,349
Net management expenditure on staff costs	3	65,151	60,198
Other management expenditure, incl. depreciation	3	32,311	30,481
		<u>251,407</u>	<u>280,028</u>
Income			
Income from activities	2	(31,487)	(23,585)
Other Income	2	(19,938)	(28,805)
		<u>(51,425)</u>	<u>(52,390)</u>
Net Operating Expenditure		199,982	227,638
Share of losses / (profits) in equity accounted investees	9	17	(11)
Income from investments	2	(215)	(172)
Interest receivable	2	(4,705)	(2,908)
Other finance income	2	(1,742)	(3,640)
Net Expenditure after interest		193,337	220,907
Taxation	6	691	146
Net Expenditure after taxation		<u>194,028</u>	<u>221,053</u>
Other Comprehensive Net Expenditure			
Items that will not be reclassified to net expenditure:			
Net gains on revaluation of property, plant and equipment		(2,856)	(9,220)
Net losses on revaluation of property, plant and equipment held by Equity Accounted Investee		-	1,283
Net remeasurement (gains) / losses recognised in retirement benefit scheme		(23,907)	31,554
Items that may be reclassified to net expenditure:			
Net gains in fair value of available for sale assets		(4,098)	(46,651)
Reclassification to net expenditure in the year		5,778	1,765
Total Comprehensive Net Expenditure for the year		<u>168,945</u>	<u>199,784</u>
Attributable to:			
Taxpayers' Equity		168,790	199,789
Non-Controlling Interest		155	(5)
		<u>168,945</u>	<u>199,784</u>

For 2015/16 Scottish Enterprise's strategic themes and priorities were restructured. Accordingly, the 2014/15 expenditure has been revised into the current themes and priorities and a consequent adjustment made between operating expenditure and other management expenditure.

The notes on pages 37 to 84 form part of these accounts

GROUP STATEMENT OF FINANCIAL POSITION

as at 31 March 2016

	Notes	2016 £000	2015 £000	2014 £000
NON-CURRENT ASSETS				
Property, plant and equipment	7	183,871	195,944	188,013
Intangible assets	8	-	7	14
		<u>183,871</u>	<u>195,951</u>	<u>188,027</u>
Financial assets				
Investments in equity accounted investees	9	1,531	1,548	11,766
Other investments	10	236,449	221,690	153,325
Total financial assets		<u>237,980</u>	<u>223,238</u>	<u>165,091</u>
Retirement benefit scheme	5	71,813	47,544	76,610
Other non-current receivables	12	4,435	3,258	2,776
		<u>498,099</u>	<u>469,991</u>	<u>432,504</u>
TOTAL NON-CURRENT ASSETS				
CURRENT ASSETS				
Intangible assets	8	118	-	-
Other investments	10	18,750	7,957	6,663
Assets classified as held for sale	13	13,635	3,840	5,050
Inventories	14	118	110	86
Income tax receivable		33	89	280
Trade and other receivables	15	16,764	21,416	22,764
Cash and cash equivalents	16	106,381	97,828	109,757
TOTAL CURRENT ASSETS		<u>155,799</u>	<u>131,240</u>	<u>144,600</u>
TOTAL ASSETS		<u>653,898</u>	<u>601,231</u>	<u>577,104</u>
CURRENT LIABILITIES				
Trade and other payables	17	(48,974)	(48,417)	(57,091)
Income tax payable		(593)	(52)	(22)
Provisions	18	(2,072)	(1,760)	(1,597)
TOTAL CURRENT LIABILITIES		<u>(51,639)</u>	<u>(50,229)</u>	<u>(58,710)</u>
NON-CURRENT ASSETS PLUS NET CURRENT ASSETS				
		<u>602,259</u>	<u>551,002</u>	<u>518,394</u>
NON-CURRENT LIABILITIES				
Other payables	17	(4,367)	(2,518)	(3,865)
TOTAL NON-CURRENT LIABILITIES		<u>(4,367)</u>	<u>(2,518)</u>	<u>(3,865)</u>
ASSETS LESS LIABILITIES				
		<u>597,892</u>	<u>548,484</u>	<u>514,529</u>
TAXPAYERS' EQUITY				
General Reserve		473,576	423,033	440,292
Specific Reserve		1,144	975	1,077
Revaluation Reserve		121,918	123,067	71,756
Non-Controlling Interest		1,254	1,409	1,404
TOTAL EQUITY		<u>597,892</u>	<u>548,484</u>	<u>514,529</u>

The notes on pages 37 to 84 form part of these accounts.

The accountable officer authorised these financial statements for issue on 21 July 2016.

Lena C Wilson
Accountable Officer
21 July 2016

STATEMENT OF FINANCIAL POSITION

as at 31 March 2016

	Notes	2016 £000	2015 £000	2014 £000
NON-CURRENT ASSETS				
Property, plant and equipment	7	144,394	155,106	146,345
Intangible assets	8	-	7	14
		<u>144,394</u>	<u>155,113</u>	<u>146,359</u>
Financial assets				
Other investments	10	238,707	224,961	165,280
Retirement benefit scheme	5	71,813	47,544	76,610
Other non-current receivables	12	15,274	14,834	18,035
TOTAL NON-CURRENT ASSETS		<u>470,188</u>	<u>442,452</u>	<u>406,284</u>
CURRENT ASSETS				
Intangible assets	8	118	-	-
Other investments	10	18,750	7,957	6,411
Assets classified as held for sale	13	13,635	3,840	5,050
Trade and other receivables	15	14,729	19,633	20,293
Income tax receivable		-	89	-
Cash and cash equivalents	16	101,606	91,786	101,950
TOTAL CURRENT ASSETS		<u>148,838</u>	<u>123,305</u>	<u>133,704</u>
TOTAL ASSETS		<u>619,026</u>	<u>565,757</u>	<u>539,988</u>
CURRENT LIABILITIES				
Trade and other payables	17	(47,611)	(47,525)	(56,691)
Income tax payable		(579)	-	-
Provisions	18	(2,072)	(1,760)	(1,597)
TOTAL CURRENT LIABILITIES		<u>(50,262)</u>	<u>(49,285)</u>	<u>(58,288)</u>
NON-CURRENT ASSETS PLUS NET CURRENT ASSETS		<u>568,764</u>	<u>516,472</u>	<u>481,700</u>
NON-CURRENT LIABILITIES				
Other payables	17	(4,367)	(2,518)	(3,865)
TOTAL NON-CURRENT LIABILITIES		<u>(4,367)</u>	<u>(2,518)</u>	<u>(3,865)</u>
ASSETS LESS LIABILITIES		<u>564,397</u>	<u>513,954</u>	<u>477,835</u>
TAXPAYERS' EQUITY				
General Reserve		461,284	410,676	425,764
Revaluation Reserve		103,113	103,278	52,071
TOTAL EQUITY		<u>564,397</u>	<u>513,954</u>	<u>477,835</u>

The notes on pages 37 to 84 form part of these accounts.

The accountable officer authorised these financial statements for issue on 21 July 2016.

Lena C Wilson
Accountable Officer
21 July 2016

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 March 2016

	<i>Notes</i>	<i>2016</i> £000	<i>2015</i> £000
Cash flows from operating activities			
Net expenditure after interest		(193,337)	(220,907)
Adjustments for:			
Depreciation and assets written off		2,800	2,522
Increase in investment provision and write off		6,802	34,901
Property revaluation deficit		6,036	4,515
Investment revaluation (surplus) / deficit		(143)	181
Interest receivable	2	(4,705)	(2,908)
Dividends received	2	(215)	(172)
Retirement benefit scheme net charges		(362)	(2,488)
Share of loss / (profit) in equity accounted investees	9	17	(11)
Loss / (surplus) on disposal of property, plant and equipment	2	17	(1,677)
Surplus on disposal of investments and equity accounted investees	2	(15,753)	(6,343)
		<u>(198,843)</u>	<u>(192,387)</u>
Increase in inventories		(8)	(24)
Decrease in trade and other receivables		5,473	5,749
Increase / (Decrease) in trade payables		2,406	(10,021)
Increase in provision for future liabilities		312	163
		<u>(190,660)</u>	<u>(196,520)</u>
Income tax expense		(94)	75
Net cash outflow from operating activities		<u>(190,754)</u>	<u>(196,445)</u>
Cash flows from investing activities			
Proceeds of disposal of property, plant and equipment		3,742	5,652
Proceeds of disposal of financial assets and equity accounted investees		25,230	18,989
Repayments of other investments		11,966	6,733
Interest received		1,525	1,553
Dividends received		215	172
Purchase of property, plant and equipment		(7,020)	(9,657)
Purchase of current intangible assets		(118)	-
Purchase of financial assets		(53,434)	(68,082)
Net cash outflow from investing activities		<u>(17,894)</u>	<u>(44,640)</u>
Cash flows from financing activities			
Grants from Scottish Government		217,201	229,156
Net cash inflow from financing activities		<u>217,201</u>	<u>229,156</u>
Net increase / (decrease) in cash and cash equivalents in the period		8,553	(11,929)
Cash and cash equivalents at the beginning of the period	16	97,828	109,757
Cash and cash equivalents at the end of the period	16	<u>106,381</u>	<u>97,828</u>

The notes on pages 37 to 84 form part of these accounts

GROUP STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

for the year ended 31 March 2016

	<i>General Reserve £000</i>	<i>Specific Reserve £000</i>	<i>Revaluation Reserve £000</i>	<i>Non- Controlling Interest £000</i>	<i>Total £000</i>
Balance at 1 April 2014	440,292	1,077	71,756	1,404	514,529
Net expenditure during the year	(220,956)	(102)	-	5	(221,053)
Remeasurement losses in retirement benefit scheme	(31,554)	-	-	-	(31,554)
Surpluses on revaluation of investments	-	-	44,886	-	44,886
Release on disposal of revaluation of property, plant and equipment held by Equity Accounted Investees (Note 9)	-	-	(1,283)	-	(1,283)
Surpluses on revaluation of property, plant and equipment	1,512	-	7,708	-	9,220
Total recognised income and expense for year to 31 March 2015	<u>(250,998)</u>	<u>(102)</u>	<u>51,311</u>	<u>5</u>	<u>(199,784)</u>
Grant in Aid from Scottish Government	207,921	-	-	-	207,921
Other grants from Scottish Government	25,818	-	-	-	25,818
	<u>233,739</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>233,739</u>
Balance at 31 March 2015	<u>423,033</u>	<u>975</u>	<u>123,067</u>	<u>1,409</u>	<u>548,484</u>
Net expenditure during the year	(194,042)	169	-	(155)	(194,028)
Remeasurement gains in retirement benefit scheme	23,907	-	-	-	23,907
Deficits on revaluation of investments	-	-	(1,680)	-	(1,680)
Surpluses on revaluation of property, plant and equipment	2,325	-	531	-	2,856
Total recognised income and expense for year to 31 March 2016	<u>(167,810)</u>	<u>169</u>	<u>(1,149)</u>	<u>(155)</u>	<u>(168,945)</u>
Grant in Aid from Scottish Government	207,380	-	-	-	207,380
Other grants from Scottish Government	10,973	-	-	-	10,973
	<u>218,353</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>218,353</u>
At 31 March 2016	<u>473,576</u>	<u>1,144</u>	<u>121,918</u>	<u>1,254</u>	<u>597,892</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 £8,979m (2015: £8,772m). The grant in aid provision of £207m for 2015/16 included £47m 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 £122m (2015: £123m) is £48m (2015: £47m) attributable to net unrealised surpluses on Land and Buildings.

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

for the year ended 31 March 2016

	<i>General Reserve</i> £000	<i>Revaluation Reserve</i> £000	<i>Total</i> £000
Balance at 1 April 2014	425,764	52,071	477,835
Net expenditure during the year	(216,037)	-	(216,037)
Remeasurement losses in retirement benefit scheme	(31,554)	-	(31,554)
Surpluses on revaluation of investments	-	44,832	44,832
Surpluses on revaluation of property, plant and equipment	581	6,375	6,956
Total recognised income and expense for year to 31 March 2015	<u>(247,010)</u>	<u>51,207</u>	<u>(195,803)</u>
Grant in Aid from Scottish Government	207,921	-	207,921
Other grants from Scottish Government	24,001	-	24,001
	<u>231,922</u>	<u>-</u>	<u>231,922</u>
Balance at 31 March 2015	<u>410,676</u>	<u>103,278</u>	<u>513,954</u>
Net expenditure during the year	(190,931)	-	(190,931)
Remeasurement losses in retirement benefit scheme	23,907	-	23,907
Deficits on revaluation of investments	-	(1,429)	(1,429)
Surpluses on revaluation of property, plant and equipment	1,169	1,264	2,433
Total recognised income and expense for year to 31 March 2016	<u>(165,855)</u>	<u>(165)</u>	<u>(166,020)</u>
Grant in Aid from Scottish Government	207,380	-	207,380
Other grants from Scottish Government	9,083	-	9,083
	<u>216,463</u>	<u>-</u>	<u>216,463</u>
Balance at 31 March 2016	<u>461,284</u>	<u>103,113</u>	<u>564,397</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 £8,979m (2015: £8,772m). The grant in aid provision of £207m for 2015/16 included £47m in respect of net capital expenditure.

Revaluation Reserve is the cumulative unrealised balance arising on revaluation adjustments to assets. Included within the Revaluation Reserve total of £103m (2015: £103m) is £29m (2015: £28m) attributable to net unrealised surpluses on Land and Buildings.

STATEMENT OF ACCOUNTING POLICIES

1. Basis of preparation

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

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

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

Change in accounting policy and restatement

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

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

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

- Retirement benefit assets (Note 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 2016/17, 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 2016/17 are given in the Performance Report. Details of the liquidity position are given in Note 22.

2. Basis of consolidation

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

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

(a) Subsidiaries

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

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

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

(b) Associates and jointly controlled entities

Associates are entities over which the Group has significant influence but not control. Companies whose business is compatible with the objectives of the Group, in which the holdings are intended to be retained as long term investments and in which the Group has active management involvement are treated as associated undertakings.

STATEMENT OF ACCOUNTING POLICIES (continued)

Joint ventures are those entities over whose activities the Group has joint control of the arrangement and has rights to the net assets of the arrangement, established by contractual agreements and requiring unanimous consent for strategic financial and operational decisions.

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

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

(c) *Other*

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

3. **Funding**

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

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 2014 (Red Book) and specifically the basis valuation for IFRS.

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

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

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

Land is not depreciated.

(b) *Property*

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

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

STATEMENT OF ACCOUNTING POLICIES (continued)

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

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

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

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

(c) *Non property assets*

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

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

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

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

(d) *Subsequent expenditure*

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

(e) *Impairment*

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

STATEMENT OF ACCOUNTING POLICIES (continued)

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.

(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

STATEMENT OF ACCOUNTING POLICIES (continued)

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.

(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.

STATEMENT OF ACCOUNTING POLICIES (continued)

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

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

8. Assets held by Local Enterprise Companies

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

On 29 March 2012, the Local Enterprise Companies agreed to transfer their property interests and their interest in specified shares and loans to Scottish Enterprise for no consideration. During 2014/15 the financial assets of the final Local Enterprise Company to do so were transferred to Scottish Enterprise, also for no consideration.

9. Inventories

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

10. Income

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

Revenue grants and partners' contributions to projects are recognised in the period to which they relate.

Income is stated net of VAT where applicable.

11. European funding

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

12. Dividend income

Dividend income is credited to the Statement of Comprehensive Net Expenditure in the year in which it is receivable.

13. Leasing

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

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

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

14. Taxation

Tax on the net expenditure for the year comprises current tax. Tax is recognised in the Statement of Comprehensive Net Expenditure, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using the rates enacted or subsequently enacted at the date of the Statement of Financial Position in the countries where Scottish Enterprise's subsidiaries operate and generate taxable income, and any adjustment

STATEMENT OF ACCOUNTING POLICIES (continued)

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.

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

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

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

(b) Short term employee benefits

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

16. Exchange Gains and Losses

(a) Functional and presentation currency

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

STATEMENT OF ACCOUNTING POLICIES (continued)

(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 twelve months or less.

18. Financial Liabilities

Classification

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

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

Recognition and measurement

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

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

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

19. Provisions

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

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

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

20. Critical accounting estimates and judgements

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

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

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

(a) *Retirement benefit obligations*

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

STATEMENT OF ACCOUNTING POLICIES (continued)

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 *Financial Instruments: recognition and measurement* guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

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

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

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

21. Accounting standards issued not yet adopted

There are new accounting standards that have been issued but have not yet been applied by the group in these financial statements. The standards that are considered relevant to the group are as follows:

- **Amendment to IAS 1 – Disclosure Initiative**
This amendment will be adopted in the FReM with effect from 2016/17. The amendment to IAS 1 - Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. These amendments are not expected to have any significant impact on the consolidated accounts.
- **Amendment to IAS 7 – Disclosure Initiative**
Subject to EU adoption and Exposure Draft process this amendment will be included in the FReM with effect from 2017/18. The objective of the amendment to IAS 7 - Statement of Cash Flows is to enable users of financial statements to evaluate changes in liabilities arising from financing activities. The impact on the consolidated accounts has not been determined.
- **IFRS 9 – Financial Instruments**
Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from 2018/19. The standard replaces IAS 39 Financial Instruments: Recognition and Measurement and brings together all aspects of accounting for financial instruments. The impact on the consolidated accounts has not been determined.
- **IFRS 15 – Revenue from Contracts with Customers**
Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from 2018/19. This standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The new revenue standard will supersede all current revenue recognition requirements under IFRS. The impact on the consolidated accounts has not been determined.

STATEMENT OF ACCOUNTING POLICIES (continued)

- IFRS 16 – Leases
Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from 2019/20. The standard replaces IAS 17 - Leases and largely removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. This is a significant change in lessee accounting. The impact on the consolidated accounts has not been determined.

NOTES TO THE ACCOUNTS

1. EXPENDITURE

	2016 £000	2015 £000
Operating Expenditure	<u>153,945</u>	<u>189,349</u>
Management Expenditure	<u>97,462</u>	<u>90,679</u>
Expenditure noted above includes:		
Rentals under operating leases		
Buildings	5,908	5,446
Other	89	77
Foreign exchange (gains) / losses	(171)	228
Depreciation	7,267	6,792
Amortisation of intangible assets	7	7
Auditors' remuneration		
- audit of these accounts (i)	<u>153</u>	<u>153</u>
Amounts paid to other auditors in respect of:		
- audit of subsidiary companies' accounts	41	44
- non-audit fees	<u>-</u>	<u>-</u>
	<u>41</u>	<u>44</u>

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

2. INCOME

	2016 £000	2015 £000
Income from Activities		
Property Services:		
Rents	9,517	9,308
Sundry property income	6,234	6,257
(Loss) / surplus on disposal of property	(17)	1,677
Investment Management:		
Surplus on disposal of investments and equity accounted investees	<u>15,753</u>	<u>6,343</u>
	<u>31,487</u>	<u>23,585</u>
Other Income		
European Funding	3,544	11,293
Contributions and other fees	<u>16,394</u>	<u>17,512</u>
	<u>19,938</u>	<u>28,805</u>
Income from Investments		
Dividends and other investment income	<u>215</u>	<u>172</u>
Interest Receivable	<u>4,705</u>	<u>2,908</u>
Other Finance Income		
Net interest income on retirement benefit scheme assets	<u>1,742</u>	<u>3,640</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.

For 2015/16 Scottish Enterprise's strategic themes and priorities were restructured and in year reports of expenditure to the Scottish Enterprise Board and Executive Leadership Team were amended to reflect the new structure. Accordingly, the 2014/15 expenditure below has been revised into the current themes and priorities.

A reconciliation of segmental expenditure to net operating expenditure is shown below.

	2016 £000	<i>Restated</i> 2015 £000
Operating Expenditure		
Internationalisation		
International Services and Support	12,110	12,229
Market Development	2,636	2,721
International Marketing and Research	4,971	4,857
Overseas Premises and Facilities Management Costs	3,748	3,738
Innovation		
Innovation Specialist Support	6,147	5,271
Business Efficiency	5,972	5,935
R&D Support	13,718	15,362
Renewable Energy R&D Support – WATERS/POWERS/SIFT	2,451	1,799
Commercialisation Support	4,957	5,133
Investment		
Equity Investment and Loans	5,443	22,797
Renewable Energy Investment Fund	2,495	13,395
Capital Expenditure Grant Support Programmes	19,111	23,765
Business Infrastructure	34,929	35,369
Digital Strategy Business Engagement Programme	1,750	545
Inclusive Growth		
Job Creation/Safeguarding Grant Support Schemes	9,978	8,345
Entrepreneurship, Leadership and Organisational Development	7,498	10,657
Cross Cutting Activity		
Industry Sector Project Support	10,233	11,695
Strategic Development	2,934	2,581
Marketing, Research & Digital Services	2,864	3,155
Total Segmental Expenditure	<u>153,945</u>	<u>189,349</u>
Management Expenditure		
Management expenditure on staff costs	65,151	60,198
Premises, ICT, business services and other management costs	32,311	30,481
	<u>97,462</u>	<u>90,679</u>
Income	(51,425)	(52,390)
Net Operating Expenditure	<u>199,982</u>	<u>227,638</u>

NOTES TO THE ACCOUNTS (continued)**4. PEOPLE COSTS**

	2016 £	2015 £
(a) Non-executive board members		
Remuneration (i)	168,414	174,337
Pension and social security costs	26,819	27,013
	<u>195,233</u>	<u>201,350</u>
Chairman's remuneration	10,023	-
Former Chairman's remuneration	<u>30,069</u>	<u>42,600</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 £142,000 (2015: £153,000) within the total retirement benefit liabilities at 31 March 2016, as assessed by Mercer Limited, Scottish Enterprise's advising actuaries.

(b) Staff costs comprise:

	<i>Permanent staff £000</i>	<i>Others £000</i>	2016 £000	<i>Restated 2015 £000</i>
Wages and salaries	53,287	-	53,287	49,971
Social security costs	4,252	-	4,252	4,030
Pension costs	10,342	-	10,342	8,871
Inward seconded and temporary staff costs	-	895	895	695
Travel and subsistence	2,676	-	2,676	2,540
Less: recoveries in respect of outward secondments	(541)	-	(541)	(1,194)
	<u>70,016</u>	895	<u>70,911</u>	<u>64,913</u>
Severance costs and other exit packages	348	-	348	104
Total staff costs	<u>70,364</u>	895	<u>71,259</u>	<u>65,017</u>

2014/15 staff costs have been restated to include additional inward secondments costs.

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

	2016 £000	<i>Restated 2015 £000</i>
Operating expenditure	4,440	3,674
Management expenditure on staff costs	65,151	59,997
Other management expenditure	2,209	2,540
Other Income	(541)	(1,194)
	<u>71,259</u>	<u>65,017</u>

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

A full actuarial valuation of the Scottish Enterprise Pension & Life Assurance Scheme was carried out using membership data at 31 March 2014 and the results of that valuation have been projected to 31 March 2016 by Mercer Limited, qualified independent actuaries. The next formal valuation will be carried out during 2017/18 based on data at 31 March 2017.

	2016 £000	2015 £000
Present value of funded defined benefit obligations	(583,658)	(605,327)
Fair value of plan assets	655,471	652,871
Recognised surplus in the scheme	<u>71,813</u>	<u>47,544</u>

Movements in the present value of defined benefit obligations

	2016 £000	2015 £000
At 1 April	(605,327)	(484,150)
Current service cost	(9,349)	(7,322)
Past service cost	-	-
Interest cost	(19,688)	(21,427)
Remeasurements		
- Effect of changes in demographic assumptions	-	12,315
- Effect of changes in financial assumptions	35,784	(87,606)
- Effect of experience assumptions	-	(30,757)
Benefits paid	17,551	16,113
Contributions by members	(2,629)	(2,493)
	<u>(583,658)</u>	<u>(605,327)</u>

Movements in the present value of defined benefit scheme assets

	2016 £000	2015 £000
At 1 April	652,871	560,760
Expected return on plan assets	21,430	25,067
Remeasurements		
- Return on plan assets, excluding interest income	(11,877)	74,494
Contributions by the employer	8,761	7,478
Contributions by members	2,629	2,493
Benefits paid by the plan	(17,551)	(16,113)
Administrative expenses	(792)	(1,308)
	<u>655,471</u>	<u>652,871</u>

NOTES TO THE ACCOUNTS (continued)**The defined benefit obligation analysed by participant status**

	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>
Active members	(191,933)	(191,615)
Vested deferred members	(150,279)	(157,109)
Retired members	(241,446)	(256,603)
	<u>(583,658)</u>	<u>(605,327)</u>

Expense recognised in the Statement of comprehensive net expenditure

	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>
Current service cost	9,349	7,322
Past service cost	-	-
Administrative expenses	792	1,308
Interest income on retirement benefit scheme assets	(21,430)	(25,067)
Interest on retirement benefit scheme obligations	19,688	21,427
Total retirement benefit scheme expense	<u>8,399</u>	<u>4,990</u>

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

	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>
Management Expenditure	10,141	8,630
Other Finance Income	(1,742)	(3,640)
	<u>8,399</u>	<u>4,990</u>

The total gain amount recognised in the Statement of other comprehensive income in respect of net remeasurement gains and losses is £23,907,000 (2015: £31,554,000 (loss)).

Cumulative remeasurement gains and losses recognised in the Statement of other comprehensive income since 1 April 2002 are net gains of £8,389,000 (2015: £15,518,000 (losses))

The fair value and the expected rates of return on scheme assets at 31 March 2016, were as follows:

	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>
Equity instruments	150,592	154,791
Debt instruments	345,214	338,769
Diversified growth fund	122,346	124,976
Real estate	34,270	32,353
Cash or cash equivalents	3,049	1,982
Total fair value of assets	<u>655,471</u>	<u>652,871</u>

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

NOTES TO THE ACCOUNTS (continued)

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

	<i>2016</i> <i>% per</i> <i>annum</i>	<i>2015</i> <i>% per</i> <i>annum</i>
Discount rate	3.60%	3.30%
Future salary increases	2.00%	2.00%
Rate of increase in retirement benefits	2.00%	2.00%
Price inflation	3.00%	3.00%

The assumptions relating to longevity underlying the retirement benefit obligations at the date of the Statement of financial position are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions used as follows:-

	<i>2016</i> <i>Years</i>	<i>2015</i> <i>Years</i>
Retiring today (age 60)	27.9	27.8
Retiring in 20 years	29.5	29.4

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

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

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

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

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

	<i>Change in</i> <i>assumption</i> <i>%</i>	<i>Increase in</i> <i>assumption</i> <i>£m</i>	<i>Decrease in</i> <i>assumption</i> <i>£m</i>
Discount rate	0.10	(11.2)	11.5
Inflation rate	0.10	11.4	(11.1)

The effect of increasing the assumed life expectancies by one year would be to increase the value of obligations by £13.8m at 31 March 2016.

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

During the year to 31 March 2017, Scottish Enterprise estimates that employer contributions of £9.4m will be paid to the Scottish Enterprise Pension & Life Assurance Scheme.

NOTES TO THE ACCOUNTS (continued)**6. TAXATION**

	2016 £000	2015 £000
UK Corporation tax @ 20% (2015: 21%)	696	145
Corporation tax (over) / under provided in previous years	<u>(5)</u>	<u>1</u>
	691	146
Share of equity accounted investees' tax	-	-
Total current tax	<u>691</u>	<u>146</u>
Factors affecting current tax charge:		
	2016 £000	2015 £000
Net expenditure after interest	<u>193,303</u>	<u>220,907</u>
Current tax @ 20% (2015: 21%)	<u>(38,661)</u>	<u>(46,390)</u>
Effect of:		
Non-taxable income and disallowed expenditure	39,357	46,535
Capital allowances	-	-
Tax (over) / under provided in previous years	<u>(5)</u>	<u>1</u>
Current tax charge	<u>691</u>	<u>146</u>

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 & Fittings</i>	<i>Leasehold Improvement</i>	<i>Total</i>
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost and valuation									
At 1 April 2015	105,827	79,467	42	116	14,038	5,685	3,719	10,876	219,770
Additions	1,446	1,145	1,606	15	2,155	138	162	353	7,020
Disposals	(1,930)	-	-	(15)	(1,005)	(14)	(142)	(6)	(3,112)
Transfer from/(to) Held for Sale	(11,315)	-	-	-	-	-	-	-	(11,315)
Revaluation	5,714	(8,769)	-	-	-	-	-	-	(3,055)
At 31 March 2016	99,742	71,843	1,648	116	15,188	5,809	3,739	11,223	209,308
Depreciation									
At 1 April 2015	-	-	-	108	12,549	4,853	3,501	2,815	23,826
Charge for year	-	4,474	-	11	1,065	460	161	1,096	7,267
Revaluation	-	(4,474)	-	-	-	-	-	-	(4,474)
Disposals	-	-	-	(15)	(1,005)	(14)	(142)	(6)	(1,182)
At 31 March 2016	-	-	-	104	12,609	5,299	3,520	3,905	25,437
Net book value									
At 31 March 2016	99,742	71,843	1,648	12	2,579	510	219	7,318	183,871
At 31 March 2015	105,827	79,467	42	8	1,489	832	218	8,061	195,944
Asset financing									
Owned	99,742	71,843	1,648	12	2,579	510	219	7,318	183,871
Net book value									
At 31 March 2016	99,742	71,843	1,648	12	2,579	510	219	7,318	183,871

Included within Land is land on long leasehold (over 50 years) with a value of £Nil (2015: £Nil).

Land and Buildings held for industrial and commercial use were valued at 31 March 2016 by Ryden LLP, Chartered Surveyors, on a fair value basis as defined in the Valuation Standards 2014 (Red Book) issued by The Royal Institution of Chartered Surveyors and had a total value of £172m (2015: £185m).

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

At 31 March 2016 the net carrying value of leased equipment was £Nil (2015: £Nil).

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

	<i>Land</i> £000	<i>Buildings</i> £000	<i>Assets Under Construction</i> £000	<i>Transport Equipment</i> £000	<i>Plant and Equipment</i> £000	<i>Information Technology</i> £000	<i>Furniture & Fittings</i> £000	<i>Leasehold Improvement</i> £000	<i>Total</i> £000
Cost and valuation									
At 1 April 2014	98,159	81,353	-	160	13,536	5,632	3,631	7,333	209,804
Additions	3,074	1,919	42	-	551	440	88	3,543	9,657
Disposals	(776)	(1,400)	-	(44)	(49)	(387)	-	-	(2,656)
Transfer from/(to)									
Held for Sale	(1,575)	(325)	-	-	-	-	-	-	(1,900)
Revaluation	6,945	(2,080)	-	-	-	-	-	-	4,865
At 31 March 2015	105,827	79,467	42	116	14,038	5,685	3,719	10,876	219,770
Depreciation									
At 1 April 2014	-	-	-	136	11,830	4,817	3,252	1,756	21,791
Charge for year	-	4,277	-	16	768	423	249	1,059	6,792
Revaluation	-	(4,277)	-	-	-	-	-	-	(4,277)
Disposals	-	-	-	(44)	(49)	(387)	-	-	(480)
At 31 March 2015	-	-	-	108	12,549	4,853	3,501	2,815	23,826
Net book value									
At 31 March 2015	105,827	79,467	42	8	1,489	832	218	8,061	195,944
At 31 March 2014	98,159	81,353	-	24	1,706	815	379	5,577	188,013
Asset financing									
Owned	105,827	79,467	42	8	1,489	832	218	8,061	195,944
Net book value									
At 31 March 2015	105,827	79,467	42	8	1,489	832	218	8,061	195,944

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 & Fittings</i>	<i>Leasehold Improvement</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost and valuation									
At 1 April 2015	100,688	45,405	42	53	861	5,147	3,424	10,255	165,875
Additions	1,446	1,145	1,606	-	-	124	162	259	4,742
Disposals	(1,930)	-	-	-	-	-	-	-	(1,930)
Transfer from/(to) Held for Sale	(11,315)	-	-	-	-	-	-	-	(11,315)
Revaluation	5,714	(6,280)	-	-	-	-	-	-	(566)
At 31 March 2016	94,603	40,270	1,648	53	861	5,271	3,586	10,514	156,806
Depreciation									
At 1 April 2015	-	-	-	53	818	4,343	3,250	2,305	10,769
Charge for year	-	1,217	-	-	15	444	133	1,051	2,860
Disposals	-	-	-	-	-	-	-	-	-
Revaluation	-	(1,217)	-	-	-	-	-	-	(1,217)
At 31 March 2016	-	-	-	53	833	4,787	3,383	3,356	12,412
Net book value									
At 31 March 2016	94,603	40,270	1,648	-	28	484	203	7,158	144,394
At 31 March 2015	100,688	45,405	42	-	43	804	174	7,950	155,106
Asset financing									
Owned	94,603	40,270	1,648	-	28	484	203	7,158	144,394
Net book value									
At 31 March 2016	94,603	40,270	1,648	-	28	484	203	7,158	144,394

Included within Land is land on long leasehold (over 50 years) with a value of £Nil (2015: £Nil).

Land and Buildings held for industrial and commercial use were valued at 31 March 2016 by Ryden LLP, Chartered Surveyors, on a fair value basis as defined in the Valuation Standards 2014 (Red Book) issued by The Royal Institution of Chartered Surveyors and had a total value of £135m (2015: £146m).

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 & Fittings</i>	<i>Leasehold Improvement</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost and valuation									
At 1 April 2014	93,668	46,128	-	79	804	4,725	3,358	6,719	155,481
Additions	3,074	1,919	42	-	57	422	66	3,536	9,116
Disposals	(776)	(1,400)	-	(26)	-	-	-	-	(2,202)
Transfer from/(to)									
Held for Sale	(1,575)	(325)	-	-	-	-	-	-	(1,900)
Revaluation	6,297	(917)	-	-	-	-	-	-	5,380
At 31 March 2015	100,688	45,405	42	53	861	5,147	3,424	10,255	165,875
Depreciation									
At 1 April 2014	-	-	-	74	804	3,940	3,038	1,280	9,136
Charge for year	-	1,246	-	5	14	403	212	1,025	2,905
Disposals	-	-	-	(26)	-	-	-	-	(26)
Revaluation	-	(1,246)	-	-	-	-	-	-	(1,246)
At 31 March 2015	-	-	-	53	818	4,343	3,250	2,305	10,769
Net book value									
At 31 March 2015	100,688	45,405	42	-	43	804	174	7,950	155,106
At 31 March 2014	93,668	46,128	-	5	-	785	320	5,439	146,345
Asset financing									
Owned	100,688	45,405	42	-	43	804	174	7,950	155,106
Net book value									
At 31 March 2015	100,688	45,405	42	-	43	804	174	7,950	155,106

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

	<i>Patents and other rights £000</i>	<i>Software Licences £000</i>	<i>CRC Allowances £000</i>	<i>Total £000</i>
Cost				
At 1 April 2014 and 31 March 2015	925	876	-	1,801
At 1 April 2015	925	876	-	1,801
Additions	-	-	118	118
As at 31 March 2016	925	876	118	1,919
Amortisation				
At 1 April 2014	925	862	-	1,787
Charge for year	-	7	-	7
As at 31 March 2015	925	869	-	1,794
At 1 April 2015	925	869	-	1,794
Charge for year	-	7	-	7
As at 31 March 2016	925	876	-	1,801
Net book value at 31 March 2016	-	-	118	118
Net book value at 31 March 2015	-	7	-	7
Net book value at 1 April 2014	-	14	-	14
Non-Current Intangible Assets	-	-	-	-
Current Intangible Assets	-	-	118	118
Total Intangible Assets at 31 March 2016	-	-	118	118

SCOTTISH ENTERPRISE

	<i>Patents and other rights £000</i>	<i>Software Licences £000</i>	<i>CRC Allowances £000</i>	<i>Total £000</i>
Cost				
At 1 April 2014 and 31 March 2015	633	867	-	1,500
At 1 April 2015	633	867	-	1,500
Additions	-	-	118	118
As at 31 March 2016	633	867	118	1,618
Amortisation				
At 1 April 2014	633	853	-	1,486
Charge for year	-	7	-	7
As at 31 March 2015	633	860	-	1,493
At 1 April 2015	633	860	-	1,493
Charge for year	-	7	-	7
As at 31 March 2016	633	867	-	1,500
Net book value at 31 March 2016	-	-	118	118
Net book value at 31 March 2015	-	7	-	7
Net book value at 1 April 2014	-	14	-	14
Non-Current Intangible Assets	-	-	-	-
Current Intangible Assets	-	-	118	118
Total Intangible Assets at 31 March 2016	-	-	118	118

NOTES TO THE ACCOUNTS (continued)

9. EQUITY ACCOUNTED INVESTEEES

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

Limited by shares	Accounting period end	Nature of Business	% of Voting rights
Discovery Quay Developments Limited	31 December	Property development	33.33
Ravenscraig Limited	31 December	Property development	33.33
AMCET Limited	31 July	Promoting technology commercialisation	26.00
Limited by guarantee	Accounting period end	Nature of Business	% of Membership
Design Dundee Limited	31 March	Advancement of cultural facility	20.00
Headstart Capital Fund	31 March	Investment Fund	50.00
7 Stanes Mountain Biking Community Interest Company	31 March	Promotion of tourist activity	50.00
Joint arrangement		Nature of Business	% Interest
Scottish Enterprise / Calachem Limited		Property development	60.00

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

	<i>Current Assets</i> £000	<i>Non current assets</i> £000	<i>Total Assets</i> £000	<i>Current Liabilities</i> £000	<i>Non Current Liabilities</i> £000	<i>Total Liabilities</i> £000	<i>Revenue</i> £000	<i>Expenses</i> £000	<i>Profit / (Loss)</i> £000
At 1 April 2014	52,785	8,136	60,921	(5,302)	(52,760)	(58,062)	4,933	(5,416)	(483)
At 31 March 2015	54,509	1,077	55,586	(11,694)	(52,596)	(64,290)	180	(1,413)	(1,233)
At 31 March 2016	54,424	1,060	55,484	(11,763)	(53,597)	(65,360)	43	(1,215)	(1,172)

Movements in carrying amount of investment in equity accounted investees:

	£000
Carrying amount at 1 April 2014	11,766
Impairment	(70)
Share of net profits	11
Previous revaluation released on disposal	(1,283)
Disposal	(8,876)
Carrying amount at 31 March 2015	<u>1,548</u>
Carrying amount at 1 April 2015	1,548
Share of net losses	(17)
Carrying amount at 31 March 2016	<u>1,531</u>

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

	<i>Group</i>			<i>Scottish Enterprise</i>		
	<i>2016</i>	<i>2015</i>	<i>2014</i>	<i>2016</i>	<i>2015</i>	<i>2014</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Non-Current Other Investments						
Available for sale financial assets	214,756	204,239	128,918	214,311	204,807	141,422
Held to Maturity Investments	2,031	41	2,188	2,031	41	2,188
Loans and other receivables	19,662	17,410	22,219	22,365	20,113	21,670
	<u>236,449</u>	<u>221,690</u>	<u>153,325</u>	<u>238,707</u>	<u>224,961</u>	<u>165,280</u>
Current Other Investments						
Held to Maturity Investments	-	321	-	-	321	-
Loans and other receivables	18,750	7,636	6,663	18,750	7,636	6,411
	<u>18,750</u>	<u>7,957</u>	<u>6,663</u>	<u>18,750</u>	<u>7,957</u>	<u>6,411</u>
Total Other Investments	<u>255,199</u>	<u>229,647</u>	<u>159,988</u>	<u>257,457</u>	<u>232,918</u>	<u>171,691</u>

The above financial assets have been funded as follows:

	<i>Group</i>			<i>Scottish Enterprise</i>		
	<i>2016</i>	<i>2015</i>	<i>2014</i>	<i>2016</i>	<i>2015</i>	<i>2014</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Grant in Aid	255,197	229,645	159,986	257,455	232,916	171,689
Public Dividend Capital	2	2	2	2	2	2
	<u>255,199</u>	<u>229,647</u>	<u>159,988</u>	<u>257,457</u>	<u>232,918</u>	<u>171,691</u>

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

Amounts received during the financial year and payable to the Treasury are disclosed as appropriations in the Statement of comprehensive net expenditure and amounted to £Nil (2015: £Nil).

Listed Investments

Stock Exchange investments included in the above at 31 March 2016 are valued £2,723,679 (2015: £3,216,296) which includes unrealised surpluses on valuation of £498,440 (2015: £741,311). Income from listed investments in the year to 31 March 2016 was £53,964 (2015: £54,149).

The schedule of main invested companies is given in Note 25.

NOTES TO THE ACCOUNTS (continued)

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

Subsidiary Undertakings

Limited by shares	Nature of Business	% of Voting rights
Ayrshire Development Fund Limited	Investment fund	100
Co-operative Development Scotland Limited	Assisting new and emerging co-operative businesses	100
Glasgow Science Centre Limited (i)	Visitor attraction operator	100
Glasgow Science Centre (Trading) Limited (i)	Commercial operations management	100
Katalyst Projects (2005) Limited (ii)	Property Development	100
Loch Lomond Shores Management Company Limited	Property management	100
Scotland Europa Limited	Business services	100
SCTR Limited	Business incubator	100
SE Conference House Limited	Property letting	100
SE Grampian Investments Limited	Investment fund	100
Tay Euro Fund Limited	Investment fund	100
Enterprise Services Scotland Limited	Dormant	100
GDA Investments Limited	Dormant	100
Scottish Investment Bank Limited	Dormant	100
Scottish Development Finance Limited	Dormant	100
Scottish Development Overseas Limited (iii)	Dormant	100
		% of Membership
Limited by guarantee	Nature of Business	
Calder Park (Management) Limited	Property management	100
Glasgow Science Centre Charitable Trust	Visitor attraction ownership	100
The Glasgow Science Centre Endowment Fund	Investment fund	66.67
ITI Scotland Limited	Commissioning of research	100
Investors in People Scotland	Training & skills accreditation	50(S)
Scottish Intellectual Asset Management Limited	Commercialisation of intellectual assets	50(S)
Euroinfocentre Limited (iv)	Dormant	100
The Loch Lomond Trust	Dormant	100

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

- (i) Glasgow Science Centre Limited and Glasgow Science Centre (Trading) Limited are subsidiary companies of Glasgow Science Centre Charitable Trust.
- (ii) Katalyst Projects (2005) Limited was wound up and the company was dissolved on 29 March 2016.
- (iii) Scottish Development Overseas Limited was dissolved on 26 January 2016.
- (iv) Euroinfocentre Limited was dissolved on 22 December 2015.

Local Enterprise Companies

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

NOTES TO THE ACCOUNTS (continued)**11. FAIR VALUE MEASUREMENTS**

The following table sets out the assets and liabilities that are measured and recognised at fair value at 31 March 2016:

GROUP

	2016 Level 1 £000	2016 Level 2 £000	2016 Level 3 £000	2016 Total £000
Recurring fair value measurements				
Financial assets	2,724	-	252,475	255,199
Land and buildings	-	-	171,585	171,585
Non-recurring fair value measurements				
Assets classified as held for sale	-	-	13,635	13,635
	<u>2,724</u>	<u>-</u>	<u>437,695</u>	<u>440,419</u>

SCOTTISH ENTERPRISE

	2016 Level 1 £000	2016 Level 2 £000	2016 Level 3 £000	2016 Total £000
Recurring fair value measurements				
Financial assets	19	-	257,438	257,457
Land and buildings	-	-	134,873	134,873
Non-recurring fair value measurements				
Assets classified as held for sale	-	-	13,635	13,635
	<u>19</u>	<u>-</u>	<u>405,946</u>	<u>405,965</u>

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

Valuation processes for level 3 fair values

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

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

The following table sets out the reconciliation of the opening and closing balances for level 3 fair value measurements as at 31 March 2016:

GROUP

	Financial assets £000	Land & buildings £000	Assets classified as held for sale £000	Total £000
At 1 April 2015	226,431	185,294	3,840	415,565
Acquisitions	54,326	2,591	-	56,917
Disposals	(27,845)	(1,930)	(1,395)	(31,170)
Transfers to/from held for sale	-	(11,315)	11,315	-
Depreciation	-	(4,474)	-	(4,474)
Impairment	(6,781)	(5,111)	(125)	(12,017)
Net gains recognised in Other Comprehensive Net Expenditure	4,186	6,530	-	10,716
Gain recognised in Net Expenditure	2,158	-	-	2,158
At 31 March 2016	<u>252,475</u>	<u>171,585</u>	<u>13,635</u>	<u>437,695</u>

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

	<i>Financial assets £000</i>	<i>Land & buildings £000</i>	<i>Assets classified as held for sale £000</i>	<i>Total £000</i>
At 1 April 2015	232,879	146,093	3,840	382,812
Acquisitions	54,325	2,591	-	56,916
Disposals	(29,419)	(1,930)	(1,395)	(32,744)
Transfers to/from held for sale	-	(11,315)	11,315	-
Depreciation	-	(1,217)	-	(1,217)
Impairment	(6,699)	(5,879)	(125)	(12,703)
Net gains recognised in Other Comprehensive Net Expenditure	4,194	6,530	-	10,724
Gain recognised in Net Expenditure	2,158	-	-	2,158
At 31 March 2016	<u>257,438</u>	<u>134,873</u>	<u>13,635</u>	<u>405,946</u>

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

GROUP

	<i>Financial assets £000</i>	<i>Land & buildings £000</i>	<i>Assets classified as held for sale £000</i>	<i>Total £000</i>
Unrealised losses recognised in net expenditure	<u>(4,623)</u>	<u>(1,437)</u>	<u>(125)</u>	<u>(6,185)</u>

SCOTTISH ENTERPRISE

	<i>Financial assets £000</i>	<i>Land & buildings £000</i>	<i>Assets classified as held for sale £000</i>	<i>Total £000</i>
Unrealised losses recognised in net expenditure	<u>(4,541)</u>	<u>(1,782)</u>	<u>(125)</u>	<u>(6,448)</u>

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

Item	Valuation approach, key unobservable inputs and relationship between unobservable inputs and fair value
------	---

Financial assets -
available for sale:

Fair value is determined by application of the most appropriate valuation methodology for an investee company based on the nature, facts and circumstances of the investment. In the absence of an active market for the unquoted investments in seed, start up and early stage companies held by Scottish Enterprise, the fair value of the majority of investments is established by reference to valuation placed on the investee company at the most recent round of investment. Scottish Enterprise will take account of the circumstances of the funding round and any subsequent events which may impact on that valuation.

Where the investee company is an established business with an identifiable stream of earnings that are considered to be maintainable, the fair value of Scottish Enterprise's investment will be established by the application of a multiplier to the earnings of the business. The multiplier will be based on the quoted price/earnings ratio appropriate to the industry sector, discounted for lack of marketability, liquidity and other relevant factors which can vary considerably by sector.

Multiplier	From 11.45 (Electricity sector) to 51.18 (Pharma and Biotech sector)
Discount	From 50% to 85%, with the exception of one undiscounted valuation.

The higher the multiplier, the higher the fair value.

The higher the discount factor applied to the multiplier, the lower the fair value.

NOTES TO THE ACCOUNTS (continued)

Item	Valuation approach, key unobservable inputs and relationship between unobservable inputs and fair value
Financial assets - held to maturity:	Fair value is based on amortised cost using the effective interest rate method derived from the anticipated cash flows from the investment over its estimated life. A provision for impairment is established if there is objective evidence that Scottish Enterprise will not be able to collect all amounts due according to the terms of the investment.
Financial assets – loans and other receivables:	Fair value is based on amortised cost using the effective interest rate method derived from the anticipated cash flows from the investment over its estimated life. A provision for impairment is established if there is objective evidence that Scottish Enterprise will not be able to collect all amounts due according to the terms of the investment
Land	Fair value of land is derived by analysis of comparable sales evidence and quoted prices of land parcels offering similar characteristics in similar locations to the various land parcels being appraised. Consideration is given to local market forces, developer or occupational demand and competing supply. The assets are valued on a capital rate per acre basis with adjustment made to reflect location, site size, potential phasing of future development and, where appropriate, site servicing costs to unlock the development opportunity.
Buildings	<p>Fair value of the buildings is derived by analysis of comparable sales transactions of properties offering similar characteristics to the assets under consideration.. These are generally derived by adopting an income approach by constructing an envisaged cash flow reflecting the rental income stream, vacancy rates and irrecoverable expenditure associated with any period of vacancy prior to re-letting. The resultant valuations are cross checked where appropriate on a capital per square feet basis.</p> <p>Within the portfolio, equivalent yields have typically been in the range 8.5% to 13.5% with rental voids generally between 12 and 24 months upon individual lease expiries. Rental growth has been factored in on a unit by unit basis where evidence supports the contention.</p> <p>The higher the yield, the longer the vacancy period and the lower any rental growth prospects, then the lower the fair value will be.</p> <p>The lower the yield, the shorter the vacancy period and the greater the rental growth prospects, then the higher the fair value will be.</p>

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

	2016	2015	Group	2016	2015	Scottish
	£000	£000	2014	£000	£000	Enterprise
			£000			2014
						£000
Assets and investments held by Local Enterprise Companies and their subsidiary undertakings	-	-	-	4,687	5,424	9,182
Subsidiary undertakings	-	-	-	6,152	6,152	6,152
Other receivables	4,435	3,258	2,776	4,435	3,258	2,701
	<u>4,435</u>	<u>3,258</u>	<u>2,776</u>	<u>15,274</u>	<u>14,834</u>	<u>18,035</u>

Assets and investments held by Local Enterprise Companies and their subsidiary undertakings

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

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

	2016	2015	Scottish
	£000	£000	Enterprise
			2014
			£000
Land	4,687	5,424	6,093
Investments	-	-	3,089
	<u>4,687</u>	<u>5,424</u>	<u>9,182</u>

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

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 AND SCOTTISH ENTERPRISE

	<i>Property, plant and equipment £000</i>
At 1 April 2014	5,050
Transfers to assets held for sale	1,900
Impairment recognised on re-measurement	(160)
Disposals of non-current assets held for sale	(2,950)
As at 31 March 2015	<u>3,840</u>
At 1 April 2015	3,840
Transfers to assets held for sale	11,315
Impairment recognised on re-measurement	(125)
Disposals of non-current assets held for sale	(1,395)
As at 31 March 2016	<u>13,635</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. The assets are being actively marketed with a view to completion of the sales in the coming year.

The gross value of assets no longer classified for sale and reclassified as land and buildings (Note 7), at 31 March 2016 is £1,075,000 (2015: £Nil). These assets were no longer held for sale due to a combination of current economic conditions and changing strategic priorities.

14. INVENTORIES

	<i>Group</i>			<i>Scottish Enterprise</i>		
	<i>2016</i>	<i>2015</i>	<i>2014</i>	<i>2016</i>	<i>2015</i>	<i>2014</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Finished Goods	118	110	86	-	-	-

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

	2016	2015	Group	2016	2015	Scottish Enterprise
	£000	£000	2014	£000	£000	2014
			£000			£000
Other Subsidiary undertakings	-	-	-	81	74	41
Other receivables	8,476	5,507	10,684	7,192	4,334	9,256
Prepayments	2,950	2,697	2,766	2,798	2,507	2,498
Accrued income	5,338	13,212	9,314	4,658	12,718	8,498
	16,764	21,416	22,764	14,729	19,633	20,293

(i) Provisions for impairments

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

GROUP

	At 1 April 2014	Utilised during year	Movements in Provisions	At 31 March 2015
	£000	£000	£000	£000
Other receivables	3,589	(696)	782	3,675

	At 1 April 2015	Utilised during year	Movements in Provisions	At 31 March 2016
	£000	£000	£000	£000
Other receivables	3,675	(627)	1,206	4,254

SCOTTISH ENTERPRISE

	At 1 April 2014	Utilised during year	Movements in Provisions	At 31 March 2015
	£000	£000	£000	£000
Other receivables	3,560	(691)	490	3,359

	At 1 April 2015	Utilised during year	Movements in Provisions	At 31 March 2016
	£000	£000	£000	£000
Other receivables	3,359	(627)	1,218	3,950

(ii) Public Sector balances

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

	2016	2015	Group	2016	2015	Scottish Enterprise
	£000	£000	2014	£000	£000	2014
			£000			£000
Central Government	5,056	10,904	13,787	4,698	10,560	13,203
Local Authorities	1,764	1,188	947	1,754	1,155	908
NHS Bodies	24	17	30	24	-	-
Bodies External to Government	9,920	9,307	8,000	8,253	7,918	6,182
	16,764	21,416	22,764	14,729	19,633	20,293

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

	2016	2015	Group	2016	2015	Scottish
	£000	£000	2014	£000	£000	Enterprise
			£000			2014
						£000
Balance at 1 April	97,828	109,757	92,119	91,786	101,950	84,481
Net change in cash and cash equivalent balances	8,553	(11,929)	17,638	9,820	(10,164)	17,469
	<u>106,381</u>	<u>97,828</u>	<u>109,757</u>	<u>101,606</u>	<u>91,786</u>	<u>101,950</u>

	2016	2015	Group	2016	2015	Scottish
	£000	£000	2014	£000	£000	Enterprise
			£000			2014
						£000
Scottish Enterprise	49,728	40,195	42,693	49,728	40,195	42,693
Investment Funds	51,878	51,591	59,257	51,878	51,591	59,257
Other subsidiary undertakings	4,775	6,042	7,807	-	-	-
	<u>106,381</u>	<u>97,828</u>	<u>109,757</u>	<u>101,606</u>	<u>91,786</u>	<u>101,950</u>

The balances at 31 March were held at:

Commercial banks and cash in hand	<u>106,381</u>	<u>97,828</u>	<u>109,757</u>	<u>101,606</u>	<u>91,786</u>	<u>101,950</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**

	2016	2015	Group	2016	2015	Scottish
	£000	£000	2014	£000	£000	Enterprise
			£000			2014
						£000
Other taxation and social security	1,165	1,108	1,173	1,024	1,009	1,033
Other subsidiary undertakings	-	-	-	2,148	2,469	2,355
Trade payables	8,707	8,073	14,593	7,996	7,413	14,222
Other payables	1,695	2,674	1,614	1,567	2,558	1,569
Accrued charges	27,757	28,485	29,023	26,957	27,566	28,196
Prepaid revenue	5,216	4,699	5,223	3,485	3,132	3,851
EU Funding for Investment Funds	4,434	3,378	5,465	4,434	3,378	5,465
Treasury appropriations	-	-	-	-	-	-
	<u>48,974</u>	<u>48,417</u>	<u>57,091</u>	<u>47,611</u>	<u>47,525</u>	<u>56,691</u>

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

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

	<i>Group</i>			<i>Scottish Enterprise</i>		
	<i>2016</i>	<i>2015</i>	<i>2014</i>	<i>2016</i>	<i>2015</i>	<i>2014</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Central Government	17,028	15,384	13,831	16,255	15,106	13,585
Local Authorities	1,146	1,420	2,343	1,095	1,381	2,264
NHS Bodies	50	129	225	-	8	23
Bodies External to Government	30,750	31,484	40,692	30,261	31,030	40,819
	<u>48,974</u>	<u>48,417</u>	<u>57,091</u>	<u>47,611</u>	<u>47,525</u>	<u>56,691</u>

Amounts falling due after more than one year

	<i>Group</i>			<i>Scottish Enterprise</i>		
	<i>2016</i>	<i>2015</i>	<i>2014</i>	<i>2016</i>	<i>2015</i>	<i>2014</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Other payables and accrued charges	-	-	-	-	-	-
Deferred income	2,651	2,518	2,960	1,716	2,518	2,960
EU Funding for Investment Funds	1,716	-	905	2,651	-	905
	<u>4,367</u>	<u>2,518</u>	<u>3,865</u>	<u>4,367</u>	<u>2,518</u>	<u>3,865</u>

18. PROVISIONS**GROUP AND SCOTTISH ENTERPRISE**

	<i>Business Infrastructure Costs(i) (ii)</i>	<i>Support costs for leavers</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Restated Balance at 1 April 2014	1,595	2	1,597
Provided in the year	615	-	615
Provisions not required written back	(26)	(2)	(28)
Provisions utilised in the year	(424)	-	(424)
Restated Balance at 1 April 2015	<u>1,760</u>	<u>-</u>	<u>1,760</u>
Provided in the year	380	-	380
Provisions not required written back	-	-	-
Provisions utilised in the year	(68)	-	(68)
Balance at 31 March 2016	<u>2,072</u>	<u>-</u>	<u>2,072</u>

- (i) The provision reflects the value of costs incurred by Falkirk Council, under a joint arrangement, which may be met from future sale proceeds of the land owned by Scottish Enterprise.
- (ii) A provision has been made for claims by the landlords of property formerly leased by Scottish Enterprise. Negotiations on the extent of Scottish Enterprise's liability in respect of these claims are on-going.

NOTES TO THE ACCOUNTS (continued)**19. CAPITAL COMMITMENTS****GROUP AND SCOTTISH ENTERPRISE**

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

	<i>2016</i> <i>£000</i>	<i>2015</i> <i>£000</i>
Property, plant and equipment	-	1,030
Financial Assets	<u>36,270</u>	<u>47,562</u>

Scottish Enterprise has an agreement to invest £55,000,000 in the Scottish Loan Fund LP. The capital commitment at 31 March 2016 includes the balance of funds still to be invested.

20. CONTINGENT LIABILITIES**GROUP AND SCOTTISH ENTERPRISE**

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

	<i>2016</i> <i>£000</i>	<i>2015</i> <i>£000</i>
Contingent liabilities arising from legal actions (i)(ii)	67	20
Other contingent liabilities (iii) (iv)	<u>90</u>	<u>137</u>

- (i) Scottish Enterprise settled a claim in respect of an employee relations matter and the contingent liability has now been removed.
- (ii) Scottish Enterprise has received claims from third parties for compensation in non-employee relations matters totalling £67,000. These claims are under consideration and will be defended if deemed appropriate to do so.
- (iii) Since 31 March 2010, Scottish Enterprise has provided a guarantee to Social Investment Scotland in respect of 90% of a loan provided to Glencraft (Aberdeen) Limited up to £135,000. The guarantee remains in place until 31 March 2018 and at 31 March 2016 the potential liability amounted to £88,000 (2015: £135,000).
- (iv) The carrying value of the remaining investments funded by Public Dividend Capital is £2,000. Any proceeds from the sale of these investments are due to be remitted to the Scottish Government (see Note 10).

NOTES TO THE ACCOUNTS (continued)**21. COMMITMENTS****OPERATING LEASES**

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

	<i>Group</i>			<i>Scottish Enterprise</i>		
	<i>2016</i>	<i>2015</i>	<i>2014</i>	<i>2016</i>	<i>2015</i>	<i>2014</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Obligations under operating leases comprise:						
Land and buildings:						
within one year	4,199	5,626	5,656	3,364	4,665	4,659
after one year but not more than five years	6,669	9,611	13,639	6,176	8,306	11,247
after more than five years	8,826	10,484	11,012	8,826	10,484	11,012
	<u>19,694</u>	<u>25,721</u>	<u>30,307</u>	<u>18,366</u>	<u>23,455</u>	<u>26,918</u>
Other:						
within one year	75	74	71	56	56	56
after one year but not more than five years	117	187	201	83	139	195
after more than five years	-	-	-	-	-	-
	<u>192</u>	<u>261</u>	<u>272</u>	<u>139</u>	<u>195</u>	<u>251</u>

FINANCIAL COMMITMENTS

The Group and Scottish Enterprise have no financial commitments.

NOTES TO THE ACCOUNTS (continued)

22. FINANCIAL INSTRUMENTS

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

Liquidity risk
Credit risk
Market risk

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

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

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

Liquidity risk

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

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

The table below details the contractual maturities of financial liabilities.

GROUP

	2016	2016	2016	2016
	<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>
Financial liabilities				
Trade and other payables	38,159	38,159	38,159	-
	<u>38,159</u>	<u>38,159</u>	<u>38,159</u>	<u>-</u>

SCOTTISH ENTERPRISE

	2016	2016	2016	2016
	<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>
Financial liabilities				
Trade and other payables	36,520	36,520	36,520	-
	<u>36,520</u>	<u>36,520</u>	<u>36,520</u>	<u>-</u>

GROUP

	2015	2015	2015	2015
	<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>
Financial liabilities				
Trade and other payables	39,232	39,232	39,232	-
	<u>39,232</u>	<u>39,232</u>	<u>39,232</u>	<u>-</u>

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

	2015	2015	2015	2015
	<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>
Financial liabilities				
Trade and other payables	37,537	37,537	37,537	-
	<u>37,537</u>	<u>37,537</u>	<u>37,537</u>	<u>-</u>

GROUP

	2014	2014	2014	2014
	<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>
Financial liabilities				
Trade and other payables	45,230	45,230	45,230	-
	<u>45,230</u>	<u>45,230</u>	<u>45,230</u>	<u>-</u>

SCOTTISH ENTERPRISE

	2014	2014	2014	2014
	<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>
Financial liabilities				
Trade and other payables	43,987	43,987	43,987	-
	<u>43,987</u>	<u>43,987</u>	<u>43,987</u>	<u>-</u>

The Group and Scottish Enterprise have no outstanding borrowings at 31 March 2016 (2014, 2015: £nil).

Credit risk

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

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

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

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

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

NOTES TO THE ACCOUNTS (continued)

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:-

GROUP	<i>2016 Carrying Amount £000</i>	<i>2015 Carrying Amount £000</i>	<i>2014 Carrying Amount £000</i>
Financial assets – other investments			
Assets available for sale	214,756	204,239	128,918
Held to maturity assets	2,031	362	2,188
Loans and other receivables	38,412	25,046	28,882
Financial assets			
Trade and other receivables	18,249	21,977	22,774
Cash and cash equivalents	106,381	97,828	109,757
	379,829	349,452	292,519

SCOTTISH ENTERPRISE	<i>2016 Carrying Amount £000</i>	<i>2015 Carrying Amount £000</i>	<i>2014 Carrying Amount £000</i>
Financial assets – other investments			
Assets available for sale	214,311	204,807	141,422
Held to maturity assets	2,031	362	2,188
Loans and other receivables	41,115	27,749	28,081
Financial assets			
Trade and other receivables	16,285	20,310	20,455
Cash and cash equivalents	101,606	91,786	101,950
	375,348	345,014	294,096

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

GROUP	<i>2016</i>		<i>2015</i>		<i>2014</i>	
	<i>Gross £000</i>	<i>Impairment £000</i>	<i>Gross £000</i>	<i>Impairment £000</i>	<i>Gross £000</i>	<i>Impairment £000</i>
Not past due	12,944	(990)	19,661	(135)	15,609	(74)
Past due 0 to 30 days	1,957	-	1,573	-	2,269	-
Past due 31 to 120 days	2,110	-	638	-	3,661	-
Past due more than 120 days	5,679	(3,451)	3,780	(3,540)	4,824	(3,515)
	22,690	(4,441)	25,652	(3,675)	26,363	(3,589)

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

	2016	2016	2015	2015	2014	2014
	Gross	Impairment	Gross	Impairment	Gross	Impairment
	£000	£000	£000	£000	£000	£000
Not past due	10,980	(990)	17,994	(135)	13,290	(74)
Past due 0 to 30 days	1,957	-	1,573	-	2,269	-
Past due 31 to 120 days	2,110	-	638	-	3,661	-
Past due more than 120 days	5,375	(3,147)	3,464	(3,224)	4,795	(3,486)
	<u>20,422</u>	<u>(4,137)</u>	<u>23,669</u>	<u>(3,359)</u>	<u>24,015</u>	<u>(3,560)</u>

Movements in impairment of trade and other receivables are 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:-

	2016	2015	2014
	Carrying	Carrying	Carrying
	Amount	Amount	Amount
	£000	£000	£000
GROUP			
Fixed rate instruments			
Financial assets	69,420	50,977	50,629
Financial liabilities	-	-	-
	<u>69,420</u>	<u>50,977</u>	<u>50,629</u>
Variable rate instruments			
Cash and cash equivalents	106,381	97,828	109,757
	<u>106,381</u>	<u>97,828</u>	<u>109,757</u>
	2016	2015	2014
	Carrying	Carrying	Carrying
	Amount	Amount	Amount
	£000	£000	£000
SCOTTISH ENTERPRISE			
Fixed rate instruments			
Financial assets	69,420	50,977	50,216
	<u>69,420</u>	<u>50,977</u>	<u>50,216</u>
Variable rate instruments			
Cash and cash equivalents	101,606	91,786	101,950
	<u>101,606</u>	<u>91,786</u>	<u>101,950</u>

NOTES TO THE ACCOUNTS (continued)

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> 100 basis points change £000	<i>Scottish</i> <i>Enterprise</i> 100 basis points change £000
Cash and cash equivalents		
31 March 2014	1,009	932
31 March 2015	1,038	969
31 March 2016	1,021	967

Currency risk

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

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

Fair values

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

GROUP	<i>2016</i> <i>Carrying</i> <i>Amount</i> £000	<i>2016</i> <i>Fair</i> <i>Value</i> £000	<i>2015</i> <i>Carrying</i> <i>Amount</i> £000	<i>2015</i> <i>Fair</i> <i>Value</i> £000	<i>2014</i> <i>Carrying</i> <i>Amount</i> £000	<i>2014</i> <i>Fair</i> <i>Value</i> £000
Financial assets available for sale (i)	214,756	214,756	204,239	204,239	128,918	128,918
Financial assets held to maturity	2,031	2,031	362	362	2,188	2,188
Loans and other receivables	38,412	38,412	25,046	25,046	28,882	28,882
Trade and other receivables	18,249	18,249	21,977	21,977	22,774	22,774
Cash and cash equivalents	106,381	106,381	97,828	97,828	109,757	109,757
Trade and other payables	(38,159)	(38,159)	(39,232)	(39,232)	(45,230)	(45,230)
	<u>341,670</u>	<u>341,670</u>	<u>310,220</u>	<u>310,220</u>	<u>247,289</u>	<u>247,289</u>

NOTES TO THE ACCOUNTS (continued)

SCOTTISH ENTERPRISE	2016	2016	2015	2015	2014	2014
	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>
	£000	£000	£000	£000	£000	£000
Financial assets available for sale (i)	214,311	214,311	204,807	204,807	141,422	141,422
Financial assets held to maturity	2,031	2,031	362	362	2,188	2,188
Loans and other receivables	41,115	41,115	27,749	27,749	28,081	28,081
Trade and other receivables	16,285	16,285	20,310	20,310	20,455	20,455
Cash and cash equivalents	101,606	101,606	91,786	91,786	101,950	101,950
Trade and other payables	(36,520)	(36,520)	(37,537)	(37,537)	(43,987)	(43,987)
	<u>338,828</u>	<u>338,828</u>	<u>307,477</u>	<u>307,477</u>	<u>250,109</u>	<u>250,109</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 value are defined as follows:

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

All material Group and Scottish Enterprise financial assets and liabilities are defined as level 3 instruments, with the exception of Stock Exchange investments carried at fair value of £2,723,679 (2015: £3,216,293) at 31 March.

Estimation of fair values

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

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

NOTES TO THE ACCOUNTS (continued)**23. 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:-

Aberdeen City Council	Angus Council	Audit Scotland
Caledonian Maritime Assets Limited	Department of Energy and Climate Change	Dundee City Council
East Ayrshire Council	City of Edinburgh Council	Fife Council
Foreign & Commonwealth Office	Glasgow City Council	Highlands and Islands Enterprise
Irvine Bay Developments Limited	North Ayrshire Council	North Lanarkshire Council
Renfrewshire Council	Scottish Funding Council	South Lanarkshire Council
Scottish National Heritage	Skills Development Scotland Limited	Stirling Council
Visit Scotland	West Lothian Council	

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

24. BOARD MEMBERS INTERESTS

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

Company	Board Member	Position	£	Description
Appshare Limited	Crawford Gillies	Shareholder	10,000	Loan
Ateeda Limited	Crawford Gillies	Shareholder	120,430	Equity
			56,820	Grant
Business & Enterprise Group Limited	Russel Griggs	Director	49,776	Business services
Calcivis Limited	Crawford Gillies	Shareholder	550,128	Equity
Ciquial Limited	Crawford Gillies	Shareholder	39,000	Loan
			1,371	Grant
Design Led Products Limited	Crawford Gillies	Shareholder	25,982	Grant
Imes Limited	Melfort Campbell	Director	8,625	Grant
Mitie Group plc	Crawford Gillies	Director	698,263	FM Services
mLED Limited	Crawford Gillies	Shareholder	280,850	Loan
			5,499	Grant
Morton Fraser LLP	Linda Urquhart	Chairman	832	Legal services
Powerphotonic Limited	Crawford Gillies	Shareholder	423,972	Equity
			5,336	Grant

NOTES TO THE ACCOUNTS (continued)

Company	Board Member	Position	£	Description
Pufferfish Limited	Crawford Gillies	Shareholder	20,000	Grant
			2,004	Business services
PureLiFi Limited	Russel Griggs	Non-executive chair	300,001	Equity
			3,068	Grant
Pyreos Limited	Crawford Gillies	Shareholder	172,500	Loan
			36,960	Grant
SSE Group	Crawford Gillies	Director	52,126	Contract works
University of Aberdeen	Anne Glover	Vice Principal of External Affairs and Dean for Europe	481,219	Grant
			390	Conference fees
Vascular Flow Technologies Limited	Crawford Gillies	Shareholder	10,640	Grant

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

Organisation	Board Member	Position
Audit Scotland	Russel Griggs	Board Member
Heriot Watt University	Iain McLaren	Member of Court
Institute of Occupational Medicine	Russel Griggs	Chair
Irvine Bay Developments Limited	Willie Mackie	Board Member
The Royal Edinburgh Military Tattoo Limited	Gillian Watson	Director
The Royal Edinburgh Military Tattoo Limited	Lena Wilson	Ambassador
Royal Zoological Society of Scotland	Jeremy Peat	Chair
Scottish Council for Development and Industry	Grahame Smith	Director
Skills Development Scotland	Grahame Smith	Non executive director
Skills Development Scotland	Willie Mackie	Non executive director
University of Strathclyde	Lena Wilson	Advisory board member, Business School
University of Strathclyde	Gillian Watson	Member, Commercialisation and Innovation Board
University of Strathclyde	Melfort Campbell	Visiting Professor
University of Strathclyde	Gavin Nicol	Visiting Professor
University of Strathclyde	Jeremy Peat	Adviser, International Public Policy Unit
Visit Scotland	Russel Griggs	Board Member

NOTES TO THE ACCOUNTS (continued)**25. SCHEDULES OF INVESTMENTS AT 31 MARCH 2016**

Disclosure of all Scottish Enterprise's investments, particularly in small businesses, would create a schedule of excessive length. This schedule discloses all investments where Scottish Enterprise holds 20% or more of the voting rights, and where the total investment is in excess of £100,000; and all other investments in excess of £1m, but excludes equity accounted investees which are disclosed in Note 9. Investment amounts are stated at cost before revaluations or provisions.

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

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

A. Investments greater than £100,000 and voting rights 20% or more

	<i>% of Voting Rights</i>	<i>Shares £000</i>	<i>Loans £000</i>
Actual Analytics Limited <i>Software for the analysis of animal behaviour</i>	26.03	559	-
Administrate Limited <i>Development and supply of business management software</i>	27.47	897	-
Advanced Microwave Technologies Ltd <i>Microwave volumetric heating – varied applications</i>	24.21	615	542
Airborne Energy Limited <i>Development of wind turbines for small-scale use</i>	29.85	605	-
Ambicare Health Limited <i>Development of medical healthcare devices</i>	24.65	2,282	168
Antoxis Limited <i>Design and synthesis of therapeutic antioxidants</i>	23.91	373	-
Apsu Environmental Limited <i>Water treatment and waste recycling</i>	29.99	119	-
Aridhia Informatics Limited <i>Biomedical informatics and analytics</i>	22.69	498	1,000
Arrayjet Limited <i>Inkjet printheads to make biological arrays</i>	27.02	1,295	70
Ateeda Limited <i>Development of semiconductor test solutions</i>	20.07	1,095	125
Aurum Biosciences Limited <i>Stroke therapy</i>	21.97	441	-
Avanticell Science Limited <i>Provision of leading-edge products and services</i>	26.70	203	51
Biofilm Limited <i>Manufacture of fast dissolving films</i>	27.52	2,187 278(P)	50
Calcivis Limited <i>Dental medical device co-visualise calcium loss</i>	27.30	1,204	-
Caldan Therapeutics Limited <i>Diabetes diagnostic</i>	26.67	733	-
Calnex Solutions Limited <i>Design and development of test instrumentation</i>	27.37	575	-
Carbon Black System Ltd <i>Design and production of wheelchairs</i>	29.94	344	43
Cellucomp Limited <i>Development of products from high tech composites</i>	22.82	2,307	-
Ceres Holographics Limited <i>Development of holographic technology</i>	25.43	500	-
CiQual Limited <i>Software solutions</i>	25.77	967	756
Clear Surgical Ltd <i>Producer of medical devices</i>	24.79	390	-
Cloudsoft Corporation Limited <i>Development of cloud computing software</i>	28.48	1,484	-

NOTES TO THE ACCOUNTS (continued)

	% of Voting Rights	Shares £000	Loans £000
Clyde Biosciences Limited <i>Cardiac drug screening product</i>	22.71	708	-
Conjunct Limited <i>Innovative transceiver design for data and tele-co</i>	21.33	488	122
Critical Blue Limited <i>Providing flexible, automated embedded systems design</i>	26.34	1,800	-
Cyberhawk Innovations Limited <i>Provider of unmanned aerial vehicle inspection services</i>	26.58	724	50
Deltadna Limited <i>Data mining/analytics services to games industry</i>	24.10	1,416	-
DEM Solutions Limited <i>Engineering software and consultancy provider</i>	21.73	717	125
Design Led Products Limited <i>Developer of proprietary light-guide technology</i>	29.00	1,322	555
DestiNA Genomics Ltd <i>Tester of chemical nucleic acid</i>	22.43	314	-
Dimensional Imaging Limited <i>Facial performance capture software</i>	22.55	261	55
Dukosi Limited <i>Semiconductor design</i>	21.04	745	-
Dundee Cell Products Limited <i>Develops bioscience & drug discovery research tools</i>	28.25	248	-
Exterity Limited <i>Multi user TV provider</i>	23.66	749	-
Fios Genomics Limited <i>Statistical and bio-informatic analyses</i>	22.82	536	-
Fixed Phage Limited <i>Commercialisation of bacteriophages</i>	26.95	368 30(P)	65
Formedix Limited <i>Software/consultancy services provider</i>	20.26	298	-
Gas Sensing Solutions Ltd <i>High speed low cost precision gas sensor</i>	28.38	1,000	350
Helixion Limited <i>Mobile security software solutions</i>	20.63	200	-
Ice Factor International Ltd <i>Leisure and recreation centre operator/franchisor</i>	29.83	445	125
iCs2 Limited <i>Manufacture of electrical cables</i>	23.29	103 37(P)	29
Ingenious Audio Limited <i>Developing a wi-fi guitar/amplifier plug-in device</i>	27.47	365	-
Inquisitive Systems Limited <i>Security software design</i>	21.39	523	-
Keith Brewery Holdings Limited <i>Microbrewery</i>	29.97	130	-
Kiltr Limited <i>Business social networking and media platform</i>	29.98	1,098	173
Leading Software Limited <i>Software development company</i>	22.09	622	50
Loch Duart Limited <i>Sustainable salmon farming</i>	28.90	2,000(P)	125
Logan Energy Limited <i>Hydrogen fuel cell consultancy and installation</i>	27.01	375	-
Lux Assure Limited <i>Monitor technology difficult to detect chemicals</i>	24.33	1,977	-
MGB Biopharma Limited <i>Development of antibacterial drug</i>	29.68	2,319	-
mLED Limited <i>Photonics / optogenetics</i>	20.30	398	365

NOTES TO THE ACCOUNTS (continued)

	% of Voting Rights	Shares £000	Loans £000
Mode Diagnostics Limited <i>Developer of medical diagnostic products</i>	28.92	964	50
My1Login Limited <i>Developer of internet based applications</i>	29.95	654	73
NetThings Limited <i>Developer of energy consumption in house displays</i>	28.90	2,031	-
Network 90 Limited <i>Premium private members networking website</i>	21.38	366	-
NeurocentRx Pharma Limited <i>Reformulates existing drug agents for new uses</i>	23.72	204	-
NGentec Ltd <i>Wind turbine design and manufacturing</i>	28.28	1,250	500
Objective Associates Limited <i>Software developer for online marketplaces</i>	28.14	490	-
Ocutec Limited <i>Medical technology devices - ophthalmology</i>	28.86	1,453	200
Opinurate Ltd <i>Developing and marketing CRM software</i>	27.00	324	-
Outplay Entertainment Limited <i>Development & publication of social digital games</i>	25.07	2,850	-
PowerPhotonic Limited <i>Development and sale of custom laser optics</i>	26.32	1,288	100
ProFactor Pharma Ltd <i>Pharmaceutical development</i>	21.53	397	-
Pufferfish Limited <i>Spherical display systems for events & exhibitions</i>	27.13	534	-
QED Naval Ltd <i>Hydrogen fuel cell consultancy and installation</i>	28.68	280	-
Qikserve Limited <i>Development of smartphone Apps for iPhone and Android</i>	22.52	886	-
Reactec Limited <i>Development of vibration control solutions</i>	25.95	780	-
Red Fox Media Ltd <i>Advertising optimisation in digital media</i>	28.00	473	-
Relitect Limited <i>Developing a diagnostic and monitoring tool</i>	20.80	450	-
Ryboquin Company Ltd <i>Pharmaceutical company</i>	27.23	425	-
Scottrenewables Tidal Power Limited <i>Tidal energy technology developer</i>	28.79	5,161	-
Sentient Medical Limited <i>Development and manufacture of medical equipment</i>	27.90	235	-
Share In Limited <i>Technology to white label crowdfunding</i>	21.50	280	-
SIRAKOSS Limited <i>Developer of bone graft substitute</i>	21.05	886	-
Sistemic Scotland Limited <i>Biotech SistemRNA drug discovery technology</i>	29.99	411	-
Skoogmusic Ltd <i>Developing and designing musical instruments</i>	21.01	287	-
Smarter Grid Solutions Limited <i>Software which increases capacity of existing grid</i>	27.64	1,150	-
Sofant Technologies Ltd <i>Development of smart antennae for mobile communications</i>	22.54	451	-
Spaceright Europe Limited <i>Supplier of equipment to the education sector</i>	23.30	396	200

NOTES TO THE ACCOUNTS (continued)

	<i>% of Voting Rights</i>	<i>Shares £000</i>	<i>Loans £000</i>
Sumerian Europe Limited <i>Provision of IT analytics & information management</i>	23.07	3,450	-
Symbiosis Pharmaceutical Services Limited <i>Pharmaceutical services contract manufacturer</i>	29.50	1,385	60
Symphonic Software Ltd <i>IT governance and access rights solution provider</i>	20.81	316	-
Syntropharma Limited <i>Pharmaceutical company – Generic clinical compounds</i>	28.04	1,166	-
Taragenyx Limited <i>Development of bio-coatings technology</i>	22.00	512	-
Touch Bionics plc <i>Manufacturer of medical and orthopaedic equipment</i>	28.34	3,085	300
Traak Systems Limited <i>RFID & sensor network technology</i>	29.67	263	-
Ubiquigent Ltd <i>Developing products for life research</i>	29.41	250	100
Waveblade Limited <i>Development & marketing of marine engineering tools</i>	27.57	537	30
XstalBio Ltd <i>Involved in drug formulation</i>	25.00	225	-
Total of items listed		78,841	6,605

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>
2-B Energy <i>Offshore wind technology developer</i>	-	-	3,160
Atlantis Resources (Scotland) Ltd <i>Engineering services – tidal energy market</i>	-	-	4,000
AWS Ocean Energy Limited <i>Development of renewable wave energy technology</i>	-	-	1,186
Berwickshire Community Renewables LLP <i>Power generation</i>	-	-	1,750
BigDNA Ltd <i>Developer of small molecule cancer therapies</i>	19.39	1,847	-
Compound Semiconductor Technologies Global Limited <i>Opto-electronic devices designer/development</i>	9.26	1,503	-
Cyclacel Pharmaceuticals Inc. <i>Clinical research cancer drugs Registered in USA & quoted on NASDAQ</i>	0.37	5,000	-
Cytosystems Limited <i>Diagnostic medical technology</i>	15.80	989	196
DYSIS Medical Limited <i>Medical device company</i>	18.22	3,497	-
EIF <i>European Investment Fund Registered in Luxembourg</i>	0.12	1,275	-
Fanduel Limited <i>Prediction market website</i>	8.70	3,471	1,746
GC Holdings Inc <i>Design & sale of advanced fibre optical components</i>	8.93	2,000	-
Heliex Power Limited <i>Manufacturer of energy efficiency product</i>	8.32	2,000(P)	-
IE CHP (UK & Eire) Limited <i>Fuel cell powered combined heat & power systems</i>	7.49	1,012	400

NOTES TO THE ACCOUNTS (continued)

	% of Voting rights	Shares £000	Loans £000
Isle of Harris Distillers Limited <i>Start up malt whisky distillery</i>	18.40	1,500	-
Kobojo <i>Social games development company Registered in France</i>	16.78	1,449	-
Lamellar Biomedical Limited <i>Health care products – R&D and commercial</i>	19.05	1,776	-
MeyGen Holdings Limited <i>Holding company for the MeyGen tidal projects</i>	15.04	10,800	-
MeyGen Limited <i>Tidal turbine project developer</i>	-	-	4,765
Novabiotics Limited <i>Biotech co-dev platform of novel antimicrobials</i>	12.39	2,907	-
NuCana Biomed Limited <i>Biopharmaceutical company</i>	9.52	2,000	-
Pangeo Subsea Scotland Limited <i>Geophysical service provider</i>	11.78	489 635(P)	140
Point & Sandwick Power Limited <i>Power generation</i>	-	-	2,250
Pyreos Limited <i>Production of thin film infrared sensor components</i>	16.40	2,545	345
Stewart Energy Limited <i>Power generation</i>	-	-	1,630
Team Rock Limited <i>Publisher of 'hard rock' magazines/on-line/games</i>	6.38	2 1,998(P)	-
The One Place Capital Limited <i>Web based provision of financial advice to consumer</i>	16.43	1,628	-
Twig Rights Limited <i>Digital media company producing short films</i>	8.48	1,000	174
Vascular Flow Technologies Limited <i>Development of vascular devices</i>	3.20	1,802	-
Vicast Limited <i>Internet video software platform</i>	18.24	768	275
Volo TV & Media Limited <i>In-train entertainment systems</i>	6.85	1,184	120
Epidarex Capital II LP <i>Investment Fund</i>	-	-	1,259
Scottish Loan Fund LP <i>Investment Fund</i>	-	-	19,029
Shackleton Secondaries 3 LP <i>Investment Fund</i>	-	-	1,341
City of Edinburgh Council <i>Development of visitor attraction conference facility</i>	-	-	5,915
Total of items listed		55,077	49,681
	<i>Shares £000</i>	<i>Loans £000</i>	<i>Total £000</i>
Total of items listed – Note 25A	78,841	6,605	85,446
Total of items listed – Note 25B	55,077	49,681	104,758
	133,918	56,286	190,204
Other shares and loans			69,417
Total cost of shares and loans before revaluations or provisions			259,621
			<i>No. of Companies</i>
Total number of companies			519

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