

SCOTTISH ENTERPRISE

ANNUAL REPORT AND ACCOUNTS

For the year ended 31 March 2017

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 2017

OVERVIEW

STATEMENT OF PURPOSE AND ACTIVITIES

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

This Act defines Scottish Enterprise's key functions as:

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

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

STRATEGY AND OBJECTIVES

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

Scottish Enterprise makes a distinctive contribution to the goals of the Economic Strategy. Our 2015-18 [Business Plan](#), launched in April 2015, and our subsequent update in [2016-17](#) set out our approach to help deliver long term, sustainable economic growth for Scotland.

The Scottish Enterprise Business Plan for 2015-18 was built around a clear purpose: to work alongside businesses and sectors 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, helping more Scottish companies and sectors 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 and remain competitive.
- **Internationalisation:** to support Scotland's international trade and investment ambitions, including developing international plans that respond to emerging global growth opportunities in sectors where Scotland has an innovative edge and competitive advantage. This also includes offering integrated export support for companies, using the global network of overseas offices we operate through Scottish Development International; targeted trade promotion activities in key overseas markets, and 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, sectors 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 sector strengths and 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 includes helping create opportunities that deliver more and better jobs and, working with partners, encouraging many more people to contribute to and benefit from these growth opportunities. Through our engagement with businesses and sectors we help to encourage more companies to take a sustainable approach to growing their business and improve productivity performance. As part of this, we have an important role to play in supporting the [Scottish Business Pledge](#) to stimulate progressive workplace practices within companies and support firms to employ a more diverse workforce, raise wage levels and invest in tomorrow's talent.

PERFORMANCE REPORT (continued)

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 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 Cabinet Secretary for Economy, Jobs and Fairwork within the Scottish Government.

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

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

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

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

PERFORMANCE SUMMARY

Scottish Enterprise's 2015-18 Business Plan sets out the longer term actions we would take to improve Scotland's productivity and help build a globally competitive and inclusive economy. We have continued to deliver against the objectives of the plan, while adjusting to the changing economic landscape. 2016/17 represented year two of our 2015-18 business plan.

Scottish Enterprise has successfully delivered all but one of its business plan measure targets for 2016/17. Five of our fifteen business plan measures completed the year above their target range with a further four in the top half of their target range and five in the lower half.

At this stage, three of our full three year target ranges for 2015-18 have been met, with the others mostly on track to achieve the ambitious three year targets we set out in 2015.

Overall, these achievements demonstrate a strong performance at a time of uncertainty and ongoing, challenging market conditions for companies and sectors as a result of factors such as the UK's decision to leave the EU and the continued low global oil price and the impact this is having on Scotland's Oil & Gas sector and supply chain.

Ten out of the eleven milestones set out in our plan for 2016/17 have been met. This includes activities aimed at reaching and engaging with even more businesses, for example: launching a global engagement plan to attract new investors to Scotland, with a strong focus on California and London; launching industry productivity plans for three high employing sectors: Tourism, Food & Drink and Construction; introducing new services through the Scotland CAN DO SCALE programme to support more businesses reach scale and to target under-represented groups; expanding the remit of the Scottish Investment Bank to increase access to funding for Scottish small and medium sized enterprises (SMEs) under proposals for the Scottish Business Development Bank.

We have also continued to develop and introduce new digital services to support exporting, innovation and access to growth funding.

One of our milestones for 2016/17 has not been concluded within the year: to open London and Brussels Innovation and Investment Hubs with partners – this has been partially met with the London Hub opening in March 2017. The Brussels Hub is expected to be operational in 2017/18.

We have also seen progress on some significant elements of our longer-term strategy during 2016/17 including:

- Delivering our innovation strategy which targeted a much broader range of companies in Scotland to stimulate ideas, new services, new products and entry into new markets

PERFORMANCE REPORT (continued)

- Invested in more export support services and expanded our international trade expertise in key overseas markets
- Invested in major infrastructure projects to deliver new economic opportunity in the North East, Tayside, Glasgow and Edinburgh and working with partners on many local projects to help secure the best possible economic impact or mitigate the effects of economic shocks. Our work on the Borders Rail Link, the Steel Task Force, the Fife Task Force and across 28 Community Planning Partnerships in the Scottish Enterprise area are all examples of this
- Launched the Workplace Innovation Service to support businesses adopt fair and more progressive business practices to develop their culture, improve employee engagement and stimulate workplace innovation
- Established the Oil & Gas Technology Centre in Aberdeen and prioritised funding to help more oil and gas companies and their supply chains innovate as well as reducing the risks associated with innovation and R&D investment. New plans were developed with the industry for subsea engineering and decommissioning to capitalise on Scotland's reputation and expertise in the sector over the medium to long term
- Along with industry and other partners, we developed the manufacturing action plan to help manufacturers develop and grow their businesses further through increased investment in leadership, innovation and efficiency. As a result of the action plan, we introduced two new services: a capital asset review service and an enhanced circular economy support service in collaboration with Zero Waste Scotland, to help embed workplace and employee practices that will drive up innovation levels

FUTURE DEVELOPMENTS – 2017/18

2017/18 is the third and final year of our current 2015-2018 Business Plan.

It is recognised that 2017/18 will be a year of transition for Scottish Enterprise. In a shifting economic and operating environment we need to respond effectively to a number of critical economic challenges and opportunities:

- the impact of Brexit and shifts in the global marketplace on Scotland's competitive strengths and our export base
- how we help forge new industries in Scotland from emerging strengths like data science
- how digital technology can help us reshape our delivery models, opening up more of our knowledge, networks and insights to businesses and partners across Scotland and working with others to join up the enterprise support system more effectively

In addition, the Scottish Government published its Enterprise & Skills Review Phase 2 Report on 22 June 2017. This Review aims to ensure that the significant investment across the enterprise and skills landscape in Scotland secures the best possible growth. Scottish Enterprise will consider how it now responds to the review recommendations.

The plan for 2017/18 reflects the scale of ambition informed by evidence, our own capabilities and skills, our delivery approach and our current resources and priorities. It responds to actions set out in the Scottish Government's Programme for Government 2016-17, and continues to respond to Scotland's Economic Strategy and the four drivers of growth: innovation, internationalisation, investment and inclusive growth.

Our 2017/18 update focuses on the action we will deliver to support:

- **More competitive businesses:** working alongside companies to help them develop an ambitious plan for growth and support them to achieve that, including:
 - developing fair and more productive business practices. Encouraging diversity in the workforce by supporting high value jobs, youth employment and more women into leadership roles
 - driving up business innovation levels to maintain competitiveness
 - encouraging companies and sectors to make the most of digital technologies and the insights from data analysis to improve their processes, reduce costs and improve services to customers
 - helping even more companies access appropriate funding that will support their growth
 - introducing a new scale-up service that helps companies with the highest potential achieve their ambitions faster
- **Building competitive strengths in specific sectors:** addressing specific threats, challenges and emerging opportunities by capitalising on Scotland's unique natural assets, talent, research excellence and world class infrastructure, including:
 - developing international plans that respond to emerging global growth opportunities in areas where Scotland has an innovative edge and competitive advantage - premium services and products, data, subsea engineering and financial services technology (fintech)
 - supporting Scotland's world-leading Oil and Gas industry as it invests, innovates and diversifies for the future
 - supporting the continued growth of Scotland's healthcare and life sciences community, including building new commercial units at Edinburgh BioQuarter
 - launching a refreshed action plan for the Fintech sector, alongside industry leaders and Scottish Financial Enterprise
 - encouraging companies in the Financial Services sector to invest more in innovation

PERFORMANCE REPORT (continued)

- **Increasing trade and investment:** attracting new investment into Scotland, and working with an increased number of companies to build the capability to export more of their products and services, including:
 - supporting more companies to trade overseas for the first time
 - offering more support online, making it easier for Scottish companies to access services to start or increase sales to the EU
 - for the higher growth markets of China, India and the Middle East, continue to support companies in Scotland and in market to trade successfully through export support services including the High Growth Market Desk and the dedicated China Plan
 - doubling Scottish Development International's presence in Europe over the next two years and supporting new trade envoys and GlobalScots to champion the Scottish Government's Trade & Investment Strategy
 - opening innovation and investment hubs in Brussels and Berlin alongside Scotland House in London and Dublin, to progress international trade, investment and innovation agendas in companies and sectors

- **Developing a modern, joined up Scottish economic development system:** working with public and private sector partners to unlock growth potential in the economy, or by stimulating positive shifts in the marketplace, including:
 - playing an active part in the emerging regional partnerships across Scotland, and establishing new delivery models to support ambitions for improving the economic performance of regions
 - delivering more services to customers digitally making it easier for more companies to do business with us. Sharing platforms with other public agencies joining up services to offer a more valuable, less complex service for customers
 - supporting the growth of the social enterprise sector in Scotland, delivering a targeted range of support to advisers and enterprises to build skills and the capacity to innovate and grow
 - delivering a pilot programme, Principally Women, to support leaders in business develop and grow their companies and help us understand whether we need different approaches when it comes to realising the economic value that more female entrepreneurs and business leaders can deliver for Scotland

In taking our plan forward, we will continue to deliver alongside public, private and third sector partners to offer the very best integrated economic development support for Scotland.

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

- Growth rates in global economies and the consequent effect on Scottish Enterprise's ability to deliver against priorities
- Impacts of the Oil and Gas Sector slowdown
- Potential changes to the constitutional environment leading to increased uncertainty and the effect on the business landscape
- Scottish Enterprise's ability to attract and retain a highly motivated workforce in order to deliver its ambitious plans
- The effect on budgets arising from Governmental Spending Reviews

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

PERFORMANCE REPORT (continued)

PERFORMANCE ANALYSIS

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

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

RESULTS AGAINST KEY PERFORMANCE INDICATORS

Key

Milestone Progress

- ★ 'Achieved'
- 'Not achieved'

Target Range Results

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

BUSINESS PLAN MILESTONES

Launch a global engagement plan to attract new investors to Scotland	★	Plan launched with a strong focus on the Software sector in California and the Financial & Business Services and Software sectors in London
Establish a new Workplace Innovation Support Service to support companies to develop and implement progressive workplace practices	★	Ministerial launch took place on 22 September 2016
Launch productivity plans with industry for Tourism and Food & Drink, two key, high employing sectors	★	Food Productivity Plan launched 8 September 2016 Ministerial launch of the Tourism Productivity Action Plan took place on 29 September 2016
Launch two new services to support Scotland's Manufacturing Action Plan : 1) a capital asset review service (through SMAS) and 2) an enhanced circular economy support service (in collaboration with Zero Waste Scotland)	★	Both the Capital Asset Service and Circular Economy Support Service have been successfully launched
Establish the Oil & Gas Technology Centre in Aberdeen with partners to increase innovation in the oil & gas sector	★	The Oil & Gas Technology Centre launched in November 2016
Open London and Brussels Innovation and Investment Hubs with our partners to boost exports, inward investment, innovation and international collaboration	●	The London Hub opened on 21 March 2017 The Brussels Hub is expected to be operational in 2017/18
Under proposals for the Scottish Business Development Bank , expand the remit of the Scottish Investment Bank to increase access to funding for Scottish small and medium sized enterprises (SMEs)	★	Enhanced SIB Phase 1 implementation is complete in line with agreed implementation plan.
Launch a productivity plan with industry for Construction, a key, high employing sector	★	Launched on 13 September 2016

PERFORMANCE REPORT (continued)

<p>Support the Oil & Gas sector and associated supply chains by launching with industry partners: 1) a decommissioning action plan to assist companies to maximise domestic and international opportunities, and 2) a subsea engineering action plan to assist companies to innovate and internationalise</p>	★	<p>The decommissioning action plan was launched in December 2016</p> <p>The subsea action plan was completed in December and launched in January 2017</p>
<p>Introduce new services through the Scotland CAN DO SCALE programme to support more businesses reach scale and to target under-represented groups</p>	★	<p>New services have included the launch of online learning tools, a summer school, sessions with international educators and an alumni programme</p>
<p>Launch three low carbon demonstration projects through the Low Carbon Infrastructure Transition Programme, supporting Scotland's renewables sector</p>	★	<p>A Transformational Capital Call via the Low Carbon Infrastructure Transition Plan has resulted in 12 projects going forward to demonstration stage to be delivered by September 2018</p>

MEASURES

INNOVATION			
<ul style="list-style-type: none"> Continuing strong performance on 'Innovation Active' businesses as part of our drive to improve Scotland's innovation performance. Partnership working has been key to the success of engaging with a high number of companies with over 30 partnerships in place across the public and private sector. Targeted promotion of R&D support to companies and sectors, such as Oil & Gas as part of the task force response, has helped create additional demand for innovation support. Strong sector approach with a focus on improving productivity performance through innovation, in key sectors such as Food & Drink, Healthcare, Life & Chemical Sciences, Construction and the role of data in driving innovation 			
2015/16	Measure Description 2016/17	Result	2016/17
1,101	800-1000 supported businesses becoming innovation active	▲	1,756
£190m	£150m - £200m of planned additional R&D investment through Scottish Enterprise assisted projects	▲	£234m
£497m	£200m - £250m of planned additional turnover from innovation by supported companies	▲	£256m
£113m	£100m - £120m of planned efficiency improvements by supported companies	◀▶	£117m
200,796t	180,000t – 220,000t of planned CO ₂ savings arising from Scottish Enterprise company support and large scale, innovation led projects	◀▶	204,446t

INTERNATIONALISATION			
<ul style="list-style-type: none"> Converting companies to become new or active exporters has been a challenge. New digital services will help to reach and engage with more companies in 2017/18 and beyond Enhanced approach to supporting existing exporters to increase international sales through targeted market visits and the High Growth Market Unit which focuses on India, China and the Middle East markets 			
2015/16	Measure Description 2016/17	Result	2016/17
141	250 – 300 assisted companies becoming new or active exporters	▼	200
340	300 – 400 companies projecting significant export growth	◀▶	312

PERFORMANCE REPORT (continued)

INVESTMENT			
<ul style="list-style-type: none"> Successfully delivered a range of activities to expand the Scottish Investment Bank's remit under Scottish Government's Scottish Business Development Bank agenda Enhanced Financial Readiness service developed including new digital services to engage with more Scottish SMEs 			
2015/16	Measure Description 2016/17	Result	2016/17
£277m	£85m - £105m of leveraged private investment from the provision of growth finance via the Scottish Investment Bank	▲	£106m
418	450 – 550 businesses with growth and export potential supported to improve financial readiness...	◀▶	452
85	...of which 85 – 110 supported specifically to secure growth funding	◀▶	103
£156m	£150m - £200m of planned capital investment by supported companies	◀▶	£161m

INCLUSIVE GROWTH			
<ul style="list-style-type: none"> Launched the Workplace Innovation Service to support companies develop fair and more productive business practices Under Inclusive Growth agenda, promoted business benefits of the Scottish Business Pledge, diversity in the workplace and in leadership roles and living wage accreditation with companies 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) jobs Continuing strong performance on increasing entrepreneurial activity through success of Scotland CAN DO SCALE programme and launch of the Entrepreneurial Academy to support more businesses reach scale and to target under-represented groups 			
2015/16	Measure Description 2016/17	Result	2016/17
7,090	7,250 – 9,250 planned jobs through attraction of inward investment...	◀▶	7,839
2,211	...of which 2,250 – 2,750 are HVA planned jobs	◀▶	2,312
686	675 – 850 companies developing their leadership through Scottish Enterprise support	▲	889
231	180 – 240 entrepreneurs increasing their capacity to create internationally competitive early stage ventures	◀▶	217

FINANCIAL PERFORMANCE

Financial Overview

The results for the year ended 31 March 2017 are contained in the attached accounts prepared in accordance with Section 30(1) of the Enterprise and New Towns (Scotland) Act 1990 and the Accounts Direction from the Scottish Ministers. These accounts show the net expenditure of the Scottish Enterprise Group. The accounting policies explain the basis on which the accounts are prepared.

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

The approved Resource Budget for 2016/17, after in year adjustments, amounted to £208.0m, comprising a grant in aid provision of £197.8m and a non-cash allocation of £10.2m. During the year Scottish Enterprise was also allocated £21.0m to cover costs designated as Annually Managed Expenditure. Details of Scottish Enterprise's financial outturn against the budget allocated by the Scottish Government for 2016/17 are included within the Parliamentary and Audit Report section of the Accountability Report.

The Resource Budget for 2017/18 amounts to £205.5m, including £194.9m of grant in aid and a ring fenced non-cash budget provision of £10.6m. As noted previously, the Resource Budget is supplemented by income generated and

PERFORMANCE REPORT (continued)

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 decrease in net asset values to £573.3m (2016: £616.2m).

Scottish Enterprise has continued to invest in its land and property however due to disposals and valuation changes the total value of the land and property assets within Property, Plant and Equipment and Assets held for sale has decreased to £192.1m (2016: £203.6m).

After accounting for new investments, sales and loan repayments and revaluation adjustments, the value of equity investments and loans to companies has increased to £276.1m (2016: £255.2m). 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 decreased to £40.1m (2016: £71.8m). The scheme assets have grown by £130.1m, but scheme liabilities have increased by £161.8m primarily as a consequence of market conditions affecting the discount rate used to calculate future obligations and by assumptions about future mortality rates and the outlook for higher long term inflation rates and salary growth.

Trade and other receivables (within one year) have increased to £51.4m (2016: £16.8m) due to the level of accrued European Regional Development Fund (ERDF) income included in these financial statements. Funding agreements for the latest ERDF programme (2014-2020) were put in place during the year but no claims were made by Scottish Enterprise prior to the financial year end. ERDF has therefore been accrued based on Scottish Enterprise's assessment of eligible expenditure. Trade debtors have also increased by £7m largely due to the deferred payment arrangements agreed for the sales of land. Scottish Enterprise has appropriate security in place in respect of these debts.

Cash balances have decreased to £74.7m (2016: £106.4m) as a consequence of funding the 2016/17 business plan with the level of accrued income and other debt noted above. A significant proportion of cash held in the Scottish Co-investment Fund and Scottish Loan Fund is to fund future investments.

In 2016/17 the Scottish Government introduced Financial Transactions, a new funding source for investment in companies and for the provision of loans. The Financial Transactions funding is repayable to the Scottish Government over various terms of up to 10 years based initially on the estimated returns from the underlying investments made. During 2016/17 Scottish Enterprise drew down £19.2m of repayable Financial Transactions funds, including £5.2m to fund investments made under the Renewable Energy Investment Fund (REIF).

Payment Policy

Scottish Enterprise has a stated service commitment to pay its suppliers within 30 days of receipt of agreed and valid invoices, or as provided for under the terms of an agreed contract. However, as advised by the Scottish Government in November 2008, Scottish Enterprise implemented a revised payment policy of 10 working days for all suppliers. In the year ended 31 March 2017, Scottish Enterprise paid 80% (2016: 78%) of suppliers' invoices within the revised standard. The average number of days taken to pay valid invoices during the year was 8.2 days (2016: 8.6 days).

Lena C Wilson
Accountable Officer
30 June 2017

ACCOUNTABILITY REPORT

for the year ended 31 March 2017

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; a Remuneration Committee, the work of which is considered in the Remuneration Report, and a Nominations and Governance Committee, which reviews the organisation's governance structure and leadership. Following a review of governance arrangements the Investment Committee, the Economic Policy Committee and the Urgent Approvals Committee were disbanded in December 2016.

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

		Audit	Remuneration	Nominations / Governance	Urgent Approvals (i)	Investment (i)	Economic Policy (i)
Bob Keiller	Chairman			C	C		
Lena Wilson	Chief Executive						M
Melfort Campbell		M	M/ C	M			
Anne Glover			M	M			M
Willie Mackie		C	M	M	M		
Alison McGregor		M					
Gavin Nicol						M	
Jeremy Peat	Retired 31 December 2016				M	M	C
Grahame Smith	Retired 30 November 2016	M					M
Carmel Teusner		M					M
Linda Urquhart	Retired 31 December 2016		C	M	M	C	
Gillian Watson	Stepped down 31 March 2017		M	M		M	

C – Chair, M – Member

(i) The Urgent Approvals, Investment and Economic Policy sub-committees were disbanded December 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, of Operations (Growth Companies, Innovation and Infrastructure)
Linda Hanna	Managing Director, Strategy and Sectors
Paul Lewis	Managing Director, Scottish Development International and Scottish Enterprise International Operations
Jane Martin	Managing Director, Customer Operations
Iain Scott	Chief Financial Officer
Carolyn Stewart	Managing Director, People Services

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.

ACCOUNTABILITY REPORT (continued)

Data Loss

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

Estate Management

Scottish Enterprise manages its operational offices in full accordance with the Scottish Government's Asset Management Policy. The Scottish Enterprise Property Plan 2015-18 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 achieve this aim.

Sustainability

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

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 all information included on Scottish Enterprise's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

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

GOVERNANCE STATEMENT

Introduction

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

As Accountable Officer I have specific responsibility in relation to:

- Best Value, including the concepts of corporate governance and continuous improvement;
- Planning, performance management and monitoring;

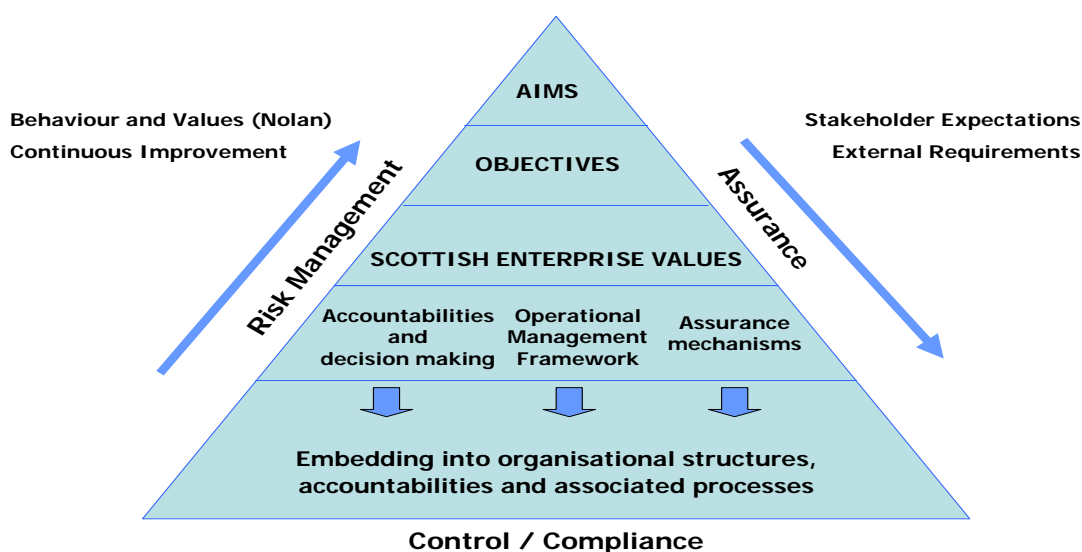
ACCOUNTABILITY REPORT (continued)

- 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 internal staff performance system through the introduction of four sets of behaviours, which are based on emotional and social intelligence – self awareness, self management, social awareness and relationship management - against which staff's performance is measured.

Accountabilities and Decision Making

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

Scottish Enterprise Board and sub-Committees

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

ACCOUNTABILITY REPORT (continued)

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

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

As at 31 March 2017, the Board of Scottish Enterprise comprised the Chairman, 7 non-executive members and myself, as Chief Executive. The Board met in full 7 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	7	7
Lena Wilson	Chief Executive	7	7
Melfort Campbell		7	7
Anne Glover		7	6
Willie Mackie		7	6
Alison McGregor		7	7
Gavin Nicol		7	6
Jeremy Peat	Retired 31 December 2016	6	6
Grahame Smith	Retired 30 November 2016	6	4
Carmel Teusner		7	6
Linda Urquhart	Retired 31 December 2016	6	5
Gillian Watson	Stepped down 31 March 2017	7	6

The Board was supported during the year by six sub-Committees: Audit, Investment, Economic Policy, Remuneration, Nominations & Governance and Urgent Approvals. The Investment and Economic Policy Committees were disbanded in December 2016. These Committees' responsibilities are now considered at the Board. The Urgent Approvals Committee was also disbanded in December 2016. For projects which require approval out with the usual Board cycle, a meeting of Board members is now called to review the project.

The purpose and membership of each committee for the year to 31 March 2017 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.

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.

ACCOUNTABILITY REPORT (continued)

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. The Scottish Enterprise Chairman chairs the Committee and the Committee meets at least twice a year

Urgent Approvals Committee

The Urgent Approvals Sub-Committee granted urgent Board approvals between Board Meetings. The Urgent Approvals Committee was disbanded in December 2016. For projects which require approval out with the usual Board cycle, a meeting of Board members is now called to review the project.

Investment Committee

The Investment Committee's key purpose was to support operational performance and provide a strategic overview of the key investment decisions made by the Scottish Enterprise Board. The Investment Committee was disbanded in December 2016 and the matters discussed are incorporated into the Board meetings to allow a deeper discussion by the full Board.

Economic Policy Committee

The purpose of this Committee was 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 Economic Policy Committee was disbanded in December 2016 and the matters discussed are incorporated into the Board meetings to allow a deeper discussion by the full Board.

Sub Committee Membership and Attendance Record

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

	Audit	Remuneration	Nominations / Governance	Urgent Approvals	Investment	Economic Policy
Bob Keiller, Chairman			2/2	2/2		
Lena Wilson				2/2		
Melfort Campbell	3/4	2/2	2/2			
Anne Glover (i)						0/1
Willie Mackie	4/4	1/2	1/2	2/2		
Alison McGregor	3/3					
Gavin Nicol					2/2	
Jeremy Peat				1/2	2/2	1/1
Grahame Smith	2/2					0/1
Carmel Teusner	1/1					1/1
Linda Urquhart		2/2	2/2	1/2	2/2	
Gillian Watson		2/2	2/2		2/2	

- (i) Anne Glover was appointed to the Remuneration committee and Nominations and Governance Committee on 6 March 2017 and no meetings were held between that date and 31 March 2017.

ACCOUNTABILITY REPORT (continued)

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.

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.

IT Services

Enterprise Information Services (EIS) is a shared service that provides IT services to Scottish Enterprise, Skills Development Scotland and Highlands & Islands Enterprise. EIS hosts the main platforms which are common to each organisation. EIS is supported by contracts with suppliers delivering services under the current Supplier Integration and Management model. An EIS Internal Audit Plan was established which included during the year an internal audit review of Cyber Security.

Risk Management

The Scottish Enterprise Board has approved a risk management policy, the operation of which it reviews on an annual basis to ensure it is supporting the effective and efficient operation of the organisation; helping the business respond to business risks and to implement adequate controls. In accordance with the policy, the Board determines risk appetite, and obtains assurance from management that risks are being managed accordingly.

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

ACCOUNTABILITY REPORT (continued)

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

Scottish Enterprise's Audit Committee reviews the Corporate Risk Register quarterly on behalf of the Board. The Scottish Enterprise Board approves the Corporate Risk Register annually as part of its annual report on risk management.

The Audit Committee is responsible for reviewing the effectiveness of the entire approach to risk management within the organisation and receives reports in support of that on a quarterly basis. An internal audit review of Risk Management was undertaken during the year and concluded that Scottish Enterprise has effective arrangements in place for identifying and managing risks.

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

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. Unqualified reports covering the year to 31 March 2017 was issued. Two high risk exposures were identified for which EIS has established an action plan to address. During the year there were no significant lapses of data security.

I have confirmed for 2016/17 that controls have been, and are, working well within Scottish Enterprise. There are no significant matters arising which would require to be raised.

Internal Audit

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

For 2016/17 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 the conflicts of interest process. All issues are addressed through an action plan to ensure that satisfactory action is being taken.

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 2017 and on the regularity of transactions reflected in the accounts. No significant issues have been identified as part of their audit process and all matters raised are being addressed through an action plan.

REMUNERATION AND STAFF REPORT

This report explains the remuneration policy of Scottish Enterprise for Board Members and for the senior management team, the Executive Leadership Team, and provides details of members' remuneration for the year ended 31 March 2017.

ACCOUNTABILITY REPORT (continued)

Scottish Enterprise Board

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

Bob Keiller was appointed as 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. Out with 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. 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 consequently for 2016/17 there was no bonus scheme operated in Scottish Enterprise.

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

Remuneration Committee

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

The members of the Remuneration Committee who served during the year to 31 March 2017 were:-

Linda Urquhart (Chair) (retired 31 December 2016)
Melfort Campbell (Chair) (from 6 March 2017)
Anne Glover (from 6 March 2017)
Willie Mackie
Gillian Watson (stepped down 31 March 2017)

With effect from 6 March 2017, Melfort Campbell assumed the Chair of the Remuneration Committee, following the retirement of Linda Urquhart from the Scottish Enterprise board.

Executive Leadership Team Remuneration

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

ACCOUNTABILITY REPORT (continued)

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

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

Basic salaries 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.

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.

The information contained in the following section of this report has been subject to audit.

Remuneration

Remuneration paid to the Chairman and other non-executive board members who served during the year to 31 March 2017 was:-

		2017			2016		
		<i>Fee</i>	<i>Travel</i>	<i>Total</i>	<i>Fee</i>	<i>Travel</i>	<i>Total</i>
		£	£	£	£	£	£
Bob Keiller	Chairman	40,482	-	40,482	10,023	-	10,023
Melfort Campbell		12,780	2,065	14,845	12,660	2,065	14,725
Anne Glover		12,780	2,705	15,485	12,660	2,705	15,365
Willie Mackie (b)		15,969	695	16,664	3,798	99	3,897
Alison McGregor (a)		-	-	-	-	-	-
Gavin Nicol		12,780	-	12,780	12,660	-	12,660
Jeremy Peat (b) (c)		11,502	-	11,502	15,192	-	15,192
Grahame Smith (c)		8,520	-	8,520	12,660	-	12,660
Carmel Teusner		12,780	3,185	15,965	3,165	455	3,620
Linda Urquhart (b) (c)		11,502	-	11,502	15,192	-	15,192
Gillian Watson (c)		12,780	562	13,342	12,660	562	13,222

(a) Alison McGregor has waived her entitlement to a board fee. Her fee for 2016/17 would have been £12,780 (2016: £12,660).

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

(c) Grahame Smith retired from the Scottish Enterprise Board on 30 November 2016 and Jeremy Peat and Linda Urquhart retired on 31 December 2016. Gillian Watson subsequently stepped down from the Scottish Enterprise Board on 31 March 2017.

ACCOUNTABILITY REPORT (continued)

Remuneration of the Chief Executive, Lena Wilson, and other Executive Leadership Team members who served during the year to 31 March 2017 was:-

	2017					2016				
	Salary £000	Bonus £000	Other £000	Pension benefits(iii) £000	Total £000	Salary £000	Bonus £000	Other £000	Pension benefits(iii) £000	Total £000
Lena Wilson (i)	214	-	-	65	279	212	-	-	64	276
Adrian Gillespie	118	-	-	41	159	115	-	-	34	149
Linda Hanna	116	-	-	48	164	112	-	-	40	152
Paul Lewis	128	-	-	37	165	127	-	-	13	140
Jane Martin	116	-	-	39	155	112	-	-	34	146
Iain Scott	128	-	-	36	164	127	-	-	27	154
Carolyn Stewart	124	-	-	43	167	120	-	-	36	156

- (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 2016/17.
- (ii) In line with all Scottish Enterprise staff, if they were eligible, Executive Leadership Team members, including the Chief Executive, received a pay increment. Increases varied from 1.00% to 3.98% depending upon the position of the existing salary in the pay band.
- (iii) The value of pension benefits accrued during the year is calculated as the real increase in pensions and applying the HMRC methodology multiplier of 20 plus the real increase in any lump sum. The real increases exclude increases due to inflation and are net of contributions made by the individual.

ACCOUNTABILITY REPORT (continued)

(iv) Retirement benefits of the Executive Leadership Team members for the year to 31 March 2017 are as follows:-

	<i>Accrued Pension at age 60 as at 31 March 2017 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 2017 £000</i>	<i>At 31 March 2016 £000</i>	<i>Increase net of members' contributions £000</i>
Lena Wilson	75 – 80 plus lump sum of 225 - 230	2.5 – 5.0 plus lump sum of 10.0 – 12.5	2,448	1,913	522
Adrian Gillespie	20 – 25 plus lump sum of 65 - 70	0 – 2.5 plus lump sum of 5.0 – 7.5	709	498	203
Linda Hanna	35 – 40 plus lump sum of 110 - 115	0 – 2.5 plus lump sum of 5.0 – 7.5	1,199	905	287
Paul Lewis	45 - 50 plus lump sum of 145 - 150	0 – 2.5 plus lump sum of 5.0 – 7.5	1,648	1,289	351
Jane Martin	20 - 25 plus lump sum of 65 - 70	0 – 2.5 plus lump sum of 5.0 – 7.5	692	495	190
Iain Scott	40 - 45 plus lump sum of 120 - 125	0 – 2.5 plus lump sum of 5.0 – 7.5	1,400	1,083	309
Carolyn Stewart	30 - 35 plus lump sum of 95 - 100	0 – 2.5 plus lump sum of 5.0 – 7.5	1,007	742	257

(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.

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:-.

	2017 £	2016 £
Annualised remuneration before pension benefits of the highest paid member of the Executive Leadership Team	214,303	212,181
Median remuneration of Scottish Enterprise's employees	41,200	39,546
Remuneration ratio	<u>5.2</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 2017.

No employees (2016: 1) 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 £16,150 to £214,303 (2016: £15,366 to £212,181).

STAFF REPORT

Staff Costs

Non executive board member costs comprise:

	2017 £	2016 £
Remuneration (i)	161,087	168,414
Pension and social security costs	<u>25,564</u>	<u>26,819</u>
	<u>186,651</u>	<u>195,233</u>
Chairman's remuneration	<u>40,482</u>	<u>10,023</u>

- (i) Remuneration paid to non-executive board members is detailed in the Remuneration Report above.
- (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 £81,700 (2016: £142,000) within the total retirement benefit liabilities at 31 March 2017, as assessed by Mercer Limited, Scottish Enterprise's advising actuaries.

Staff costs comprise:

	<i>Permanent staff</i> £000	<i>Others</i> £000	2017 £000	2016 £000
Wages and salaries	53,702	-	53,702	53,287
Social security costs	5,182	-	5,182	4,252
Pension costs	12,480	-	12,480	10,342
Inward seconded and temporary staff costs	-	1,491	1,491	895
Severance costs and other exit packages	-	-	-	348
Total staff costs before recoveries (i)	<u>71,364</u>	<u>1,491</u>	<u>72,855</u>	<u>69,124</u>
Less: recoveries in respect of outward secondments	<u>(588)</u>	<u>-</u>	<u>(588)</u>	<u>(541)</u>
Total staff costs	<u>70,776</u>	<u>1,491</u>	<u>72,267</u>	<u>68,583</u>

- (i) Total staff costs before recoveries includes expenditure on temporary staff costs of £945,000 (2016: £285,000) within operating expenditure and expenditure of £114,000 (2016: £167,000) within other management costs in Note 3.

ACCOUNTABILITY REPORT (continued)

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>2017 No.</i>	<i>2016 No.</i>
Executive Leadership Team	7	-	7	7
Operations	1,100	-	1,100	1,101
Administration and support function	309	-	309	316
Inward Secondments and temporary staff	-	16	16	6
	<u>1,416</u>	<u>16</u>	<u>1,432</u>	<u>1,430</u>

Exit Packages

There were no staff members who left or agreed to leave Scottish Enterprise under voluntary severance in the years to 31 March 2017 or 2016. There were 0 (2016: 7) individuals who left Scottish Enterprise or companies within the Scottish Enterprise Group with an exit package at a cost of £nil (2016: £348,274).

<i>Exit package cost band</i>	<i>Compulsory redundancies No.</i>	<i>Other departures agreed No.</i>	<i>Total 2017 No.</i>	<i>Total 2016 No.</i>
< £10,000	-	-	-	<5
£10,000 - £25,000	-	-	-	<5
£25,000 - £50,000	-	-	-	<5
£50,000 - £75,000	-	-	-	<5
£150,000 - £200,000	-	-	-	<5
	<u>-</u>	<u>-</u>	<u>-</u>	<u>7</u>

The total cost of exit packages in the year to 31 March 2017 amounted to £nil (2016: £348,274).

Staff Composition

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

	Male	Female	Total
Board (i)	4	4	8
Executive Leadership Team	3	3	6
Other employees	600	815	1,415

(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 are subject to a check utilising the HMRC Employment Status Indicator tool to ensure Scottish Enterprise should 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 2017 was 9,227 (2016: 7,592) sick days out of a possible 247,739 (2016: 245,601) working days representing a lost time through sickness absence of 3.72% (2016: 3.09%).

ACCOUNTABILITY REPORT (continued)

Staff Policies

During 2016/17 we have continued our focus on an inclusive employee engagement programme designed to engender high levels of workplace engagement as a means to drive continuous improvement and greater productivity in our organisational performance. We recognise that highly engaged organisations perform better, are more innovative and have lower levels of absenteeism, making employee engagement critical in Scottish Enterprise's drive to create a world-class business environment for Scotland.

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

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

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.

At Scottish Enterprise, we value and recognise individuals' contributions regardless of age, disability, ethnic origin, sex, marital and civil partnership status, religion/belief, sexual orientation, pregnancy/maternity or gender re-assignment and embrace a culture based on fair treatment. To reinforce the awareness of these protected characteristics and related policies such as Dignity at Work and Diversity, we require all 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 "Disability Confident" standards for our employment practices and are recognised as an employer for supporting diversity, including Stonewall membership. We regularly review our equal opportunity data, including running focus groups, with external Equality organisations, and identify actions which will help drive improvements.

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

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

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

Scottish Enterprise's recruitment procedure ensures that selection processes are fair, open and objective. More than one person will always interview 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,

ACCOUNTABILITY REPORT (continued)

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 2016 colleagues volunteering totalled over 1,000 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 £15,000 (an increase of 19%) 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.

Scottish Enterprise's net under-spend of £3.907m against its funding provision for the year to 31 March 2017 includes a planned under-spend of £3.200m which was agreed with the Scottish Government as part of the Scottish Government's budget management process for the 2016/17 financial year. Accordingly Scottish Enterprise drew down Grant in Aid of £194.649m, including Financial Transactions funding, against the 2016/17 Grant in Aid provision of £197.849m.

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

	<i>Expenditure</i> £000	<i>Income</i> £000	<i>Outturn</i> £000	<i>Allocation</i> £000	<i>Underspend</i> £000
Resource budget (see below)	191,996	(52,703)	139,293	148,649	(9,356)
Capital budget	104,321	(63,672)	40,649	35,200	5,449
Financial Transactions budget	14,000	-	14,000	14,000	-
	310,317	(116,375)	193,942	197,849	(3,907)
Non –cash costs including depreciation	8,104	-	8,104	10,153	(2,049)
Total resource budget	318,421	(116,375)	202,046	208,002	(5,956)
Annually managed expenditure	19,719	-	19,719	21,000	(1,281)

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 2016/17.

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

	£000
Net expenditure before taxation	198,180
Attributable to non-controlling interests in subsidiaries	20
Depreciation charge allocated to non cash costs	(7,329)
Asset revaluation adjustments charged to annually managed expenditure	(4,579)
Investment impairments charged to annually managed expenditure	(17,276)
Net pension costs attributed to annually managed expenditure	2,354
Provisions charged to annually managed expenditure	(555)
Scottish Government Grant income credited to reserves	(1,315)
Net expenditure attributed to the capital budget	(30,207)
Resource budget	139,293

ACCOUNTABILITY REPORT (continued)

Losses and Special Payments

	<i>No. of cases</i>	<i>£000</i>
Claims abandoned or waived	<u>37</u>	<u>11,082</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 2017, balances in excess of £250,000 written off were as follows:-

			<i>2017</i>
			<i>£000</i>
Accunostics Limited	Ordinary and preference shares and loans	Dissolved	1,910
AVC Wireless Limited	RSA Grant	In liquidation	542
Gas2 Limited	Loan and SMART Grant	In liquidation	2,390
Microemissive Display Group PLC	Ordinary shares	Dissolved	453
Outerlight Limited	Ordinary and preference shares	Dissolved	415
McGeoch Marine Limited	RSA Grant	In administration	396
Seewhy Holdings Limited	Preference shares	Dissolved	1,649
Verisim Limited	Ordinary shares and loan	Dissolved	1,355

Fees and charges

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

Remote contingent liabilities

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

Lena C Wilson
Accountable Officer
30 June 2017

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

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I have audited the financial statements in the annual report and accounts of Scottish Enterprise and its group for the year ended 31 March 2017 under the Enterprise and New Towns (Scotland) Act 1990. The financial statements comprise the Group Statement of Comprehensive Net Expenditure, Scottish Enterprise Statement of Comprehensive Net Expenditure, the Group Statement of Financial Position, Scottish Enterprise Statement of Financial Position, the Group Statement of Cash Flows, Scottish Enterprise Statement of Cash Flows, the Group Statement of Changes in Taxpayers' Equity, Scottish Enterprise Statement of Changes in Taxpayers' Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2016/17 Government Financial Reporting Manual (the 2016/17 FReM).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers of the state of the affairs of the body and its group as at 31 March 2017 and of the net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 FReM; and
- have been prepared in accordance with the requirements of the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers.

Basis of opinion

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

Responsibilities of the Accountable Officer for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. 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.

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

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

Other information in the annual report and accounts

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

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the annual report and accounts 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 or inconsistencies I consider the implications for my report.

Report on regularity of expenditure and income

Opinion on regularity

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

Responsibilities for regularity

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

Report on other requirements

Opinions on other prescribed matters

I am required by the Auditor General for Scotland to express an opinion on the following matters.

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

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

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

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

30 June 2017

GROUP STATEMENT OF COMPREHENSIVE NET EXPENDITURE

for the year ended 31 March 2017

	<i>Notes</i>	<i>2017</i> <i>£000</i>	<i>Restated</i> <i>2016</i> <i>£000</i>
Expenditure			
Operating expenditure	3	175,458	148,223
Net management expenditure on staff costs	3	71,983	68,867
Other management expenditure, incl. depreciation	3	28,071	32,311
		<u>275,512</u>	<u>249,401</u>
Income			
Income from activities	2	(24,696)	(31,487)
Other Income	2	(45,943)	(19,938)
		<u>(70,639)</u>	<u>(51,425)</u>
Net Operating Expenditure		204,873	197,976
Share of losses in equity accounted investees	7	14	17
Income from investments	2	(196)	(215)
Interest receivable	2	(3,732)	(4,705)
Other finance income	2	(2,779)	(1,742)
Net Expenditure after interest		198,180	191,331
Taxation	4	437	691
Net Expenditure after taxation		<u>198,617</u>	<u>192,022</u>
<u>Other Comprehensive Net Expenditure</u>			
Items that will not be reclassified to net expenditure:			
Net gains on revaluation of property, plant and equipment		(1,518)	(2,856)
Net losses on revaluation of property, plant and equipment held by Equity Accounted Investee		-	-
Net remeasurement losses / (gains) recognised in retirement benefit scheme		34,027	(23,907)
Items that may be reclassified to net expenditure:			
Net gains in fair value of available for sale assets		(6,169)	(4,098)
Reclassification to net expenditure in the year		3,921	5,778
Total Comprehensive Net Expenditure for the year		<u>228,878</u>	<u>166,939</u>
Attributable to:			
Taxpayers' Equity		228,898	166,784
Non-Controlling Interest		(20)	155
		<u>228,878</u>	<u>166,939</u>

The notes on pages 36 to 82 form part of these accounts.

SCOTTISH ENTERPRISE STATEMENT OF COMPREHENSIVE NET EXPENDITURE

for the year ended 31 March 2017

	Notes	2017 £000	2016 £000
Expenditure			
Operating expenditure	3	169,040	143,516
Net management expenditure on staff costs	3	64,899	62,049
Other management expenditure, incl. Depreciation	3	27,144	31,642
		<u>261,083</u>	<u>237,207</u>
Income			
Income from activities	2	(23,398)	(30,324)
Other Income	2	(36,791)	(10,042)
		<u>(60,189)</u>	<u>(40,366)</u>
Net Operating Expenditure		200,894	196,841
Income from investments	2	(138)	(159)
Interest receivable	2	(3,721)	(4,677)
Other finance income	2	(2,779)	(1,742)
Net Expenditure after interest		194,256	190,263
Taxation	4	359	668
Net Expenditure after taxation		<u>194,615</u>	<u>190,931</u>
<u>Other Comprehensive Net Expenditure</u>			
Items that will not be reclassified to net expenditure:			
Net gains on revaluation of property, plant and equipment		(53)	(2,433)
Net remeasurement losses / (gains) recognised in retirement benefit scheme		34,027	(23,907)
Items that may be reclassified to net expenditure:			
Net gains in fair value of available for sale assets		(5,724)	(4,194)
Reclassification to net expenditure in the year		3,870	5,623
Total Comprehensive Net Expenditure for the year		<u>226,735</u>	<u>166,020</u>

The notes on pages 36 to 82 form part of these accounts.

GROUP STATEMENT OF FINANCIAL POSITION

as at 31 March 2017

	Notes	2017 £000	Restated 2016 £000	Restated 2015 £000
NON-CURRENT ASSETS				
Property, plant and equipment	5	198,719	202,214	211,377
Intangible assets	6	-	-	7
		<u>198,719</u>	<u>202,214</u>	<u>211,384</u>
Financial assets				
Investments in equity accounted investees	7	1,617	1,531	1,548
Other investments	8	265,107	236,449	221,690
Total financial assets		<u>266,724</u>	<u>237,980</u>	<u>223,238</u>
Retirement benefit scheme	10	40,140	71,813	47,544
Other non-current receivables	11	2,680	4,435	3,258
		<u>508,263</u>	<u>516,442</u>	<u>485,424</u>
TOTAL NON-CURRENT ASSETS				
CURRENT ASSETS				
Intangible assets	6	95	118	-
Other investments	8	11,002	18,750	7,957
Assets classified as held for sale	12	4,740	13,635	3,840
Inventories	13	111	118	110
Income tax receivable		27	33	89
Trade and other receivables	14	51,369	16,764	21,416
Cash and cash equivalents	15	74,713	106,381	97,828
TOTAL CURRENT ASSETS		<u>142,057</u>	<u>155,799</u>	<u>131,240</u>
TOTAL ASSETS		<u>650,320</u>	<u>672,241</u>	<u>616,664</u>
CURRENT LIABILITIES				
Trade and other payables	16	(52,471)	(48,974)	(48,417)
Income tax payable		(222)	(593)	(52)
Provisions	17	(2,627)	(2,072)	(1,760)
TOTAL CURRENT LIABILITIES		<u>(55,320)</u>	<u>(51,639)</u>	<u>(50,229)</u>
NON-CURRENT ASSETS PLUS NET CURRENT ASSETS		<u>595,000</u>	<u>620,602</u>	<u>566,435</u>
NON-CURRENT LIABILITIES				
Other payables	16	(21,666)	(4,367)	(2,518)
TOTAL NON-CURRENT LIABILITIES		<u>(21,666)</u>	<u>(4,367)</u>	<u>(2,518)</u>
ASSETS LESS LIABILITIES		<u>573,334</u>	<u>616,235</u>	<u>563,917</u>
TAXPAYERS' EQUITY				
General Reserve		438,290	473,576	423,033
Specific Reserve		979	1,144	975
Revaluation Reserve		132,791	140,261	138,500
Non-Controlling Interest		1,274	1,254	1,409
TOTAL EQUITY		<u>573,334</u>	<u>616,235</u>	<u>563,917</u>

The notes on pages 36 to 82 form part of these accounts.

The accountable officer authorised these financial statements for issue on 30 June 2017.

Lena C Wilson
Accountable Officer
30 June 2017

SCOTTISH ENTERPRISE STATEMENT OF FINANCIAL POSITION

as at 31 March 2017

	Notes	2017 £000	2016 £000	2015 £000
NON-CURRENT ASSETS				
Property, plant and equipment	5	141,161	144,394	155,106
Intangible assets	6	-	-	7
		<u>141,161</u>	<u>144,394</u>	<u>155,113</u>
Financial assets				
Other investments	8	267,235	238,707	224,961
Retirement benefit scheme	10	40,140	71,813	47,544
Other non-current receivables	11	12,744	15,274	14,834
TOTAL NON-CURRENT ASSETS		<u>461,280</u>	<u>470,188</u>	<u>442,452</u>
CURRENT ASSETS				
Intangible assets	6	95	118	-
Other investments	8	11,002	18,750	7,957
Assets classified as held for sale	12	4,740	13,635	3,840
Trade and other receivables	14	49,235	14,729	19,633
Income tax receivable		-	-	89
Cash and cash equivalents	15	70,283	101,606	91,786
TOTAL CURRENT ASSETS		<u>135,355</u>	<u>148,838</u>	<u>123,305</u>
TOTAL ASSETS		<u>596,635</u>	<u>619,026</u>	<u>565,757</u>
CURRENT LIABILITIES				
Trade and other payables	16	(51,870)	(47,611)	(47,525)
Income tax payable		(207)	(579)	-
Provisions	17	(2,627)	(2,072)	(1,760)
TOTAL CURRENT LIABILITIES		<u>(54,704)</u>	<u>(50,262)</u>	<u>(49,285)</u>
NON-CURRENT ASSETS PLUS NET CURRENT ASSETS		<u>541,931</u>	<u>568,764</u>	<u>516,472</u>
NON-CURRENT LIABILITIES				
Other payables	16	(21,666)	(4,367)	(2,518)
TOTAL NON-CURRENT LIABILITIES		<u>(21,666)</u>	<u>(4,367)</u>	<u>(2,518)</u>
ASSETS LESS LIABILITIES		<u>520,265</u>	<u>564,397</u>	<u>513,954</u>
TAXPAYERS' EQUITY				
General Reserve		427,102	461,284	410,676
Revaluation Reserve		93,163	103,113	103,278
TOTAL EQUITY		<u>520,265</u>	<u>564,397</u>	<u>513,954</u>

The notes on pages 36 to 82 form part of these accounts.

The accountable officer authorised these financial statements for issue on 30 June 2017.

Lena C Wilson
Accountable Officer
30 June 2017

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 March 2017

	<i>Notes</i>	<i>2017</i> <i>£000</i>	<i>Restated</i> <i>2016</i> <i>£000</i>
Cash flows from operating activities			
Net expenditure after interest		(198,180)	(191,331)
Adjustments for:			
Depreciation and assets written off		3,364	2,800
Increase in investment provision and write off		17,302	6,802
Property revaluation deficit		8,790	4,030
Investment revaluation surplus		(144)	(143)
Interest receivable	2	(3,732)	(4,705)
Dividends received	2	(196)	(215)
Retirement benefit scheme net charges		(2,354)	(362)
Share of loss in equity accounted investees	7	14	17
(Surplus) / loss on disposal of property, plant and equipment	2	(831)	17
Surplus on disposal of investments and equity accounted investees	2	(9,919)	(15,753)
		<u>(185,886)</u>	<u>(198,843)</u>
Decrease / (increase) in inventories		7	(8)
(Increase) / decrease in trade and other receivables		(26,877)	5,473
Increase in trade payables		463	2,406
Increase in provision for future liabilities		555	312
		<u>(211,738)</u>	<u>(190,660)</u>
Income tax expense		(802)	(94)
Net cash outflow from operating activities		<u>(212,540)</u>	<u>(190,754)</u>
Cash flows from investing activities			
Proceeds of disposal of property, plant and equipment		8,265	3,742
Proceeds of disposal of financial assets and equity accounted investees		14,621	25,230
Repayments of other investments		14,061	11,966
Interest received		6,430	1,525
Dividends received		196	215
Purchase of property, plant and equipment		(8,436)	(7,020)
Purchase of current intangible assets		(157)	(118)
Purchase of financial assets		(58,108)	(53,434)
Net cash outflow from investing activities		<u>(23,128)</u>	<u>(17,894)</u>
Cash flows from financing activities			
Grants from Scottish Government		184,799	217,201
Financial Transactions financing from Scottish Government		19,201	-
Net cash inflow from financing activities		<u>204,000</u>	<u>217,201</u>
Net (decrease) / increase in cash and cash equivalents in the period		(31,668)	8,553
Cash and cash equivalents at the beginning of the period	15	106,381	97,828
Cash and cash equivalents at the end of the period	15	<u>74,713</u>	<u>106,381</u>

The notes on pages 36 to 82 form part of these accounts.

SCOTTISH ENTERPRISE STATEMENT OF CASH FLOWS

for the year ended 31 March 2017

	Notes	2017 £000	2016 £000
Cash flows from operating activities			
Net expenditure after interest		(194,256)	(190,263)
Adjustments for:			
Depreciation and assets written off		1,981	1,650
Increase in investment provision and write off		17,237	6,720
Property revaluation deficit		5,232	3,124
Investment revaluation surplus		(143)	(144)
Interest receivable	2	(3,721)	(4,677)
Dividends received	2	(138)	(159)
Retirement benefit scheme net charges		(2,354)	(362)
(Surplus) / loss on disposal of property, plant and equipment	2	(831)	17
Surplus on disposal of investments and equity accounted investees	2	(9,760)	(15,646)
		<u>(186,753)</u>	<u>(199,740)</u>
(Increase) / decrease in trade and other receivables		(26,003)	6,462
Increase in trade payables		1,225	1,935
Increase in provision for future liabilities		555	312
		<u>(210,976)</u>	<u>(191,031)</u>
Income tax expense		(731)	-
Net cash outflow from operating activities		<u>(211,707)</u>	<u>(191,031)</u>
Cash flows from investing activities			
Proceeds of disposal of property, plant and equipment		8,264	3,742
Proceeds of disposal of financial assets		14,251	26,063
Repayments of other investments		14,061	12,107
Interest received		6,419	1,497
Dividends received		138	159
Purchase of property, plant and equipment		(7,342)	(4,742)
Purchase of current intangible assets		(95)	(118)
Purchase of financial assets		(57,997)	(53,168)
Net cash outflow from investing activities		<u>(22,301)</u>	<u>(14,460)</u>
Cash flows from financing activities			
Grants from Scottish Government		183,484	215,311
Financial Transactions financing from Scottish Government		19,201	-
Net cash inflow from financing activities		<u>202,685</u>	<u>215,311</u>
Net (decrease) / increase in cash and cash equivalents in the period		(31,323)	9,820
Cash and cash equivalents at the beginning of the period	15	101,606	91,786
Cash and cash equivalents at the end of the period	15	<u>70,283</u>	<u>101,606</u>

The notes on pages 36 to 82 form part of these accounts.

GROUP STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

for the year ended 31 March 2017

	<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>
Restated balance at 1 April 2015	423,033	975	138,500	1,409	563,917
Net expenditure during the year	(192,036)	169	-	(155)	(192,022)
Remeasurement gains in retirement benefit scheme	23,907	-	-	-	23,907
Deficits on revaluation of investments	-	-	(1,680)	-	(1,680)
Net surpluses on revaluation of property, plant and equipment	-	-	3,760	-	3,760
Transfer between reserves	319	-	(319)	-	-
Total recognised income and expense for year to 31 March 2016	<u>(167,810)</u>	<u>169</u>	<u>1,761</u>	<u>(155)</u>	<u>(166,035)</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>
Restated balance at 31 March 2016	<u>473,576</u>	<u>1,144</u>	<u>140,261</u>	<u>1,254</u>	<u>616,235</u>
Net expenditure during the year	(198,472)	(165)	-	20	(198,617)
Remeasurement losses in retirement benefit scheme	(34,027)	-	-	-	(34,027)
Surpluses on revaluation of investments	-	-	2,248	-	2,248
Net surpluses on revaluation of property, plant and equipment	-	-	3,577	-	3,577
Transfer between reserves	13,295	-	(13,295)	-	-
Total recognised income and expense for year to 31 March 2017	<u>(219,204)</u>	<u>(165)</u>	<u>(7,470)</u>	<u>20</u>	<u>(226,819)</u>
Grant in Aid from Scottish Government	180,649	-	-	-	180,649
Other grants from Scottish Government	3,269	-	-	-	3,269
	<u>183,918</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>183,918</u>
At 31 March 2017	<u>438,290</u>	<u>979</u>	<u>132,791</u>	<u>1,274</u>	<u>573,334</u>

The General Reserve is the accumulated surplus on grant in aid funded activity of Scottish Enterprise. Since the incorporation of Scottish Enterprise in 1991 the aggregate amount of grant in aid provided is £9,160m (2016: £8,979m). The grant in aid provision of £181m for 2016/17 included £35m in respect of net capital expenditure.

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

Revaluation Reserve is the cumulative unrealised balance arising on revaluation adjustments to assets. Included within the Revaluation Reserve total of £133m (2016: £140m) is £56m (2016: £66m) attributable to net unrealised surpluses on Land and Buildings.

SCOTTISH ENTERPRISE STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

for the year ended 31 March 2017

	<i>General Reserve £000</i>	<i>Revaluation Reserve £000</i>	<i>Total £000</i>
Balance at 1 April 2015	410,676	103,278	513,954
Net expenditure during the year	(190,931)	-	(190,931)
Remeasurement gains in retirement benefit scheme	23,907	-	23,907
Deficits on revaluation of investments	-	(1,429)	(1,429)
Net surpluses on revaluation of property, plant and equipment	-	2,433	2,433
Transfer between reserves	1,169	(1,169)	-
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>
Net expenditure during the year	(194,615)	-	(194,615)
Remeasurement losses in retirement benefit scheme	(34,027)	-	(34,027)
Surpluses on revaluation of investments	-	1,854	1,854
Net surpluses on revaluation of property, plant and equipment	-	53	53
Transfer between reserves	11,857	(11,857)	-
Total recognised income and expense for year to 31 March 2017	<u>(216,785)</u>	<u>(9,950)</u>	<u>(226,735)</u>
Grant in Aid from Scottish Government	180,649	-	180,649
Other grants from Scottish Government	1,954	-	1,954
	<u>182,603</u>	<u>-</u>	<u>182,603</u>
Balance at 31 March 2017	<u>427,102</u>	<u>93,163</u>	<u>520,265</u>

The General Reserve is the accumulated surplus on grant in aid funded activity of Scottish Enterprise. Since the incorporation of Scottish Enterprise in 1991 the aggregate amount of grant in aid provided is £9,160m (2016: £8,979m). The grant in aid provision of £181m for 2016/17 included £35m in respect of net capital expenditure.

Revaluation Reserve is the cumulative unrealised balance arising on revaluation adjustments to assets. Included within the Revaluation Reserve total of £93m (2016: £103m) is £17m (2016: £29m) attributable to net unrealised surpluses on Land and Buildings.

STATEMENT OF ACCOUNTING POLICIES

1. Basis of preparation

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

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

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

Change in accounting policy and restatement

The accounting policies have, unless otherwise stated, been applied consistently for all periods presented in the Group and Scottish Enterprise accounts. For financial year 2016/17 and following consideration of the estimated economic life of buildings owned by a subsidiary company and revalued annually on the basis of depreciated replacement cost, the period over which the buildings are to be depreciated has been extended from 25 years to 26 and 45 years. Staff costs of a subsidiary company have been reclassified from operating expenditure to management expenditure. Scottish Enterprise has adjusted comparative amounts disclosed in each prior period as if the new accounting policy had always applied. Details of prior period adjustments are given in note 24.

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

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

- Retirement benefit assets (Note 10)
- Land and property (Note 5)
- Financial assets (Note 8)
- Assets classified as held for sale (Note 12)

The Board and Accountable Officer have considered the Resource Budget for 2017/18, 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 2017/18 are given in the Performance Report. Details of the liquidity position are given in Note 21.

2. Basis of consolidation

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

(a) Subsidiaries

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

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

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

(b) Associates and jointly controlled entities

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

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.

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

4. Property, plant and equipment

(a) *Land*

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

STATEMENT OF ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

Depreciation is charged to the Statement of Comprehensive Net Expenditure on the revalued amount of each property less the estimated residual value on a straight line basis over their expected useful lives of up to a maximum of 50 years. Where an item of property has significant components, the components are depreciated separately, in accordance with their useful lives. The useful lives of property assets are determined in consultation with Ryden LLP, Chartered Surveyors.

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

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

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.

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

(d) *Subsequent expenditure*

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

STATEMENT OF ACCOUNTING POLICIES (continued)

(e) *Impairment*

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

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

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

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

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

Non-current assets held for sale are not depreciated.

6. **Financial assets**

Classification

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

(a) *Loans and receivables*

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

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

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

(c) *Held-to-maturity assets*

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

Recognition and measurement

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

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

STATEMENT OF ACCOUNTING POLICIES (continued)

(a) *Loans and receivables*

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

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

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

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

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

A quoted investment is valued using the bid price on the date of each Statement of Financial Position.

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

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

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

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

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

(c) *Held-to-maturity assets*

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

7. **Intangible assets**

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

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

STATEMENT OF ACCOUNTING POLICIES (continued)

(b) Software Licences

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

Annual software licences are charged to the Statement of Comprehensive Net Expenditure in the year in which they are incurred.

(c) Carbon Reduction Commitment (CRC) Scheme Allowances

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

8. Assets held by Local Enterprise Companies

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.

STATEMENT OF ACCOUNTING POLICIES (continued)**14. Grants**

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

15. Taxation

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

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

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

16. Employee benefits*(a) Retirement benefits*

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

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

The expected return on the plan's assets less the interest cost of the plans' obligations is recognised in the Statement of Comprehensive Net Expenditure as Other Finance Income or as Other Finance Charges where the interest cost exceeds the expected return on plan assets. The interest cost of the 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.

STATEMENT OF ACCOUNTING POLICIES (continued)

(b) Short term employee benefits

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

17. Exchange Gains and Losses

(a) Functional and presentation currency

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

(b) Transactions and balances

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

18. Cash and cash equivalents

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

19. Financial Liabilities

Classification

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

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

Recognition and measurement

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

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

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

20. Provisions

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

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

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

STATEMENT OF ACCOUNTING POLICIES (continued)

21. Critical accounting estimates and judgements

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

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

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

(a) Retirement benefit obligations

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

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

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

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

(b) Fair value of financial instruments

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

(c) Held-to-maturity investments

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

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

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

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

22. Accounting standards issued not yet adopted

There are 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 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.

STATEMENT OF ACCOUNTING POLICIES (continued)

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

NOTES TO THE ACCOUNTS

1. EXPENDITURE

	<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>Restated</i>		<i>2017</i>	<i>2016</i>
	<i>2017</i>	<i>2016</i>		
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating Expenditure	<u>175,458</u>	<u>148,223</u>	<u>169,040</u>	<u>143,516</u>
Management Expenditure	<u>100,054</u>	<u>101,178</u>	<u>92,043</u>	<u>93,691</u>
Expenditure noted above includes:				
Rentals under operating leases				
Buildings	5,469	5,908	4,473	4,991
Other	69	89	69	71
Foreign exchange (gains) / losses	(250)	(171)	(195)	(157)
Depreciation	8,199	5,367	3,243	2,860
Amortisation of intangible assets	62	7	-	7
Auditors' remuneration				
- audit of these accounts (i)	<u>157</u>	<u>153</u>	<u>157</u>	<u>153</u>
Amounts paid to other auditors in respect of:				
- audit of subsidiary companies' accounts	40	41	-	-
- non-audit fees	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>40</u>	<u>41</u>	<u>-</u>	<u>-</u>

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

2. INCOME

	<i>Group</i>		<i>Scottish Enterprise</i>	
			<i>2017</i>	<i>2016</i>
	<i>2017</i>	<i>2016</i>		
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Income from Activities				
Property Services				
Rents	9,690	9,517	8,571	8,481
Sundry property income	4,256	6,234	4,236	6,214
Surplus / (loss) on disposal of property	831	(17)	831	(17)
Investment Management				
Surplus on disposal of investments and equity accounted investees	<u>9,919</u>	<u>15,753</u>	<u>9,760</u>	<u>15,646</u>
	<u>24,696</u>	<u>31,487</u>	<u>23,398</u>	<u>30,324</u>
Other Income				
European funding	31,345	3,544	31,345	3,548
Contributions and other fees	<u>14,598</u>	<u>16,394</u>	<u>5,446</u>	<u>6,494</u>
	<u>45,943</u>	<u>19,938</u>	<u>36,791</u>	<u>10,042</u>
Income from Investments				
Dividends and other investment income	<u>196</u>	<u>215</u>	<u>138</u>	<u>159</u>
Interest Receivable	<u>3,732</u>	<u>4,705</u>	<u>3,721</u>	<u>4,677</u>
Other Finance Income				
Net interest income on retirement benefit scheme assets	<u>2,779</u>	<u>1,742</u>	<u>2,779</u>	<u>1,742</u>

NOTES TO THE ACCOUNTS (continued)**3. SEGMENTAL REPORTING**

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

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

	<i>Group Restated</i>		<i>Scottish Enterprise</i>	
	<i>2017 £000</i>	<i>2016 £000</i>	<i>2017 £000</i>	<i>2016 £000</i>
Operating Expenditure				
Internationalisation				
International Services Support	12,958	12,110	14,945	13,377
Market Development	3,754	2,636	3,760	2,636
International Marketing and Research	4,587	4,971	4,361	4,697
Overseas Premises and Facilities Management Costs	4,814	3,748	4,814	3,748
Innovation				
Innovation Specialist Support	9,064	6,147	9,064	6,147
Business Efficiency	7,291	5,972	7,291	5,972
R&D Support	20,789	13,718	20,793	13,718
Renewable Energy R&D Support – WATERS/POWERS/SIFT	1,067	2,451	1,067	2,451
Commercialisation Support	4,074	4,957	3,974	4,317
Investment				
Equity Investment and Loans	16,444	5,443	16,362	5,343
Renewable Energy Investment Fund	2,533	2,495	2,533	2,495
Capital Expenditure Grant Support Programmes	14,793	19,111	14,793	19,111
Business Infrastructure	36,962	29,207	29,989	24,913
Digital Strategy Business Engagement Programme	3,384	1,750	3,384	1,750
Inclusive Growth				
Job Creation/Safeguarding Grant Support Schemes	8,583	9,978	8,583	9,978
Entrepreneurship, Leadership and Organisational Development	8,111	7,498	7,068	6,578
Cross Cutting Activity				
Industry Sector Project Support	9,856	10,233	9,865	10,487
Strategic Development	3,138	2,934	3,138	2,934
Marketing, Research & Digital Services	3,256	2,864	3,256	2,864
Total Segmental Expenditure	175,458	148,223	169,040	143,516
Management Expenditure				
Management expenditure on staff costs (i)	71,983	68,867	64,899	62,049
Premises, ICT, business services and other management costs (ii)	28,071	32,311	27,144	31,642
	100,054	101,178	92,043	93,691
Income	(70,639)	(51,425)	(60,189)	(40,366)
Net Operating Expenditure	204,873	197,976	200,894	196,841

NOTES TO THE ACCOUNTS (continued)

(i) Management expenditure on staff costs comprises:-

	<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Wages and salaries	53,863	53,455	47,700	47,563
Social security costs	5,195	4,264	4,619	3,704
Pension costs	12,493	10,357	12,174	10,141
Secondments and temporary staff costs	432	535	406	395
Severance costs	-	256	-	246
	<u>71,983</u>	<u>68,867</u>	<u>64,899</u>	<u>62,049</u>

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

(ii) In 2013, Scottish Enterprise started working on a partnership project with two other NDPBs to implement new HR and Finance systems. After a number of delays to the project, Scottish Enterprise commissioned an independent review which identified the need to incur significant additional costs together with a further delayed implementation. As a consequence, Scottish Enterprise decided to leave the arrangement and seek alternative solutions. Scottish Enterprise incurred £1.6m over the course of the 4 years, on licence fees and related staffing costs, of which £0.5m is included in these financial statements. Whilst the partnership project did have some successful outcomes, Scottish Enterprise withdrew prior to implementation and therefore an element of this expenditure should be considered as a Constructive Loss, in accordance with the Scottish Public Finance Manual. A full lessons learned review has been conducted and reviewed by the Audit Committee.

4. TAXATION

	<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
UK Corporation tax @ 20%	314	696	294	668
Corporation tax under / (over) provided in previous years	123	(5)	65	-
	<u>437</u>	<u>691</u>	<u>359</u>	<u>668</u>
Share of equity accounted investees' tax	-	-	-	-
Total current tax	<u>437</u>	<u>691</u>	<u>359</u>	<u>668</u>

Factors affecting current tax charge:

	<i>Group</i>		<i>Scottish Enterprise</i>	
	<i>Restated</i>		<i>2017</i>	<i>2016</i>
	<i>2017</i>	<i>2016</i>		
<i>£000</i>	<i>£000</i>			
Net expenditure after interest	198,180	191,331	194,256	190,263
Current tax @ 20%	(39,636)	(38,266)	(38,851)	(38,053)
Effect of:				
Non-taxable income and disallowed expenditure	39,950	38,962	39,145	38,721
Tax under / (over) provided in previous years	123	(5)	65	-
Current tax charge	<u>437</u>	<u>691</u>	<u>359</u>	<u>668</u>

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

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

Included within Land is land on long leasehold (over 50 years) with a value of £Nil (2016: £Nil).

Land and Buildings held for industrial and commercial use were valued at 31 March 2017 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 £187m (2016: £190m).

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

At 31 March 2017 the net carrying value of leased equipment was £Nil (2016: £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									
Restated at 1 April 2015	105,827	94,900	42	116	14,038	5,685	3,719	10,876	235,203
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	(5,859)	-	-	-	-	-	-	(145)
Restated at 31 March 2016	99,742	90,186	1,648	116	15,188	5,809	3,739	11,223	227,651
Depreciation									
Restated at 1 April 2015	-	-	-	108	12,549	4,853	3,501	2,815	23,826
Charge for year	-	2,574	-	11	1,065	460	161	1,096	5,367
Revaluation	-	(2,574)	-	-	-	-	-	-	(2,574)
Disposals	-	-	-	(15)	(1,005)	(14)	(142)	(6)	(1,182)
Restated at 31 March 2016	-	-	-	104	12,609	5,299	3,520	3,905	25,437
Net book value									
Restated at 31 March 2016	99,742	90,186	1,648	12	2,579	510	219	7,318	202,214
Restated at 31 March 2015	105,827	94,900	42	8	1,489	832	218	8,061	211,377
Asset financing									
Restated Owned	99,742	90,186	1,648	12	2,579	510	219	7,318	202,214
Net book value									
Restated at 31 March 2016	99,742	90,186	1,648	12	2,579	510	219	7,318	202,214

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

Included within Land is land on long leasehold (over 50 years) with a value of £Nil (2016: £Nil).

Land and Buildings held for industrial and commercial use were valued at 31 March 2017 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 £132m (2016: £135m).

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

NOTES TO THE ACCOUNTS (continued)

6. 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 2015	925	876	-	1,801
Additions	-	-	118	118
As at 31 March 2016	925	876	118	1,919
Additions	62	-	95	157
Disposals	-	-	(118)	(118)
As at 31 March 2017	987	876	95	1,958
Amortisation				
At 1 April 2015	925	869	-	1,794
Charge for year	-	7	-	7
As at 31 March 2016	925	876	-	1,801
Charge for year	62	-	-	62
As at 31 March 2017	987	876	-	1,863
Net book value				
At 31 March 2017	-	-	95	95
At 31 March 2016	-	-	118	118
At 1 April 2015	-	7	-	7
Non-Current Intangible Assets	-	-	-	-
Current Intangible Assets	-	-	95	95
Total Intangible Assets at 31 March 2017	-	-	95	95

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	<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 2015	633	867	-	1,500
Additions	-	-	118	118
As at 31 March 2016	633	867	118	1,618
Additions	-	-	95	95
Disposals	-	-	(118)	(118)
As at 31 March 2017	633	867	95	1,595
Amortisation				
At 1 April 2015	633	860	-	1,493
Charge for year	-	7	-	7
As at 31 March 2016	633	867	-	1,500
Charge for year	-	-	-	-
As at 31 March 2017	633	867	-	1,500
Net book value				
At 31 March 2017	-	-	95	95
At 31 March 2016	-	-	118	118
At 1 April 2015	-	7	-	7
Non-Current Intangible Assets	-	-	-	-
Current Intangible Assets	-	-	95	95
Total Intangible Assets at 31 March 2017	-	-	95	95

NOTES TO THE ACCOUNTS (continued)

7. EQUITY ACCOUNTED INVESTEEES

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

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

- (i) AMCET Limited is currently in the process of an application to strike off
(ii) 7 Stanes Mountain Biking Community Interest Company was dissolved on 17 January 2017.

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 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)
At 31 March 2017	52,277	1,150	53,427	(10,073)	(56,093)	(66,166)	5,549	(8,512)	(2,963)

Movements in carrying amount of investment in equity accounted investees:

	£000
Carrying amount at 1 April 2015	1,548
Share of net losses	(17)
Carrying amount at 31 March 2016	<u>1,531</u>
Carrying amount at 1 April 2016	1,531
Share of net losses	(14)
Revaluation	100
Carrying amount at 31 March 2017	<u><u>1,617</u></u>

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

	<i>Group</i>			<i>Scottish Enterprise</i>		
	<i>2017</i>	<i>2016</i>	<i>2015</i>	<i>2017</i>	<i>2016</i>	<i>2015</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	238,487	214,756	204,239	237,914	214,311	204,807
Held to Maturity Investments	21	2,031	41	21	2,031	41
Loans and other receivables	26,599	19,662	17,410	29,300	22,365	20,113
	<u>265,107</u>	<u>236,449</u>	<u>221,690</u>	<u>267,235</u>	<u>238,707</u>	<u>224,961</u>
Current Other Investments						
Held to Maturity Investments	-	-	321	-	-	321
Loans and other receivables	11,002	18,750	7,636	11,002	18,750	7,636
	<u>11,002</u>	<u>18,750</u>	<u>7,957</u>	<u>11,002</u>	<u>18,750</u>	<u>7,957</u>
Total Other Investments	<u>276,109</u>	<u>255,199</u>	<u>229,647</u>	<u>278,237</u>	<u>257,457</u>	<u>232,918</u>

The above financial assets have been funded as follows:

	<i>Group</i>			<i>Scottish Enterprise</i>		
	<i>2017</i>	<i>2016</i>	<i>2015</i>	<i>2017</i>	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Grant in Aid	276,108	255,197	229,645	278,236	257,455	232,916
Public Dividend Capital	1	2	2	1	2	2
	<u>276,109</u>	<u>255,199</u>	<u>229,647</u>	<u>278,237</u>	<u>257,457</u>	<u>232,918</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 (2016: £Nil).

Listed Investments

Stock Exchange investments included in the above at 31 March 2017 are valued £3,015,191 (2016: £2,723,679) which includes unrealised surpluses on valuation of £893,460 (2016: £498,440). Income from listed investments in the year to 31 March 2017 was £57,967 (2016: £53,964).

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
Glasgow Science Centre Limited (i)	Visitor attraction operator	100
Glasgow Science Centre (Trading) Limited (i)	Commercial operations management	100
Loch Lomond Shores Management Company Limited	Property management	100
Scotland Europa Limited	Business services	100
SCTR Limited	Business incubator	100
SE Conference House Limited	Property letting	100
SE Grampian Investments Limited	Investment fund	100
Tay Euro Fund Limited	Investment fund	100
Co-operative Development Scotland Limited	Dormant	100
Enterprise Services Scotland Limited	Dormant	100
GDA Investments Limited	Dormant	100
Scottish Investment Bank Limited	Dormant	100
Scottish Development Finance Limited	Dormant	100

Limited by guarantee	Nature of Business	% of Membership
Calder Park (Management) Limited	Property management	100
Glasgow Science Centre Charitable Trust	Visitor attraction ownership	100
The Glasgow Science Centre Endowment Fund	Investment fund	66.67
ITI Scotland Limited	Commissioning of research	100
Investors in People Scotland	Training & skills accreditation	50(S)
Scottish Intellectual Asset Management Limited	Commercialisation of intellectual assets	50(S)
The Loch Lomond Trust (ii)	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) The Loch Lomond Trust was dissolved on 11 April 2017.

Local Enterprise Companies

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

NOTES TO THE ACCOUNTS (continued)

9. FAIR VALUE MEASUREMENTS

The following table sets out the assets and liabilities that are measured and recognised at fair value at 31 March 2017:

GROUP

	2017	2017	2017	2017
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	£000	£000	£000	£000
Recurring fair value measurements				
Financial assets	3,015	-	273,094	276,109
Land and buildings	-	-	187,330	187,330
Non-recurring fair value measurements				
Assets classified as held for sale	-	-	4,740	4,740
	<u>3,015</u>	<u>-</u>	<u>465,164</u>	<u>468,179</u>

SCOTTISH ENTERPRISE

	2017	2017	2017	2017
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	£000	£000	£000	£000
Recurring fair value measurements				
Financial assets	15	-	278,222	278,237
Land and buildings	-	-	132,309	132,309
Non-recurring fair value measurements				
Assets classified as held for sale	-	-	4,740	4,740
	<u>15</u>	<u>-</u>	<u>415,271</u>	<u>415,286</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 2017:

GROUP

	<i>Financial assets</i>	<i>Land & buildings</i>	<i>Assets classified as held for sale</i>	<i>Total</i>
	£000	£000	£000	£000
Restated at 1 April 2016	252,475	191,576	13,635	457,686
Acquisitions	59,449	5,514	-	64,963
Disposals	(23,260)	(1,002)	(12,440)	(36,702)
Transfers to/from held for sale	-	(3,545)	3,545	-
Depreciation	-	(4,897)	-	(4,897)
Impairment	(17,301)	(2,811)	-	(20,112)
Net gains recognised in Other Comprehensive Net Expenditure	5,724	2,495	-	8,219
Loss recognised in Net Expenditure	(3,993)	-	-	(3,993)
At 31 March 2017	<u>273,094</u>	<u>187,330</u>	<u>4,740</u>	<u>465,164</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 2016	257,438	136,521	13,635	407,594
Acquisitions	59,449	5,514	-	64,963
Disposals	(23,260)	(1,002)	(12,440)	(36,702)
Transfers to/from held for sale	-	(3,545)	3,545	-
Depreciation	-	(1,262)	-	(1,262)
Impairment	(17,136)	(6,412)	-	(23,548)
Net gains recognised in Other Comprehensive Net Expenditure	5,724	2,495	-	8,219
Loss recognised in Net Expenditure	(3,993)	-	-	(3,993)
At 31 March 2017	<u>278,222</u>	<u>132,309</u>	<u>4,740</u>	<u>415,271</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>(21,294)</u>	<u>(3,893)</u>	-	<u>(25,187)</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>(21,129)</u>	<u>(3,970)</u>	-	<u>(25,099)</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.
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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 19.16 (before discount) to 28.82 (before discount)
Discount	50% (marketability 20%; liquidity 20% & minority shareholding 10%)

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>

10. RETIREMENT BENEFIT SCHEME

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

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

	2017 £000	2016 £000
Present value of funded defined benefit obligations	(745,425)	(583,658)
Fair value of plan assets	785,565	655,471
Recognised surplus in the scheme	<u>40,140</u>	<u>71,813</u>

NOTES TO THE ACCOUNTS (continued)

Movements in the present value of defined benefit obligations

	2017	2016
	£000	£000
At 1 April	(583,658)	(605,327)
Current service cost	(11,277)	(9,349)
Past service cost	-	-
Interest cost	(20,645)	(19,688)
Remeasurements		
- Effect of changes in demographic assumptions	-	-
- Effect of changes in financial assumptions	(150,303)	35,784
- Effect of experience assumptions	-	-
Benefits paid	20,518	17,551
Contributions by members	(60)	(2,629)
	<u>(745,425)</u>	<u>(583,658)</u>

Movements in the present value of defined benefit scheme assets

	2017	2016
	£000	£000
At 1 April	655,471	652,871
Expected return on plan assets	23,424	21,430
Remeasurements		
- Return on plan assets, excluding interest income	116,276	(11,877)
Contributions by the employer (i)	11,714	8,761
Contributions by members (i)	60	2,629
Benefits paid by the plan	(20,518)	(17,551)
Administrative expenses	(862)	(792)
	<u>785,565</u>	<u>655,471</u>

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

The defined benefit obligation analysed by participant status

	2017	2016
	£000	£000
Active members	(273,116)	(191,933)
Vested deferred members	(197,229)	(150,279)
Retired members	(275,080)	(241,446)
	<u>(745,425)</u>	<u>(583,658)</u>

NOTES TO THE ACCOUNTS (continued)**Expense recognised in the Statement of comprehensive net expenditure**

	2017 £000	2016 £000
Current service cost	11,277	9,349
Past service cost	-	-
Administrative expenses	862	792
Interest income on retirement benefit scheme assets	(23,424)	(21,430)
Interest on retirement benefit scheme obligations	20,645	19,688
Total retirement benefit scheme expense	<u>9,360</u>	<u>8,399</u>

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

	2017 £000	2016 £000
Management Expenditure	12,139	10,141
Other Finance Income	(2,779)	(1,742)
	<u>9,360</u>	<u>8,399</u>

The total loss amount recognised in the Statement of other comprehensive income in respect of net remeasurement gains and losses is £34,027,000 (2016: £23,907,000 gain).

Cumulative remeasurement gains and losses recognised in the Statement of other comprehensive income since 1 April 2002 are net losses of £25,638,000 (2016: £8,389,000 gains)

The fair value and the expected rates of return on scheme assets at 31 March 2017 were as follows:

	2017 £000	2016 £000
Equity instruments	195,377	150,592
Debt instruments (i)	292,655	242,860
Investment funds (i)	261,433	224,700
Real estate	34,286	34,270
Cash or cash equivalents	1,814	3,049
Total fair value of assets	<u>785,565</u>	<u>655,471</u>

(i) The allocation of the plan assets at March 2016 has been restated to reflect changes to the categorisation of a number of the investment assets of the scheme.

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

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

	2017 % per annum	2016 % per annum
Discount rate	2.60%	3.60%
Future salary increases	2.10%	2.00%
Rate of increase in retirement benefits	2.10%	2.00%
Price inflation	3.10%	3.00%

NOTES TO THE ACCOUNTS (continued)

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>2017</i> Years	<i>2016</i> Years
Retiring today (age 60)	28.0	27.9
Retiring in 20 years	29.6	29.5

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

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

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

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

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

	<i>Change in assumption %</i>	<i>Increase in assumption £m</i>	<i>Decrease in assumption £m</i>
Discount rate	0.10	(15.8)	16.2
Inflation rate	0.10	15.9	(15.4)

The effect of increasing the assumed life expectancies by one year would be to increase the value of obligations by £20.5m at 31 March 2017.

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 2018, Scottish Enterprise estimates that contributions of £12.0m will be paid to the Scottish Enterprise Pension & Life Assurance Scheme.

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

	2017	2016	Group 2015	2017	2016	Scottish Enterprise 2015
	£000	£000	£000	£000	£000	£000
Assets and investments held by Local Enterprise Companies and their subsidiary undertakings	-	-	-	3,912	4,687	5,424
Subsidiary undertakings	-	-	-	6,152	6,152	6,152
Other receivables	2,680	4,435	3,258	2,680	4,435	3,258
	<u>2,680</u>	<u>4,435</u>	<u>3,258</u>	<u>12,744</u>	<u>15,274</u>	<u>14,834</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:

	2017	2016	Scottish Enterprise 2015
	£000	£000	£000
Land	3,912	4,687	5,424
Investments	-	-	-
	<u>3,912</u>	<u>4,687</u>	<u>5,424</u>

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.

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

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

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

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

The gross value of assets no longer classified for sale and reclassified as land and buildings (Note 5), at 31 March 2017 is £Nil (2016: £1,075,000). These assets were no longer held for sale due to a combination of current economic conditions and changing strategic priorities.

NOTES TO THE ACCOUNTS (continued)

13. INVENTORIES

	2017	2016	Group 2015	2017	2016	Scottish Enterprise 2015
	£000	£000	£000	£000	£000	£000
Finished Goods	111	118	110	-	-	-

14. TRADE AND OTHER RECEIVABLES

	2017	2016	Group 2015	2017	2016	Scottish Enterprise 2015
	£000	£000	£000	£000	£000	£000
Other Subsidiary undertakings		-	-	57	81	74
Other receivables	15,143	8,476	5,507	13,827	7,192	4,334
Prepayments	3,245	2,950	2,697	3,040	2,798	2,507
Accrued income	32,981	5,338	13,212	32,311	4,658	12,718
	51,369	16,764	21,416	49,235	14,729	19,633

(i) Provisions for impairments

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

GROUP

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

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

SCOTTISH ENTERPRISE

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

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

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

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

	2017	2016	Group	2017	2016	Scottish Enterprise
	£000	£000	2015	£000	£000	2015
			£000			£000
Central Government	31,856	5,056	10,904	31,563	4,698	10,560
Local Authorities	1,158	1,764	1,188	1,150	1,754	1,155
NHS Bodies	8	24	17	-	24	-
Bodies External to Government	18,347	9,920	9,307	16,522	8,253	7,918
	<u>51,369</u>	<u>16,764</u>	<u>21,416</u>	<u>49,235</u>	<u>14,729</u>	<u>19,633</u>

15. CASH AND CASH EQUIVALENTS

	2017	2016	Group	2017	2016	Scottish Enterprise
	£000	£000	2015	£000	£000	2015
			£000			£000
Balance at 1 April	106,381	97,828	109,757	101,606	91,786	101,950
Net change in cash and cash equivalent balances	(31,668)	8,553	(11,929)	(31,323)	9,820	(10,164)
Balance at 31 March	<u>74,713</u>	<u>106,381</u>	<u>97,828</u>	<u>70,283</u>	<u>101,606</u>	<u>91,786</u>

	2017	2016	Group	2017	2016	Scottish Enterprise
	£000	£000	2015	£000	£000	2015
			£000			£000
Scottish Enterprise	10,399	49,728	40,195	10,399	49,728	40,195
Investment Funds (i)	59,884	51,878	51,591	59,884	51,878	51,591
Other subsidiary undertakings	4,430	4,775	6,042	-	-	-
	<u>74,713</u>	<u>106,381</u>	<u>97,828</u>	<u>70,283</u>	<u>101,606</u>	<u>91,786</u>

The balances at 31 March were held at:

Commercial banks and cash in hand	54,713	106,381	97,828	50,283	101,606	91,786
Short term investments (ii)	20,000	-	-	20,000	-	-
	<u>74,713</u>	<u>106,381</u>	<u>97,828</u>	<u>70,283</u>	<u>101,606</u>	<u>91,786</u>

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

(ii) At 31 March 2017, £20,000,000 was held in a fixed term deposit with a maturity date of 21 April 2017.

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

	<i>Group</i>			<i>Scottish Enterprise</i>		
	<i>2017</i>	<i>2016</i>	<i>2015</i>	<i>2017</i>	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Other taxation and social security	1,203	1,165	1,108	1,129	1,024	1,009
Other subsidiary undertakings	-	-	-	2,103	2,148	2,469
Trade payables	13,428	8,707	8,073	12,994	7,996	7,413
Other payables	5,829	1,695	2,674	5,719	1,567	2,558
Accrued charges	26,152	27,757	28,485	25,188	26,957	27,566
Prepaid revenue	4,642	5,216	4,699	3,520	3,485	3,132
EU Funding for Investment Funds	1,217	4,434	3,378	1,217	4,434	3,378
	<u>52,471</u>	<u>48,974</u>	<u>48,417</u>	<u>51,870</u>	<u>47,611</u>	<u>47,525</u>

(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>2017</i>	<i>2016</i>	<i>2015</i>	<i>2017</i>	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Central Government	12,893	17,028	15,384	12,472	16,255	15,106
Local Authorities	5,078	1,146	1,420	5,026	1,095	1,381
NHS Bodies	452	50	129	402	-	8
Bodies External to Government	34,048	30,750	31,484	33,970	30,261	31,030
	<u>52,471</u>	<u>48,974</u>	<u>48,417</u>	<u>51,870</u>	<u>47,611</u>	<u>47,525</u>

Amounts falling due after more than one year

	<i>Group</i>			<i>Scottish Enterprise</i>		
	<i>2017</i>	<i>2016</i>	<i>2015</i>	<i>2017</i>	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Other payables and accrued charges	389	-	-	389	-	-
Deferred income	2,076	2,651	2,518	2,076	2,651	2,518
Loans from Scottish Government (i)	19,201	-	-	19,201	-	-
EU Funding for Investment Funds	-	1,716	-	-	1,716	-
	<u>21,666</u>	<u>4,367</u>	<u>2,518</u>	<u>21,666</u>	<u>4,367</u>	<u>2,518</u>

- (i) In 2016/17 the Scottish Government allocated funding to Scottish Enterprise in the form of loans to finance equity investments and the provision of loan finance to Scottish businesses. These loans are repayable over a period of up to 10 years. Although no interest is payable on these loans, any receipts generated by Scottish Enterprise from the underlying investments are to be returned to the Scottish Government.

NOTES TO THE ACCOUNTS (continued)**17. PROVISIONS****GROUP AND SCOTTISH ENTERPRISE**

	<i>Business Infrastructure Costs(i) (ii) £000</i>
Balance at 1 April 2015	1,760
Provided in the year	380
Provisions not required written back	-
Provisions utilised in the year	(68)
Balance at 1 April 2016	<u>2,072</u>
Provided in the year	841
Provisions not required written back	-
Provisions utilised in the year	(286)
Balance at 31 March 2017	<u>2,627</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.

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

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

	<i>2017 £000</i>	<i>2016 £000</i>
Property, plant and equipment	-	-
Financial Assets	<u>12,573</u>	<u>36,270</u>

During the year to 31 March 2017 Scottish Enterprise's limited partner commitment in the Scottish Loan Fund LP was reduced from £55,000,000 to £35,442,746. The capital commitment at 31 March 2017 includes the balance of funds still to be invested.

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

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

	<i>2017 £000</i>	<i>2016 £000</i>
Contingent liabilities arising from legal actions (i)	5	67
Other contingent liabilities (ii) (iii) (iv) (v)	<u>588</u>	<u>90</u>

- (i) Scottish Enterprise had received claims from third parties for compensation in non-employee relations matters totalling £67,000 and, following negotiations, were settled during 2016/17 at a cost of £43,000. There are on-going discussions over the settlement of a personal injury claim received during 2016/17.
- (ii) Since 31 March 2010, Scottish Enterprise has provided a guarantee to Social Investment Scotland in respect of 90% of a loan provided to Glencraft (Aberdeen) Limited up to £135,000. The guarantee remains in place until 31 December 2018 and at 31 March 2017 the potential liability amounted to £58,000 (2016: £88,000).

NOTES TO THE ACCOUNTS (continued)

- (iii) The carrying value of the remaining investments funded by Public Dividend Capital is £1,000 (2016: £2,000). Any proceeds from the sale of these investments are due to be remitted to the Scottish Government (see Note 8).
- (iv) A claim has been made by a contractor against a partner organisation for additional costs incurred as a consequence of project amendments. The claim has been rejected but it remains a possibility that the contractor will continue to pursue the claim in full or in part and should they prove successful, as Scottish Enterprise are liable for one half of the value of the settlement a contingent liability of £362,000 has been recorded.
- (v) ERDF support previously received of £167,000 is potentially repayable as a consequence of a sale of land during 2016/17.

20. COMMITMENTS UNDER LEASES

OPERATING LEASES

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

	<i>Group</i>			<i>Scottish Enterprise</i>		
	<i>2017</i>	<i>2016</i>	<i>2015</i>	<i>2017</i>	<i>2016</i>	<i>2015</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	3,870	4,199	5,626	3,495	3,364	4,665
after one year but not more than five years	9,664	6,669	9,611	9,113	6,176	8,306
after more than five years	12,613	8,826	10,484	12,613	8,826	10,484
	<u>26,147</u>	<u>19,694</u>	<u>25,721</u>	<u>25,221</u>	<u>18,366</u>	<u>23,455</u>
Other:						
within one year	81	75	74	56	56	56
after one year but not more than five years	84	117	187	28	83	139
after more than five years	-	-	-	-	-	-
	<u>165</u>	<u>192</u>	<u>261</u>	<u>84</u>	<u>139</u>	<u>195</u>

NOTES TO THE ACCOUNTS (continued)

21. FINANCIAL INSTRUMENTS

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

Liquidity risk
Credit risk
Market risk

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

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

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

Liquidity risk

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

Liquidity is managed 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

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

SCOTTISH ENTERPRISE

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

GROUP

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

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

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

GROUP

	2015	2015	2015	2015
	<i>Carrying Amount</i>	<i>Contractual Cashflows</i>	<i>Within one year</i>	<i>After more than one year</i>
	£000	£000	£000	£000
Financial liabilities				
Trade and other payables	39,232	39,232	39,232	-
	<u>39,232</u>	<u>39,232</u>	<u>39,232</u>	<u>-</u>

SCOTTISH ENTERPRISE

	2015	2015	2015	2015
	<i>Carrying Amount</i>	<i>Contractual Cashflows</i>	<i>Within one year</i>	<i>After more than one year</i>
	£000	£000	£000	£000
Financial liabilities				
Trade and other payables	37,537	37,537	37,537	-
	<u>37,537</u>	<u>37,537</u>	<u>37,537</u>	<u>-</u>

The Group and Scottish Enterprise has outstanding borrowings at 31 March 2017 of £19,201,000 (2015, 2016: £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>2017 Carrying Amount £000</i>	<i>2016 Carrying Amount £000</i>	<i>2015 Carrying Amount £000</i>
Financial assets – other investments			
Assets available for sale	238,487	214,756	204,239
Held to maturity assets	21	2,031	362
Loans and other receivables	37,601	38,412	25,046
Financial assets			
Trade and other receivables	50,804	18,249	21,977
Cash and cash equivalents	74,713	106,381	97,828
	401,626	379,829	349,452

SCOTTISH ENTERPRISE	<i>2017 Carrying Amount £000</i>	<i>2016 Carrying Amount £000</i>	<i>2015 Carrying Amount £000</i>
Financial assets – other investments			
Assets available for sale	237,914	214,311	204,807
Held to maturity assets	21	2,031	362
Loans and other receivables	40,302	41,115	27,749
Financial assets			
Trade and other receivables	48,818	16,285	20,310
Cash and cash equivalents	70,283	101,606	91,786
	397,338	375,348	345,014

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

GROUP	<i>2017 Gross £000</i>	<i>2017 Impairment £000</i>	<i>2016 Gross £000</i>	<i>2016 Impairment £000</i>	<i>2015 Gross £000</i>	<i>2015 Impairment £000</i>
Not past due	49,107	(752)	12,944	(990)	19,661	(135)
Past due 0 to 30 days	1,152	-	1,957	-	1,573	-
Past due 31 to 120 days	1,799	-	2,110	-	638	-
Past due more than 120 days	3,466	(3,968)	5,679	(3,451)	3,780	(3,540)
	55,524	(4,720)	22,690	(4,441)	25,652	(3,675)

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

	2017	2017	2016	2016	2015	2015
	Gross	Impairment	Gross	Impairment	Gross	Impairment
	£000	£000	£000	£000	£000	£000
Not past due	46,787	(752)	10,980	(990)	17,994	(135)
Past due 0 to 30 days	1,152	-	1,957	-	1,573	-
Past due 31 to 120 days	1,799	-	2,110	-	638	-
Past due more than 120 days	3,314	(3,482)	5,375	(3,147)	3,464	(3,224)
	<u>53,052</u>	<u>(4,234)</u>	<u>20,422</u>	<u>(4,137)</u>	<u>23,669</u>	<u>(3,359)</u>

Movements in impairment of trade and other receivables are shown in Note 14. Impairment provisions are used to record impairment losses unless the Group and Scottish Enterprise is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off directly against the financial asset.

Market risk

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

Interest rate risk

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

	2017	2016	2015
	Carrying	Carrying	Carrying
	Amount	Amount	Amount
	£000	£000	£000
GROUP			
Fixed rate instruments			
Financial assets	75,324	69,420	50,977
Financial liabilities	-	-	-
	<u>75,324</u>	<u>69,420</u>	<u>50,977</u>
Variable rate instruments			
Cash and cash equivalents	74,713	106,381	97,828
	<u>74,713</u>	<u>106,381</u>	<u>97,828</u>
SCOTTISH ENTERPRISE			
Fixed rate instruments			
Financial assets	75,324	69,420	50,977
	<u>75,324</u>	<u>69,420</u>	<u>50,977</u>
Variable rate instruments			
Cash and cash equivalents	70,283	101,606	91,786
	<u>70,283</u>	<u>101,606</u>	<u>91,786</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 2015	1,038	969
31 March 2016	1,021	967
31 March 2017	905	859

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>2017</i> <i>Carrying</i> <i>Amount</i> £000	<i>2017</i> <i>Fair</i> <i>Value</i> £000	<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
Financial assets available for sale (i)	238,487	238,487	214,756	214,756	204,239	204,239
Financial assets held to maturity	21	21	2,031	2,031	362	362
Loans and other receivables	37,601	37,601	38,412	38,412	25,046	25,046
Trade and other receivables	50,804	50,804	18,249	18,249	21,977	21,977
Cash and cash equivalents	74,713	74,713	106,381	106,381	97,828	97,828
Trade and other payables	(64,999)	(64,999)	(38,159)	(38,159)	(39,232)	(39,232)
	<u>336,627</u>	<u>336,627</u>	<u>341,670</u>	<u>341,670</u>	<u>310,220</u>	<u>310,220</u>

NOTES TO THE ACCOUNTS (continued)

SCOTTISH ENTERPRISE	2017	2017	2016	2016	2015	2015
	<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)	237,914	237,914	214,311	214,311	204,807	204,807
Financial assets held to maturity	21	21	2,031	2,031	362	362
Loans and other receivables	40,302	40,302	41,115	41,115	27,749	27,749
Trade and other receivables	48,818	48,818	16,285	16,285	20,310	20,310
Cash and cash equivalents	70,283	70,283	101,606	101,606	91,786	91,786
Trade and other payables	(63,491)	(63,491)	(36,520)	(36,520)	(37,537)	(37,537)
	<u>333,847</u>	<u>333,847</u>	<u>338,828</u>	<u>338,828</u>	<u>307,477</u>	<u>307,477</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 £3,015,191 (2016: £2,723,679) 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)

22. RELATED PARTY TRANSACTIONS

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

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

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

Aberdeen City Council	Aberdeenshire Council	Audit Scotland
Clyde Gateway Development Limited	Dumfries & Galloway Council	Dundee City Council
East Ayrshire Council	City of Edinburgh Council	Fife Council
Foreign & Commonwealth Office	Glasgow City Council	Highlands and Islands Enterprise
Innovate UK	Loch Lomond & The Trossachs National Park	NHS Lothian
North Lanarkshire Council	Renfrewshire Council	Scottish Borders Council
Scottish Funding Council	Scottish National Heritage	Skills Development Scotland Limited
South Ayrshire Council	Stirling 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 8. Scottish Enterprise also considers Members of the Board and the Executive Leadership Team to be related parties but none of the members or other related parties had any transactions with Scottish Enterprise.

23. BOARD MEMBERS INTERESTS

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

Company	Board Member	Position	£	Description
HSBC Scotland	Alison McGregor	Chief Executive	(7,821)	Corporate event
Imes Limited	Melfort Campbell	Director	(450)	Fees
University of Aberdeen	Anne Glover	Vice Principal of External Affairs and Dean for Europe	140,569 157,750	Grant Research costs

NOTES TO THE ACCOUNTS (continued)

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

Organisation	Board Member	Position
CBI Oil & Gas Technology Centre Steering Group	Linda Urquhart	Non-executive director
The Royal Edinburgh Military Tattoo Limited	Melfort Campbell Gillian Watson	Member Director
The Royal Edinburgh Military Tattoo Limited	Lena Wilson	Ambassador
Royal Zoological Society of Scotland Scottish Council for Development and Industry	Jeremy Peat Grahame Smith	Chair Director
Skills Development Scotland Skills Development Scotland	Grahame Smith Willie Mackie	Non executive director 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

24. PRIOR PERIOD ADJUSTMENT

This note explains how any changes in Accounting Policies have affected the reported financial position, financial performance and cash flows of the Group. There is no impact on the single entity figures reported for Scottish Enterprise.

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

GROUP

	<i>Audited Accounts</i> £000	<i>Property Valuation Adjustment</i> £000	<i>Reclassification of Staff Costs</i> £000	<i>Restated Balance</i> £000
2015/16 Group Statement of Comprehensive Net Expenditure				
Operating expenditure	153,945	(2,006)	(3,716)	148,223
Net management expenditure on staff costs	65,151		3,716	68,867
Net Expenditure	194,028	(2,006)	-	192,022
2015/16 Group Statement of Changes in Taxpayers' Equity				
General Reserve				
Net expenditure during the year	(194,042)	2,006	-	(192,036)
Transfer between reserves	2,325	(2,006)	-	319
Revaluation Reserve				
Surplus on revaluation of property, plant and equipment	2,856	904	-	3,760
Transfer between reserves	(2,325)	2006	-	(319)
Group Statement of Financial Position at 31 March 2015				
Non-Current Assets – Property plant and equipment	195,944	15,433	-	211,377
Revaluation Reserve	(123,067)	(15,433)	-	(138,500)
Group Statement of Financial Position at 31 March 2016				
Non-Current Assets – Property plant and equipment	183,871	18,343	-	202,214
Revaluation Reserve	(121,918)	(18,343)	-	(140,261)

NOTES TO THE ACCOUNTS (continued)

Property Valuation Adjustment

The estimated economic life of buildings owned by a subsidiary company and revalued annually on the basis of depreciated replacement cost have been extended from 25 years to 26 and 45 years. The buildings have been revalued by Ryden LLP, Chartered Surveyors. As a consequence of the increase in the estimated economic life of the buildings, value previously depreciated has been re-instated to the carrying value of the property in these financial statements and there has been a reduction in the annual depreciation charge applied in the 2015/16 financial year.

Reclassification of Staff Costs

Staff costs of a subsidiary company have been reclassified from operating expenditure to management expenditure. There is no change required to the Staff Report section of the Accountability Report as these staff costs are already included as part of the total staff costs analysis.

25. SCHEDULES OF INVESTMENTS AT 31 MARCH 2017

Disclosure of all Scottish Enterprise's investments, particularly in small businesses, would create a schedule of excessive length. This schedule discloses all investments where Scottish Enterprise holds 20% or more of the voting rights, and where the total investment is in excess of £100,000; and all other investments in excess of £1m, but excludes equity accounted investees which are disclosed in Note 7. Investment amounts are stated at cost before revaluations or provisions.

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

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

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

	% of Voting Rights	Shares £000	Loans £000
Actual Analytics Limited <i>Software for the analysis of animal behaviour</i>	27.27	630	-
Administrate Limited <i>Development and supply of business training software</i>	28.21	1,370	-
Advanced Microwave Technologies Ltd <i>Microwave volumetric heating development and implementation</i>	25.81	710	542
Alfacyte Limited <i>Drug discovery – immunoregulatory platform</i>	23.14	245	-
Ambicare Health Limited <i>Development of medical healthcare devices</i>	23.11	2,282	228
Antoxis Limited <i>Design and synthesis of therapeutic antioxidants</i>	20.99	373	-
Apsu Environmental Limited <i>Water treatment and waste recycling</i>	29.99	119	-
Aridhia Informatics Limited <i>Biomedical informatics and analytics</i>	22.69	498	1,000
Arrayjet Limited <i>Microarray printers and services</i>	23.53	1,410	-
Ateeda Limited <i>Development of semiconductor chip test solutions</i>	26.66	1,405	-
Aurum Biosciences Limited <i>Stroke therapy</i>	21.97	441	-
Avanticell Science Limited <i>Cell assay products and services</i>	26.70	203	-
Biofilm Holdings Limited <i>Manufacture of fast dissolving films</i>	27.52	2,562 354(P)	75
Calcivis Limited <i>Dental medical device co-visualise calcium loss</i>	28.56	1,649	-
Caldan Therapeutics Limited <i>Diabetes diagnostics</i>	29.33	1,100	-
Calnex Solutions Limited <i>Synchronisation testing software provider</i>	27.37	575	-

NOTES TO THE ACCOUNTS (continued)

	% of Voting Rights	Shares £000	Loans £000
Carbon Black System Limited <i>Design and production of wheelchairs</i>	29.90	386	137
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	754	-
CiQual Limited <i>Software solutions to telecommunications industry</i>	25.77	967	756
Clear Surgical Ltd <i>Producer of surgical devices</i>	27.13	565	-
Cloudsoft Corporation Limited <i>Development of cloud computing software</i>	27.65	1,688	-
Clyde Biosciences Limited <i>Cardiac drug screening product</i>	22.71	708	-
Conjunct Limited <i>Development of optical communication components</i>	29.81	698	30
Critical Blue Limited <i>Providing flexible, automated embedded systems design</i>	25.96	1,800	-
Cyberhawk Innovations Limited <i>Provider of unmanned aerial vehicle inspection services</i>	26.40	741	-
DeltaDNA Limited <i>Data mining/analytics services to games industry</i>	25.71	1,816	-
DEM Solutions Limited <i>Particulate analysis software and consultancy provider</i>	21.73	717	-
Design Led Products Limited <i>Developer of proprietary light-guide technology</i>	29.00	1,322	1,730
DestiNA Genomics Ltd <i>Chemical nucleic acid testing</i>	22.43	314	-
Dukosi Limited <i>Battery management system development</i>	26.20	1,496	-
Dundee Cell Products Limited <i>Bioscience & drug discovery research tools</i>	28.23	248	-
EC-OG Holdings Limited <i>Developing innovative marine current turbine</i>	20.00	500	-
Edinburgh Molecular Imaging Limited <i>Medical imaging reagents</i>	20.38	1,070	-
Enocell Limited <i>Fuel cell technology</i>	21.17	550	-
Exterity Limited <i>IPTV networks provider</i>	23.66	749	-
Fios Genomics Limited <i>Statistical and bioinformatic analyses</i>	22.82	536	-
Fixed Phage Limited <i>Commercialisation of bacteriophages</i>	27.92	622	-
Gas Sensing Solutions Limited <i>High speed low cost precision gas sensor</i>	28.98	1,150	350
Helixion Limited <i>Secure mobile payment software solutions</i>	20.63	200	-
Incremental Group Holdings Limited <i>IT services</i>	20.00	-	1,200
Ingenious Audio Limited <i>Developer of a wi-fi guitar plug-in device</i>	27.47	365	-
Inquisitive Systems Limited <i>Security software</i>	26.65	1,223	-
Keith Brewery Holdings Limited <i>Craft brewery</i>	29.97	130	-
Kiltr Limited <i>Business social networking and media platform</i>	29.94	1,209	173

NOTES TO THE ACCOUNTS (continued)

	% of Voting Rights	Shares £000	Loans £000
Kite Power Systems Limited <i>Generation of electricity from airborne kites</i>	20.00	2,000	-
Lamellar Biomedical Limited <i>Application of Lamellosome Memetics</i>	20.03	1,830 1,500(P)	-
Leading Software Limited <i>Software development company</i>	22.09	622	50
Loch Duart Limited <i>Sustainable salmon farming</i>	29.52	2,400	725
Logan Energy Limited <i>Hydrogen fuel cell consultancy and installation</i>	27.01	375	-
Lux Assure Limited <i>Solutions provider difficult to detect chemicals</i>	24.33	1,977	-
MGB Biopharma Limited <i>Development of antibacterial drug</i>	29.77	2,469	-
My1Login Limited <i>Developer of internet based applications</i>	29.96	827	73
NetThings Limited <i>Developer of energy consumption solutions</i>	28.87	2,378	-
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>	28.48	244	-
Objective Associates Limited <i>Seller of software solutions to online retailers</i>	26.57	490	-
Ocutec Limited <i>Next generation contact lens development</i>	29.34	1,603	235
Opinurate Ltd <i>Customer experience management software</i>	27.00	324	-
Outplay Entertainment Limited <i>Development & publication of social digital games</i>	25.07	2,850	-
Pick Protection Limited <i>Personal security device</i>	27.42	330	-
Pneumagen Limited <i>Prevention and treatment of infectious diseases</i>	25.41	853	-
PowerPhotonic Limited <i>Development and sale of custom laser optics</i>	26.32	1,288	-
Pufferfish Limited <i>Spherical display systems for events & exhibitions</i>	27.14	634	-
QED Naval Ltd <i>Foundation platform for tidal turbines</i>	29.89	438	-
Qikserve Limited <i>Development of smartphone Apps for iPhone and Android</i>	20.08	1,349	-
Reactec Limited <i>Development of vibration control solutions</i>	23.08	838	-
Relitect Limited <i>Developing a diagnostic and monitoring tool</i>	26.55	950	-
Ryboquin Limited <i>Developer of cancer therapies</i>	29.79	825	60
Saloca Limited <i>Software developer of online booking software</i>	22.59	375	-
SAW Dx Limited <i>Clinical diagnostic company</i>	22.90	375	-
Scottrenewables Tidal Power Limited <i>Tidal energy technology developer</i>	29.33	5,650	-
Sentient Medical Limited <i>Medical device for relief of hearing loss</i>	27.90	235	-
Sharein Limited <i>Technology tools and solutions in crowdfunding</i>	21.50	280	-

NOTES TO THE ACCOUNTS (continued)

	% of Voting Rights	Shares £000	Loans £000
SIRAKOSS Limited <i>Developer of bone graft substitute</i>	20.97	886	-
Sistemic Scotland Limited <i>SistemRNA drug discovery technology</i>	29.99	518	-
Skoogmusic Limited <i>Developing and designing musical instruments</i>	21.01	296	80
Smarter Grid Solutions Limited <i>Software which increases capacity of existing grid</i>	27.64	1,150	-
Sofant Technologies Limited <i>Development of smart antennae for mobile communications</i>	26.97	651	-
Spaceright Europe Limited <i>Supplier of equipment to the education sector</i>	22.56	396	200
Sustainable Marine Energy Limited <i>Tidal energy technology developer</i>	29.81	525	948
Symbiosis Pharmaceutical Services Limited <i>Pharmaceutical services contract manufacturer</i>	29.50	1385	60
Symphonic Software Limited <i>IT governance and access rights solution provider</i>	25.59	546	-
Syntropharma Limited <i>Pharmaceutical company focussed on transdermal technology</i>	28.04	1,166	-
Taragenyx Limited <i>Development of bio-coatings technology</i>	22.00	512	-
TC BioPharm Limited <i>Drug discovery company focussing on T-cells</i>	22.53	2,815	-
Ubiquigent Limited <i>Developing products for life science research</i>	29.41	250	200
Vert Rotors UK Limited <i>Compressor Technology</i>	21.99	918	-
Total of items listed		89,446	8,852

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

	% of Voting Rights	Shares £000	Loans £000
2-B Energy Limited <i>Offshore wind technology developer</i>	-	-	3,600
Atlantis Resources (Scotland) Limited <i>Engineering services – tidal energy market</i>	-	-	4,000
Berwickshire Community Renewables LLP <i>Power generation</i>	-	-	1,750
BigDNA Limited <i>Developer of small molecule cancer therapies</i>	19.39	1,847	-
Blazing Keep Limited <i>Parent of multimedia entertainment group</i>	14.51	250	1,000
Cogbooks Limited <i>Adaptive learning software for education market</i>	12.93	313	787
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>	0.13	5,000	-
Cytosystems Limited <i>Development of diagnostic cancer tests</i>	11.78	989	197
DYSIS Medical Limited <i>Designs, develops, manufactures and market imaging systems</i>	1.64	3,499	460
EAL Lending Limited <i>Commercial loan funding (Lending Crowd)</i>	-	-	1,175

NOTES TO THE ACCOUNTS (continued)

	% of Voting rights	Shares £000	Loans £000
European Investment Fund <i>European Investment Fund Registered in Luxembourg</i>	0.12	1,275	-
Encompass Corporation Pty Limited <i>Technology company</i>	5.40	1,790	-
Fanduel Limited <i>Online daily play fantasy sports games</i>	8.48	3,481	1,746
Garth Wind Limited <i>Community renewable wind project</i>	-	-	1,590
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>	9.95	2,000(P)	-
Inside Biometrics Limited <i>Development, manufacture and sale of medtech</i>	8.22	1,578	-
Isle of Harris Distillers Limited <i>Malt whisky distillery based on the Isle of Harris</i>	18.40	1,500	-
Kobojo <i>Developer of free to play games for mobile devices Registered in France</i>	16.78	1,449	-
Liberty Steel Dalzell Limited <i>Production of steel products</i>	-	-	7,000
MeyGen Holdings Limited <i>Holding company for the MeyGen tidal projects</i>	16.55	12,100	-
MeyGen Limited <i>Tidal turbine project developer</i>	-	-	7,500
Mironid Limited <i>Life sciences drug development</i>	17.67	1,100	-
Morrison Glasgow Distillers Limited <i>Distilling, rectifying and blending spirits</i>	17.11	2,000	-
Nova Innovation Limited <i>Tidal turbine developer</i>	-	-	1,010
Novabiotics Limited <i>Design and development of anti-infectives</i>	18.26	3,338	-
NuCana Biomed Limited <i>Oncology focussed biopharmaceutical company</i>	9.49	2,000	-
Pangeo Subsea Inc <i>Geophysical subsea service provider</i>	11.78	489 635(P)	140
Point & Sandwick Power Limited <i>Power generation</i>	-	-	2,250
pureLiFi Limited <i>Development of data communication over light waves</i>	6.52	1,207	-
Pyreos Limited <i>Production of thin film infrared sensor components</i>	0.60	3,067	-
Stewart Energy Limited <i>Power generation</i>	-	-	1,625
The One Place Capital Limited <i>Web based provision of financial advice to consumer</i>	17.64	1,772	-
TV Squared Limited <i>TV advertising attribution company</i>	5.20	1,100	-
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>	3.00	1,802	-
Vicast Limited <i>Internet video software platform</i>	17.10	768	301
Volo Holdings Limited <i>In-train entertainment systems</i>	6.85	1,184	120

NOTES TO THE ACCOUNTS (continued)

	<i>% of Voting rights</i>	<i>Shares £000</i>	<i>Loans £000</i>
Epidarex Capital II LP <i>Investment Fund</i>	-	-	2,570
Scottish Loan Fund LP <i>Investment Fund</i>	-	-	12,930
Shackleton Secondaries 3 LP <i>Investment Fund</i>	-	-	1,375
Total of items listed		62,036	53,300
		<i>Shares £000</i>	<i>Loans £000</i>
			<i>Total £000</i>
Total of items listed – Note 25A		89,446	98,298
Total of items listed – Note 25B		62,036	115,336
Other shares and loans		151,482	213,634
Total cost of shares and loans before revaluations or provisions			72,693
			286,327
			<i>No. of Companies</i>
Total number of companies			511

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