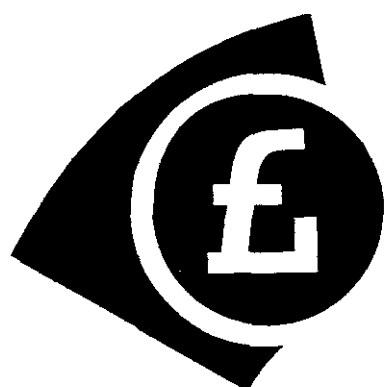




Scottish Council for
Development and Industry



FINANCIAL REPORT SCDI YEAR-END ACCOUNTS TO 30 SEPTEMBER 2006



REPORT OF THE BOARD

To the Members of the Scottish Council for Development and Industry Limited (a company limited by guarantee) The Board of Directors submits its report together with financial statements for the year to 30 September 2006

Principal Activities

The Council is principally engaged in making representations to Government and others regarding matters of public policy

Financial Commentary

The financial performance of the year has resulted in a satisfactory outcome. The surplus after taxation of £174,688 has been transferred to reserves. This is in line with the Board's policy of breaking even in operational performance or returning a surplus after receipt of the income from investments.

In addition, the gain in the stock market throughout the year has resulted in an appreciation in the investment portfolio of £64,880 and this has been taken to reserves.

Operational income was £1,682,028. Significant fluctuations may occur on the completion of projects undertaken and this should be borne in mind when making year on year comparisons.

The various categories of operational expenditures were broadly in line with expectations.

The Board has monitored its commitment to the defined benefits pension scheme. This scheme was closed to the accrual of future employee benefits at 31 December 2004. The Council is committed to honouring the liabilities and will continue to contribute to the scheme with occasional transfers from reserves and regular payments, agreed with the trustees, as considered appropriate by the Directors. A Stakeholder Group Personal Pension plan commenced on 1 January 2005. The Council has adopted FRS 17 and comparative figures have been restated accordingly.

The reserve is satisfactory.

The Directors continue to promote the Council's activities and to direct its future development.

A summary of key performance indicators is set out in the Annual Review which is distributed to members with these accounts and with associated papers for the Annual General Meeting. The comprehensive review describes activities in the following categories: membership relations, public policy, government affairs, business development, education business links, committee membership and staff.

Financial Risk Management Objectives and Policies

The Council does not enter into any hedging transactions

The Council manages its liquidity and cash flow risks by the constant monitoring of cash position and projections

Price risk in financial instruments may exist where their value varies in accordance with currency interest rate or other market movement

The Council's financial instruments comprise amounts receivable from debtors and amounts payable to suppliers. All of these balances are conducted in Sterling and so there is no material currency risk

None of the financial instruments are subject to any other market movements affecting price risk. In summary therefore exposure to price risk is not considered material

The Council monitors credit risk via continual review of balances due from debtors

Auditors

Grant Thornton UK LLP offers itself for reappointment as auditor in accordance with section 385 of the Companies Act 1985

Directors' Responsibilities for the Financial Statements

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the surplus or deficit of the company for that period. In preparing those financial statements the Directors are required to

- *select suitable accounting policies and then apply them consistently;*
- *make judgments and estimates that are reasonable and prudent;*
- *state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;*
- *prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.*

The Directors are responsible for keeping proper accounting records for safeguarding the assets of the Council and for taking reasonable steps for the prevention and detection of fraud and other irregularities

In so far as the Directors are aware there is no relevant audit information of which the company's auditors are unaware and the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

Directors

The membership of the Board for 2005/2006 is set out below. All Directors served throughout the year except as indicated.

| | |
|----------------------------|--|
| Robert Armour | British Energy |
| Cheryl Black | Scottish Water (elected 8 December 2005) |
| Allan Burns | Private Member |
| Tam Dalyell | President (elected 8 December 2005) |
| Brendan Dick | BT Scotland (elected 8 December 2005) |
| Professor Gavin Don | equitas |
| Donal Dowds | BAA Scotland (resigned 3 August 2006) |
| Bill Drummond | Legal Adviser |
| Alan Kilpatrick | Chairman, International Business Committee (elected 8 December 2005) |
| Barbara Lindsay | COSLA (elected 8 December 2005) |
| Shonaig Macpherson CBE | Chairman of the Board and Executive Committee |
| Ian McLaren | Finance Adviser |
| Joe Moore | Chairman, Highlands & Islands Committee |
| David Paton OBE | President (resigned 8 December 2005) |
| Audrey Ramsay | Diageo (elected 3 August 2006) |
| Esther Robertson | Private Member |
| David Ross | Scottish Chamber of Commerce |
| Duncan Skinner | Chairman, North East Committee (elected 8 December 2005) |
| Bill Speirs | STUC (resigned 3 August 2006) |
| Professor Bill Stevely CBE | Private Member |
| Brian Veitch | Arup Scotland |

1 November 2006
23 Chester Street, Edinburgh, EH3 7ET

FINANCIAL REPORT

Income and Expenditure Account for the year ended 30 September 2006

| | Notes | 2006 £ | Restated 2005 £ |
|---|-------|------------------|-----------------------|
| Income | 2 | | |
| Subscriptions | | 954,223 | 907,079 |
| Activities | | | |
| Projects | | 709,816 | 633,881 |
| Property | | 17,989 | 14,702 |
| Total Income | | 1,682,028 | 1,555,662 |
| Expenditure | | | |
| Staff Costs | 6 | 820,439 | 851,650 |
| Professional fees relating to pensions | 18 | | 13,013 |
| Training and Other Staff Costs | 6 | 17,507 | 7,797 |
| Property and Equipment | | 156,686 | 153,692 |
| Office Costs | | 24,675 | 22,669 |
| Communications | | 21,558 | 23,311 |
| Travel and Motor Expenses | | 44,801 | 48,955 |
| Programme and Project Costs | | 443,437 | 402,155 |
| Donation to Scottish Council Foundation | 20 | 12,500 | 10,000 |
| Irrecoverable Value Added Tax | 3 | 13,563 | 12,608 |
| Depreciation | 8 | 13,031 | 19,181 |
| Total Administrative Expenses | | 1,568,197 | 1,565,031 |
| Operational Surplus/(Deficit) | 3 | 113,831 | (9,369) |
| Income from Investments | 4 | 35,815 | 35,425 |
| Net gain on sale of tangible fixed asset | | 16,460 | 11,632 |
| Other Finance Income | 5 | 10,000 | 16,000 |
| Surplus on Ordinary Activities before Taxation | | 176,106 | 53,688 |
| Taxation on Surplus on Ordinary Activities | 7 | (1,418) | 13,153 |
| Surplus for the Financial Year | 13 | 174,688 | 66,841 |
| Statement of Total Recognised Gains and Losses | | | |
| Surplus for the year | | 174,688 | 66,841 |
| Unrealised Gain on Investments | | 64,880 | 91,546 |
| Actuarial Gain/(Loss) Arising on Pension Scheme | | 103,000 | (263,000) |
| Total Recognised Gains/(Losses) since the last financial statement | | 342,568 | (104,613) |

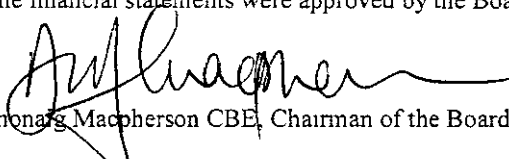
The accompanying Accounting Policies and Notes form an integral part of these financial statements

FINANCIAL REPORT

Balance Sheet at 30 September 2006

| | Notes | £ | 2006 £ | Restated 2005 £ |
|---|-------|------------------|-----------------------|-----------------------|
| Fixed Assets | | | | |
| Tangible Assets | 8 | | 15,737 | 23 423 |
| Investments | 9 | | <u>1 036 273</u> | <u>881 733</u> |
| | | | 1 052 010 | 905 156 |
| Current Assets | | | | |
| Debtors | 10 | 248 587 | | 243 667 |
| Cash at Bank and in Hand | 15 | <u>104 966</u> | | <u>77 320</u> |
| | | 353 553 | | 320 982 |
| Creditors Amounts falling due within one year | 11 | <u>(380 653)</u> | | <u>(355 952)</u> |
| Net Current Assets/(Liabilities) excluding pension liability | | | (27,100) | (34 970) |
| Pension Liability | 18 | | <u>(479 000)</u> | <u>(639 000)</u> |
| Net Assets including pension liability | | | 545 910 | 231 186 |
| Provision for Liabilities and Charges | 12 | | <u>(51 337)</u> | <u>(79 181)</u> |
| Total Assets | | | <u><u>494,573</u></u> | <u><u>152,005</u></u> |
| Revenue Reserve | 13 | | 315,444 | 6 034 |
| Revaluation Reserve | 13 | | <u>179 129</u> | <u>145 971</u> |
| | | | <u><u>494,573</u></u> | <u><u>152,005</u></u> |

The financial statements were approved by the Board on 1 November 2006


Shona Macpherson CBE, Chairman of the Board

The accompanying Accounting Policies and Notes form an integral part of these financial statements

FINANCIAL REPORT

Cash Flow Statement for the year ended 30 September 2006

| | Notes | £ | 2006 £ | £ | 2005 £ |
|--|-------|-----------------|----------------------|----------------|-------------------|
| Net Cash Inflow/(Outflow) from Operating Activities | 14 | | 69 294 | | (242 777) |
| Returns on Investments | | | | | |
| Interest Received | | 18 129 | | 13,023 | |
| Dividends Received | | <u>15 865</u> | | <u>20 497</u> | |
| Net Cash Inflow from Returns on Investments | | | 33 994 | | 33,520 |
| Taxation | | | | | |
| UK Corporation Tax Refunded | | | 2 903 | | 4 663 |
| Capital Expenditure and Financial Investment | | | | | |
| Purchase of Tangible Fixed Assets | | (5 345) | | (14 615) | |
| Purchase of Investments | | (102 225) | | (40 250) | |
| Sale of Investments | | 103 667 | | 150 558 | |
| Investment cash movement | | <u>(74 642)</u> | | <u>109 526</u> | |
| Net Cash (Outflow)/Inflow from Capital Expenditure and Financial Investment | | | <u>(78 545)</u> | | <u>205 219</u> |
| Increase in Cash | 15 | | <u><u>27,646</u></u> | | <u><u>625</u></u> |

The accompanying Accounting Policies and Notes form an integral part of these financial statements

FINANCIAL REPORT

Notes to the Financial Statements

1 Accounting Policies

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention except that investments are stated at market value. The principal accounting policies of the Council are set out below. The policies have remained unchanged from the previous year except as set out below.

The Council has adopted FRS17 and comparative figures have been restated accordingly. The adoption of FRS17 has increased the surplus for the year to 30 September 2006 by £21,000 (2005: £18,000).

- a Depreciation is calculated to write down the cost of all tangible fixed assets by equal annual instalments over their expected useful lives. The rates generally applicable are:
- | | |
|------------------------|-----|
| Furniture and Fittings | 15% |
| IT Equipment | 50% |
- b Stocks of publications held at the year end are not valued for accounting purposes as they are of no intrinsic value.
- c Subscriptions are received throughout the financial year and are credited to the Income and Expenditure account when received.
- d Project Activities are accounted for when the related administration has been completed.
- e Investment Income comprises interest received, receivable and dividends on listed and unlisted investments.
- f Deferred tax is recognised on all timing differences where the transactions or events that give the Council an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax on defined benefit pension scheme surpluses or deficits is adjusted against these surpluses. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance date.
- g Fixed Asset Investments are included at market value.
- h All leases are operating leases and the total payments made under them are charged to the Income and Expenditure account on a straight line basis over the lease term.
- i Contributions to Pension Funds: the Council operates a defined benefits pension scheme under which contributions by employees and the Council are administered by trustees in a fund which has no connection with the Council's assets. The defined benefits pension scheme was closed to the accrual of further employee contributions at 31 December 2004. The Council will continue to make contributions. The Council implemented a stakeholder pension scheme from 1 January 2005 under which contributions by employees and the Council are paid. The annual Council contributions payable are charged to the Income and Expenditure account. The Council has fully adopted the accounting and disclosure requirements of FRS17 Retirement Benefits (see note 18).
- j Grants which are of a revenue nature are credited to the Income and Expenditure account in the same period as the related expenditure.
- k Property income generated by the Council's offices is accounted for on the accruals basis.

2 Income

The income and surplus before taxation is attributable to the principal continuing activity which is making representations to Government and others regarding matters of public policy.

3 Operational (Deficit)/Surplus

| | 2006 £ | 2005 £ |
|--|--------------|---------------|
| This is stated after charging: | | |
| Auditors' Remuneration | 7,600 | 6,575 |
| Operating lease rentals: property | 75,371 | 74,971 |
| motor vehicles and equipment | 34,191 | 29,230 |
| Depreciation: Tangible Fixed Assets, owned: Furniture and Fittings | 4,030 | 2,910 |
| IT Equipment | <u>9,001</u> | <u>16,271</u> |

A proportion of the input tax suffered by the Council is irrecoverable and this has been calculated according to the Council's agreement with HM Revenue and Customs.

4 Income from Investments

| | 2006 £ | 2005 £ |
|---|----------------------|----------------------|
| From Fixed Asset Investments: Listed | 31,728 | 33,107 |
| From Current Asset Investments: Short Term Deposits | <u>4,087</u> | <u>2,318</u> |
| | <u>35,815</u> | <u>35,425</u> |

FINANCIAL REPORT

Notes to the Financial Statements

5 Other Finance Income

| | 2006 | Restated 2005 |
|--|---------------|------------------|
| Expected return on pension scheme assets | 218 000 | 202 000 |
| Interest costs on pension scheme liabilities | (208 000) | (186 000) |
| Other finance income | <u>10 000</u> | <u>16 000</u> |

6 Staff Costs

| | 2006 | 2005 |
|--------------------------------------|----------------|----------------|
| | £ | £ |
| Salaries | 646 168 | 619 965 |
| Social Security Costs | 69 172 | 69 291 |
| Pension Costs defined contributions | 67 099 | 79 394 |
| Pension Costs defined benefits | 38 000 | 96,000 |
| Impact of settlements & curtailments | | (13 000) |
| | <u>820,439</u> | <u>851,650</u> |

The average monthly number of employees excluding secondees but including contract staff the cost of whom is charged to Projects, was as follows The figures are expressed as full time equivalents

| | 2006 | 2005 |
|---|-----------|-----------|
| Office and Management | <u>21</u> | <u>21</u> |
| No member of The Board and Executive Committee received any remuneration during the year (2005 £ nil) | | |

| | 2006 | 2005 |
|---|---------------|--------------|
| | £ | £ |
| Training and Other Staff Costs | <u>17,507</u> | <u>7,797</u> |
| Training is supplemented by the provision of in kind training support by the membership | | |

7 Taxation on Surplus on Ordinary Activities

In accordance with an agreement with the Inland Revenue, Corporation Tax is payable on:

- a Interest received on Investments and Dividends from non UK sources
- b Net Rental Income, and
- c A proportion of any surplus subscription and other income over expenditure

| | 2006 | 2005 |
|---|--------------|-----------------|
| | £ | £ |
| Corporation Tax at 19% (2005 19%) | 2,415 | |
| Adjustment in respect of prior year's Corporation Tax | (997) | (13 153) |
| | <u>1,418</u> | <u>(13,153)</u> |

Factors Affecting the Tax Charge

The UK tax assessed for the period is lower than the standard rate of corporate tax in the UK of 19% (2005 19%)

The differences are explained as follows

| | 2006 | 2005 |
|--|----------------|-----------------|
| | £ | £ |
| Surplus on ordinary activities before tax | <u>176,106</u> | <u>53,688</u> |
| Surplus on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 19% (2005 19%) | 33 460 | 10,201 |
| Effects of | | |
| Expenses not deductible for tax purposes | (2 790) | 2 986 |
| Depreciation for period in excess of capital allowances | 283 | 777 |
| Other timing differences | (11,121) | (53 578) |
| Income not subject to taxation | (1,208) | (3,721) |
| Tax losses carried forward | (15,779) | 43,335 |
| Adjustments to tax charge in respect of prior periods | (997) | (13 153) |
| Marginal Relief | (430) | |
| Current tax charge for the period | <u>1,418</u> | <u>(13,153)</u> |

8 Tangible Fixed Assets

| | | Furniture And Equipment |
|--------------------------------------|--|----------------------------|
| Cost | | £ |
| At 1 October 2005 | | 201 841 |
| Additions | | 5 345 |
| At 30 September 2006 | | <u>207 186</u> |
| Depreciation | | |
| At 1 October 2005 | | 178,418 |
| Charge for the year | | 13 031 |
| At 30 September 2006 | | <u>191 449</u> |
| Net Book Amount at 30 September 2006 | | <u>15,737</u> |
| Net Book Amount at 30 September 2005 | | <u>23,423</u> |

FINANCIAL REPORT

Notes to Financial Statements

9 Fixed Asset Investments

| | Shares in Subsidiary Undertaking | UK Listed Investments | Cash | Total |
|--|--|--------------------------|-----------------------|-------------------------|
| | £ | £ | £ | £ |
| Market Value | | | | |
| At 1 October 2005 | 60 | 709,362 | 172,311 | 881,733 |
| Additions at cost | | 102,225 | | 102,225 |
| Disposal at opening market value | | (87,207) | | (87,207) |
| Cash inflow | | | 74,642 | 74,642 |
| Revaluation | | <u>64,880</u> | | <u>64,880</u> |
| Market Value at 30 September 2006 | <u>60</u> | <u>789,260</u> | <u>246,953</u> | <u>1,036,273</u> |
| Market Value at 30 September 2005 | <u>60</u> | <u>709,362</u> | <u>172,311</u> | <u>881,733</u> |

The historical cost of the listed investments at 30 September 2006 was £610,131 (2005 £563,451)

The Council's subsidiary undertaking, the Scottish Council Research Institute Limited did not trade during the year. The investment in this company represents the cost of its allotted and fully paid share capital of 60 shares of £1 each. No consolidation of the financial statements of the subsidiary undertaking has been made as the amounts involved are not material but, where applicable, past losses have been fully provided for in the financial statements of the Council. The financial statements therefore present information about the company as an individual undertaking and not about its group.

| | 2006 £ | Restated 2005 £ |
|--------------------------------------|-----------------------|-----------------------|
| 10 Debtors | | |
| Trade Debtors | 197,765 | 188,778 |
| Other Debtors (see below) | 14,168 | 18,939 |
| Other Prepayments and Accrued Income | <u>36,654</u> | <u>35,945</u> |
| | <u>248,587</u> | <u>243,662</u> |

Other Debtors includes expenditure in respect of current Trade and Membership related projects £10,828 (2005 £7,634). The ultimate surplus on these projects will be transferred to the Income and Expenditure account when the related administration has been completed.

11 Creditors' Amounts falling due within one year

| | 2006 £ | 2005 £ |
|----------------------------------|-----------------------|-----------------------|
| Trade Creditors | 66,332 | 57,438 |
| Pension contribution outstanding | 8,473 | 8,615 |
| Social Security and Other Taxes | 49,769 | 48,249 |
| Other Creditors (see below) | 226,394 | 213,917 |
| Accruals | <u>29,685</u> | <u>27,733</u> |
| | <u>380,653</u> | <u>355,952</u> |

Other Creditors represent advance income received in respect of current projects namely the Trade and Membership related projects £159,971 (2005 £145,860) and other Educational Schemes £66,423 (2005 £68,057). The ultimate surplus on these projects will be transferred to the Income and Expenditure account when the related administration has been completed.

FINANCIAL REPORT

Notes to Financial Statements

12 Provision for Liabilities and Charges

| | |
|--------------------------|--|
| | Building Maintenance Provision (Note 17) £ |
| At 1 October 2005 | 79,181 |
| Provided during the year | 8 666 |
| Charged | <u>(36 510)</u> |
| At 30 September 2006 | <u>51,337</u> |

13 Reserves

| | Revenue Reserve | Revaluation Reserve | Total |
|---|-----------------------|------------------------|-----------------------|
| | £ | £ | £ |
| At 1 October 2005 as previously reported | 915 034 | 145,971 | 1 061 005 |
| Prior year adjustments Incorporation of FRS17 reserve | <u>(909 000)</u> | | <u>(909 000)</u> |
| At 1 October 2005 as restated | 6 034 | 145,971 | 152,005 |
| Actuarial gain (recognised through STRGL) | 103 000 | | 103 000 |
| Surplus for year to 30 September 2006 | 174 688 | | 174 688 |
| Transfer to/(from) Revaluation Reserve | 31 722 | (31,722) | |
| Unrealised Gain on Investments | | <u>64 880</u> | <u>64 880</u> |
| At 30 September 2006 | <u>315,444</u> | <u>179,129</u> | <u>494,573</u> |

14 Reconciliation of Operational Surplus/(Deficit) to Net Cash Outflow from Operating Activities

| | 2006 £ | 2005 £ |
|---|----------------------|-------------------------|
| Operational Surplus/(Deficit) | 113,831 | (9 369) |
| Depreciation | 13,031 | 19,181 |
| Other Finance Income | 10 000 | 16 000 |
| Actuarial Gain/(Loss) | 103 000 | (263,000) |
| (Increase)/ Decrease in Debtors | (6 831) | 18,958 |
| Increase/(Decrease) in Creditors | 24 107 | (7,047) |
| (Decrease) in Pension Liability | (160 000) | (25,000) |
| (Decrease)/Increase on for Liabilities and Charges | <u>(27 844)</u> | <u>7 500</u> |
| Net Cash Inflow/(Outflow) from Operating Activities | <u>69,294</u> | <u>(242 777)</u> |

15 Analysis of Changes in Net Funds

| | At 1/10/04 £ | Cash Flow £ | At 1/10/05 £ | Cash Flow £ | At 30/9/06 £ |
|--------------------------|----------------------|-------------------|----------------------|----------------------|-----------------------|
| Cash at bank and in hand | 80 379 | 11 765 | 92 144 | 12,822 | 104,966 |
| Overdrafts | <u>(3 684)</u> | <u>(11 140)</u> | <u>(14 824)</u> | <u>14 824</u> | <u>104,966</u> |
| | <u>76 695</u> | <u>625</u> | <u>77,320</u> | <u>27,646</u> | <u>104,966</u> |

16 Capital Commitments

The Council had no capital commitments at 30 September 2006 (30 September 2005 nil)

FINANCIAL REPORT

Notes to Financial Statements

17 Contingent Liabilities

The Council's leases of its Glasgow and Inverness office properties are on a full repair and maintenance basis

Provision has been made in the amount referred to in note 12 above which is considered adequate to meet the Council's obligations in respect of the properties it currently occupies

18 Pension Commitments

The Council operates a defined benefit pension scheme for the benefit of the employees. This scheme was closed to the accrual of future benefits on 31 December 2004. The assets of the scheme are administered by trustees in a fund independent from the assets of the Council. Costs and liabilities of the scheme are based on actuarial valuations. The latest full actuarial valuation using the projected unit method of funding, was carried out at 6 April 2005. At 6 April 2005 the scheme was 83% funded. The deficiency at 6 April 2005 of £648,000 is being addressed by Council contributions agreed with the trustees with a view to recovery within 10 years.

The contributions for the Council and the employees from 1 April 2002 were 26.2% (1.2% disability) and 5.5% respectively. From 1 April 2003 the rates were reduced to 25.75% (0.75% disability) and 5% respectively. The scheme was closed to the employee contributions at 31 December 2004 and a stakeholder pension scheme started. From 1 January 2005 contributions from the Council for the defined benefits scheme were 10% and to the stakeholder pension scheme 10% and employees at least 5% to the stakeholder pension scheme. Employees were paid 5% of salary at 31 December 2004 in January 2005 as compensation for the acceptance of the closure of the defined benefit scheme.

The pension cost charge for the year is £67,099 (2005: £79,394). See note 6. For the financial year 2005/2006 the contribution from the Council for the defined benefit scheme was £85,267 which has been agreed by the directors, the trustees and the actuary.

The provisions of Financial Reporting Standard 17 issued in November 2000 have been fully implemented.

The directors have obtained the information required under FRS17 from the scheme's actuary based on an update of the most recent actuarial valuation completed as at 6 April 2005.

Current Service costs will rise significantly as members approach retirement.

The main assumptions used by the actuary were

| | 2006 % | 2005 % | 2004 % |
|---|-----------|-----------|-----------|
| Rate of increase in salaries | N/A | N/A | 5.00 |
| Rate of increase for pensions in payment accrued before 5 April 1997 | 3.00 | 3.00 | 3.00 |
| Rate of increase for pensions in payment accrued after 6 April 1997 | 3.00 | 3.00 | 3.00 |
| Discount rate | 5.00 | 5.00 | 5.50 |
| Inflation | 3.00 | 3.00 | 3.00 |
| Increases to deferred pensions in excess of GMP in the period prior to retirement | 5.00 | 5.00 | 5.00 |

The assets in the scheme and the expected long term rate of return were

| | Rate Of Return % | 2006 £ | Rate Of Return % | 2005 £ | Rate of Return % | 2004 £ |
|--|---------------------------|------------------|---------------------------|------------------|---------------------------|------------------|
| Equities | 7.50 | 1,926,000 | 7.50 | 1,753,000 | 7.50 | 2,282,000 |
| Government Bonds | 4.45 | 809,000 | 4.35 | 736,000 | 4.85 | 134,000 |
| Corporate Bonds | 5.00 | 809,000 | 5.00 | 735,000 | 5.50 | 134,000 |
| Property | 6.50 | 193,000 | 6.50 | 175,000 | 6.50 | 26,000 |
| Cash | 4.75 | 132,000 | 4.75 | 121,000 | 4.75 | 118,000 |
| Total market value of assets | | 3,869,000 | | 3,520,000 | | 2,694,000 |
| Present value of scheme liabilities | | 4,348,000 | | 4,159,000 | | 3,358,000 |
| Deficit in the scheme | | (479,000) | | (639,000) | | (664,000) |
| Net pension liability | | (479,000) | | (639,000) | | (664,000) |

Financial Report

Notes to Financial Statements

| | 2006 £ | 2005 £ | 2004 £ |
|--|-----------|-----------|-----------|
| The history of experience gains and losses has been | | | |
| Difference between expected and actual return on scheme assets | 85 000 | 344 000 | 42 000 |
| Percentage of scheme assets | 2.16% | 9.77% | 1.56% |
| Experience gains/ (losses) on scheme liabilities | 34 000 | 15 000 | (61 000) |
| Percentage of present value of scheme liabilities | 0.88% | 0.36% | (1.83%) |
| Total actuarial gains/(losses) | 118 000 | (263 000) | (45 000) |
| Percentage of present value of scheme liabilities | (2.71%) | (2.86%) | (1.35%) |

| | 2006 £ | 2005 £ | 2004 £ |
|---|------------------|------------------|------------------|
| The movement in the (deficit)/surplus in the year was | | | |
| Deficit in scheme at beginning of year | (639 000) | (664 000) | (617 000) |
| Current service cost | (38 000) | (60,000) | (125 000) |
| Legal fees relating to pensions | | (4 000) | |
| Pension Costs defined benefits | | (36 000) | |
| Losses in settlement & curtailment | | 13 000 | |
| Contributions | 85,000 | 359 000 | 135 000 |
| Other outgoings | (16 000) | | (23 000) |
| Net finance cost | 10 000 | 16 000 | 11 000 |
| Actuarial gains/(losses) | <u>119 000</u> | <u>(263 000)</u> | <u>(45 000)</u> |
| (Deficit) in scheme at end of year | <u>(479 000)</u> | <u>(639 000)</u> | <u>(664 000)</u> |

The movement in the deficit during the year on implementation of FRS17 has been reflected in the financial statements as follows

| | 2006 £ | 2005 £ | 2004 £ |
|---|------------------|------------------|------------------|
| i Amount charged to operating profit | | | |
| Current service costs and other outgoings | 38 000 | 60,000 | 125,000 |
| Accrual of benefits | | 36 000 | |
| Loss on settlement & curtailments | | (13 000) | |
| | <u>38 000</u> | <u>83 000</u> | <u>125,000</u> |
| Legal Fees of defined benefits pension | | 4 000 | |
| Professional fees relating to defined benefits pension | | 9 013 | |
| | <u>38,000</u> | <u>96 013</u> | <u>125 000</u> |
| ii Amount charged to other financial income | | | |
| Expected returns on pension scheme assets | 218,000 | 202 000 | 170,000 |
| Interest cost on pension scheme liabilities | <u>(208 000)</u> | <u>(186 000)</u> | <u>(159 000)</u> |
| Net Return | <u>10 000</u> | <u>16 000</u> | <u>11,000</u> |
| iii Amount recognised in the Statement of | | | |
| Total recognised Gains and Losses | | | |
| Actual returns less expected returns on pension scheme assets | 85,000 | 344,000 | 42 000 |
| Experienced gains and losses on pension scheme assets | 34,000 | (49 000) | (61 000) |
| Changes in assumptions underlying the scheme liabilities | | (558 000) | (26 000) |
| Other Outgoings | <u>(16 000)</u> | | |
| Actuarial Gain/(Loss) in the STRGL | <u>103,000</u> | <u>(263,000)</u> | <u>(45,000)</u> |

19 Other Financial Commitments

At 30 September 2006 the Council had gross annual commitments under non cancelable operating leases as set out below
The commitments are reduced by rental income received in respect of subleases

| | Property | | Motor Vehicles and Equipment | |
|-------------------------------|---------------|---------------|------------------------------|---------------|
| | 2006 £ | 2005 £ | 2006 £ | 2005 £ |
| Operating leases which expire | | | | |
| In one year or less | | | 4,173 | 6 924 |
| Between one and five years | | | 29 511 | 22,576 |
| In five years or more | <u>75 371</u> | <u>75 371</u> | <u>33,684</u> | <u>29,500</u> |
| | <u>75 371</u> | <u>75 371</u> | <u>33,684</u> | <u>29,500</u> |

20 The Scottish Council Foundation

The Scottish Council Foundation is a charitable body the trustees of which are appointed by the SCDI. During the year the SCDI made a donation of £12,500 (2005: £10,000) to the Foundation to support its expansion and development. Separately, a grant to the Foundation from a third party was specifically to fund the SCDI's network of Young Engineers Clubs. As a result a grant was received by the SCDI from the Foundation to support the Young Engineers Clubs and this amounted to £10,000 (2005: £10,000).

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF THE SCOTTISH COUNCIL FOR DEVELOPMENT AND INDUSTRY LIMITED

We have audited the financial statements of the Scottish Council for Development and Industry Limited for the year ended 30 September 2006 which comprise the principal accounting policies, the income and expenditure account, the balance sheet, the statement of total recognised gains and losses, the cash flow statement and notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, whether they are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 September 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements for the year ended 30 September 2006

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
EDINBURGH

1 November 2006