

MOREDUN RESEARCH INSTITUTE

**ANNUAL REPORT
YEAR ENDED 31 MARCH 2012**

Company Registered Number: SC149440

Scottish Charity Number: SC022353



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MOREDUN RESEARCH INSTITUTE (Registered Number: SC149440)

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YEAR ENDED 31 MARCH 2012**

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MOREDUN RESEARCH INSTITUTE (Registered Number: SC149440)

**COMPANY INFORMATION
YEAR ENDED 31 MARCH 2012**

Principal Business Address:	International Research Centre Pentlands Science Park Bush Loan Penicuik Midlothian EH26 0PZ
Registered Office Address:	Pentlands Science Park Bush Loan Penicuik Midlothian EH26 0PZ
External Auditors:	Scott-Moncrieff Statutory Auditor Exchange Place 3 Semple Street Edinburgh EH3 8BL
Internal Auditors:	Henderson Loggie 34 Melville Street Edinburgh EH3 7HA
Solicitors:	Tods Murray LLP Edinburgh Quay 133 Fountainbridge Edinburgh EH3 9AG
Principal Bankers:	Bank of Scotland plc 300 Lawnmarket Edinburgh EH1 2PH
Website:	www.moredun.org.uk
Scottish Charity Number:	SC022353

**DIRECTORS' REPORT
YEAR ENDED 31 MARCH 2012**

The directors, who are also the charity's trustees, present their annual report together with the audited financial statements for the year ended 31 March 2012. The principal address, the company and Scottish charity registration numbers are noted on the professional advisors page.

BACKGROUND

The Institute can trace its origins back to 1920 when the Animal Diseases Research Association was founded which was dedicated to the improvement of animal well being through research. The Association later became The Moredun Foundation following a change of status from a Friendly Society to a company limited by guarantee with charitable status. In 1994 the Moredun Research Institute was formed, which itself is a company limited by guarantee with charitable status, and is a wholly owned subsidiary of The Moredun Foundation. The Institute is one of the Main Research Providers to the Scottish Government and accordingly receives funding to carry out research work. The Institute also receives funding from other external sources to carry out scientific research.

PRINCIPAL ACTIVITIES

The Moredun Research Institute is an outcome-driven institute which aims to provide impact on livestock health nationally and internationally through undertaking world-class research in infectious diseases of livestock species, especially sheep, cattle, pigs, poultry and horses. The Institute's principal activities include research, development, and knowledge exchange.

Research includes targeted, strategic and basic studies which provide outputs (biological materials, data, publications) towards three main practical outcomes – vaccines, diagnostic tests and disease control programmes. Development is also focused on the same three main practical outcomes and describes the activities involved in taking research outputs forward into a pipeline that leads to a discernible tool, product, or plan. Steps in the development pipeline include protecting intellectual assets, undertaking patent filing, licence deals, and commercialisation options including the formation of spin-out companies. Knowledge exchange encompasses interactions with a number of audiences, principally the scientific community, farmers, veterinary surgeons and others involved in animal health issues, politicians and policy makers, and the general public including schoolchildren. Knowledge exchange outputs include written materials, presentations, practical demonstrations, provision of website information, debates and exhibitions appropriate for the audience in question. Annual "Moredun Roadshows" and organisation of, or attendance at, special events have been shown to be popular and effective opportunities impacting on a wide variety of audiences.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

During the year under review the Institute recorded several significant achievements. An international consortium of researchers lead by Moredun secured a £1 million translation award from the Wellcome Trust to develop a new vaccine to help control a deadly disease of cattle and buffalo in India. Haemorrhagic septicaemia is an endemic disease caused by the bacterium *Pasteurella multocida* that affects cattle, buffalo and camels across South and South-East Asia, Africa and South America. Transmission of bacteria is airborne and infection leads quickly to systemic disease causing death of the animal within 24 hours. In India, it is estimated that Haemorrhagic septicaemia is responsible for approximately half of all cattle and buffalo deaths. The disease is a significant economic problem for resource-poor farmers who rely on these animals for meat, milk, draught power, manure and heat. The consortium includes scientists from Moredun Research Institute, the University of Glasgow and the Indian Veterinary Research Institute and plans to develop and test a new vaccine for this disease over the next three years.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS (Continued)

Scientists from Moredun Research Institute are also working with farmers around Scotland to evaluate a new diagnostic test for liver fluke, a common and potentially devastating parasite. The liver fluke, *Fasciola hepatica*, is a highly pathogenic flatworm parasite responsible for severe production-limiting disease in both sheep and cattle. Acute fluke can cause the sudden death of previously healthy animals, especially sheep, whereas chronic fluke can significantly reduce lambing and calving percentages and liveweight gain in sheep and beef cattle.

Researchers also secured nearly £1 million to learn more about the immune systems of livestock and develop sheep and cattle vaccines. With the global population continuing to grow, food security is becoming a real challenge. There is a pressing need to apply new technologies and knowledge to help ensure sustainable, safe and healthy food supplies, while reducing the impact on the environment. Effective vaccines are the most efficient way of preventing the transmission and spread of infectious diseases in cattle and sheep. However there are still many diseases for which no effective vaccines exist and the lack of knowledge of the immune systems of these animals is considered to be a major block to strategic vaccine development. Thanks to a major grant from the Biotechnology and Biological Sciences Research Council and the Scottish Government, scientists from Moredun, working in partnership with colleagues from the nearby Roslin Institute will undertake detailed investigations of the immune responses of sheep and cattle, vitally underpinning the development of vaccines in the future. The work will be done in conjunction and with the support of an industrial partner, AbD Serotec. This will ensure that the techniques and reagents developed in the project will be widely available to the scientific community in order to support future vaccine research. A critical component in designing effective vaccines is to understand how the immune system is able to protect against a variety of different infections. The ability to both measure and induce immune responses in livestock using components of the organisms that cause disease is an absolute requirement for rational vaccine design. Moredun has a long history in immunology research in farm livestock and is recognised as a world leader in this area.

Scientists from Moredun Research Institute also announced that they will be screening all suspect cases of Schmallenberg virus found in Scotland. Specialist researchers from Moredun's virus surveillance unit will perform the diagnostic test, whilst highly trained veterinary pathologists at Moredun will examine samples of potentially affected fetuses submitted via SAC Disease Surveillance centres. The test for Schmallenberg virus used in other European countries is now available at Moredun, thanks to a collaboration with the Freidrich Loeffler Institute in Germany. The virus can infect cattle, sheep and goats. The source of infection is uncertain, although the virus is considered likely to be transmitted by insects (probably midges) in a similar way to Bluetongue. Clinical symptoms of infection with Schmallenberg virus in adult dairy cattle include fever and milk drop. Some animals may develop diarrhea though most clinical signs are mild and disappear after a few days. No clinical signs are reported in adult sheep. The most important effect of infection appears to be in pregnant animals, where there may be abortion or damage to the developing fetus causing brain and limb deformities in newborn lambs, kids or calves.

Scientists from Moredun Research Institute are involved in an exciting new EU project to develop new and sustainable strategies to control parasitic worms in sheep and cattle. The 'GLOWORM' project (an abbreviation for "GLObal changes in parasitic WORMs") will run for three years and will harness the expertise of fourteen research groups throughout Europe, with the help of a €3 million grant from the EU 7th Research Framework Program. Infection with parasitic worms represents a significant economic and welfare burden to the European livestock industry.

**DIRECTORS' REPORT (Continued)
YEAR ENDED 31 MARCH 2012**

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS (Continued)

It has been estimated that gastrointestinal worms cost the livestock industry many millions of pounds each year in lost production and liver fluke infections result in significant losses annually too. The increasing prevalence of anthelmintic (wormer) resistance means that current control programmes, based on routine anthelmintic treatment, are costly and unsustainable in the longer-term. Recent changes in the epidemiology, seasonality and geographic distribution of parasitic worms have been attributed to climate change, however, other changes in the environment (e.g. land-use) and in livestock farming (e.g. intensification and changing management practices) will also have an impact. It is hoped that the GLOWORM project will investigate the effects of global (including climate) change on parasitic worms in sheep and cattle and try to develop realistic new control strategies for European livestock farmers. Moredun is internationally renowned for its work on the infectious diseases of livestock and has been actively researching how best to control parasitic worms and minimise the development of anthelmintic resistance for decades. Moredun's knowledge of sustainable worm control in livestock is recognized throughout the farming and veterinary industries and Moredun's research was key in providing the scientific evidence that formed the basis of the SCOPS (Sustainable Control of Parasites in Sheep) recommendations in the United Kingdom. In addition to researchers at Moredun, this highly collaborative project involves university-based researchers and several commercial companies across Europe that have specialist skills in gathering, processing and disseminating the huge quantities of field data a project of this size is expected to generate.

Moredun's interactive educational exhibit received an excellent response from the public when it was launched at the Edinburgh International Science Festival. 'Bugs vs. Drugs' proved to be very popular, attracting a large number of visitors and some extremely positive feedback during its two day run. New for 2011, this exhibition told the tale of Sophie Scientist, Vernon Vet and Farmer Fred who are all working to keep Flossie the Sheep and her friends healthy. Children learn how bugs become resistant to drugs, why this is a problem, and what we can do to prevent this from happening. The fun exhibition was another triumph for Moredun's Education Group who once again developed a popular, entertaining and educational experience for children of all ages and adults too.

FINANCIAL REVIEW

The deficit for the financial year amounted to £765,798 (2011: £633,223). The directors recommend that this amount be transferred from reserves. Scottish Ministers, in exercise of powers contained in section 44 of the Small Landholders (Scotland) Act 1911 provide a grant to enable the organisation to carry out a set programme of work. Overall, the income of the Institute increased by 13.6% during the year. Investment in direct research costs increased by 12.4% however the greatest pressure on the cost base resulted from an increase in overheads of 30% caused by a marked increase in irrecoverable VAT due to the nature of the income mix contained within the whole Moredun Group. Further investment continued to be made in innovative research capabilities using reserves from previous years. Efforts continue to be focused on growing research income from a wide variety of sources despite the challenging economic environment. Costs continued to be tightly controlled with regular contract tendering and value for money exercises carried out on major overheads. Cost savings are being implemented with a view to bringing the financial results back to a balanced position.

KEY PERFORMANCE TARGETS

Each year, the Institute sets out certain performance targets. The following table summarises Moredun Research Institute's performance against its agreed targets.

KEY PERFORMANCE TARGETS (Continued)

Agreed Performance Targets

1. Consolidate the distinguished scientific research reputation of the Institute.
2. To maintain the Institute's income from competitive and commercial funding sources above 50%.
3. To invest in innovative science capabilities through the Moredun Innovation Fund and achieve a balanced budget for the Institute through attracting new research income, and/or through restructuring to compensate for the flat funding model adopted by the Scottish Government.
4. To maintain and to establish new collaborative research programmes between commercial companies and the Institute by encouraging the thriving interface with private sector industry through working with Moredun Scientific Limited, Genomia Management Limited and Genecom Limited.
5. To consolidate the procedures put in place to comply with Investors in People.
6. To improve knowledge management in the Institute and to transfer this knowledge to third parties for public benefit.

Performance achieved

Institute scientists published 104 peer reviewed publications in 2011 an increase of 39% over 2010.

In the financial year 2011/2012 the Institute secured 51% of its total revenue income (excluding bank interest received) from competitive and commercial activity (2010/2011: 48%).

In the financial year 2011/2012 the Institute's reserves decreased by £690,422 (2010/2011: decrease of £216,195), after investing £337,594 from the Innovation Fund and suffering £318,068 irrecoverable VAT. Research contracts income grew by over 25%.

The commercial scientific subsidiary of The Moredun Foundation, Moredun Scientific Limited, generated £1,811,677 (2010/2011 £959,801) of commercial turnover – an increase of 89%. Improved pipelines of commercially realisable work were realised in collaboration with the joint ventures Genomia, Genecom and our subsidiary, Inocul8.

The Institute values its staff and holds the silver award from Investors in People. Training was at the heart of staff development whilst also ensuring that corporate and personal objectives were closely aligned.

Roadshow events were held throughout the UK and a number of high profile events were held at Moredun to disseminate recent research advances. Interactive educational exhibits have also taken place to encourage and inform young people about science as a career. Moredun's annual press event in December was extremely successful and resulted in some excellent coverage in the national, veterinary and farming press. During 2011 Moredun had over 150 articles in the press – which is a 15% increase on media coverage compared to 2010.

PLANS FOR FUTURE PERIODS

Financial targets continue to be focused on achieving a balanced budget. A key element of this will be cost savings derived from a voluntary exit scheme for members of staff and the acquisition of further research contracts which fully contribute to overhead recovery. The Innovation Fund is now closed to new applications and further reviews are taking place to mitigate the impact of irrecoverable VAT on the organisations financial results.

DIRECTORS' REPORT (Continued)
YEAR ENDED 31 MARCH 2012

PLANS FOR FUTURE PERIODS (Continued)

The Institute continues to work towards carrying out science of international quality and ensuring the results of this are communicated widely by transferring the knowledge through scientific papers, presentations to national and international conferences and working with the parent company, The Moredun Foundation, in holding roadshows throughout the United Kingdom and in contributing scientific articles to newsletters and other publications. Performance targets have been reviewed and are a further development of those listed above.

After making reasonable enquiries the board are satisfied that the company has adequate unrestricted resources, of which a high percentage is held in liquid resources, to continue its objectives for the foreseeable future. The company continues to adopt the going concern basis in preparing these financial statements.

DIRECTORS AND TRUSTEES

The directors of the charitable company are its trustees for the purpose of charity law and throughout this report are referred to as the directors. The directors serving during the year and since the year end were as follows:

Mr John Jeffrey ^{§^} (<i>Chairman to 8 December 2011</i>) (<i>Retired on 8 December 2011</i>)	
Professor The Lord Trees (<i>Chairman from 9 December 2011</i>) (<i>Appointed on 9 December 2011</i>)	
Professor Eileen Devaney	Mr Ian Duncan Millar
Dr Alexander I Donaldson	Professor J Charles Milne
Mr John Kinnaird*	Professor Randolph H Richards*
Professor Duncan J Maskell	Sir Muir Russell

* Member of the Group Audit Committee.

§ Member of the Group Remuneration Advisory Committee.

^ Member of the Group Chairman's Executive Committee.

Mr John Jeffrey retired from the board on 8 December 2011, having been appointed on 8 September 2004. The directors wish to record their appreciation of Mr Jeffrey's strong commitment to Moredun and express their thanks for all that he did over more than seven years as Chairman.

None of the directors had any notifiable interest in the charity at any time during the year.

Board meetings are attended by three executive members of staff who are not members of the Board and are not Trustees: Professor Julie Fitzpatrick (Group Chief Executive and Scientific Director), Mr Colin Burnett (Group Finance Director), and Mrs Fiona Vandeppear (Head of Business Administration and Company Secretary). The executive staff do not have any voting rights on the Board.

APPOINTMENT OF DIRECTORS

The board is permitted to have a minimum of three members and a maximum of nine members. Appointments are made for a term of three years, to a maximum of three terms not exceeding nine years in total. Performance assessments are carried out on the directors by the Chairman.

The Institute has in place an agreed statement of board appointment procedures together with a template concerning the composition of the board in terms of expertise and experience. This also sets out the responsibilities of the Chairman. Incorporated into the Institute's board appointments procedures is the Standards Commission for Scotland – Standards in Public Life, Model Code of Conduct for Members of Devolved Public Bodies (2002) embodying the seven principles of public life, namely Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty, and Leadership.

**DIRECTORS' REPORT (Continued)
YEAR ENDED 31 MARCH 2012**

DIRECTOR INDUCTION AND TRAINING

New directors undergo an induction process, co-ordinated by the Chair, which briefs them on their legal obligations under charity and company law, the content of the Memorandum and Articles of Association, the Institute's work and research base, the group structure / subsidiaries / joint ventures, the Institute's constitution, board procedures and matters reserved for the board. The briefing also includes summary details of the Institute's principal assets and liabilities, the financial procedures in force, significant projects and major competitors, the Institute's major risks and risk management strategy, key performance indicators, and regulatory constraints, meetings with senior management and a tour of the Science Park to learn about the different parts of the group and meetings with employees in an informal setting.

It is important, not only for the board to get to know the new non-executive Director, but also for the non-executive Director to build a profile with employees below board level, building an understanding of the group's main relationships and stakeholders, the "whistle blowing" policy, and the disaster recovery and business continuity procedures.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE POLICY

In accordance with the amendment to the Companies Act, the company confirms that it has in place a Directors' and Officers' Liability Insurance Policy. Whilst every effort is made by the organisation to manage Health and Safety and other business risks, by the very nature of the work involved it is deemed appropriate to have this policy in place covering all directors of the organisation.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

DIRECTORS' REPORT (Continued)
YEAR ENDED 31 MARCH 2012

INVESTMENT POLICY (Continued)

Available funds are kept on interest bearing bank accounts and seek to achieve a rate of deposit interest which matches or exceeds inflation as measured by the retail prices index ("RPI"). RPI over the twelve months to 31 March 2012 was 3.6%. The UK accounts with the largest balances earned average interest of 2%. Due to bank base rates being at a historically low level throughout the year it was once again not possible to obtain deposit rates that matched or exceeded RPI.

RESERVES POLICY

Reserves are needed to bridge the funding gaps between spending on scientific projects and receiving payments from funders and other bodies in respect of that work. Reserves are also held to cover contingencies such as major repairs and potential events which may disrupt the normal operational activities, such as outbreaks of major diseases (e.g. a further outbreak of Foot and Mouth Disease). In assessing reserves the directors focus on unrestricted funds and have set an ideal level of reserves at 31 March 2012 at 6 months average income. This has been increased given the flat funding from the Scottish Government and the likely adverse impact on existing reserves. Based on the incoming resources for the year, this would be £6.3 million (2011: £5.7 million). Unrestricted reserves at 31 March 2012 amounted to £6.9 million (2011: £6.7 million). The directors are also aware that fixed assets account for £1 million of the unrestricted reserves and thus the directors are continuing in their endeavours to build up unrestricted reserves, excluding tangible fixed assets, for the future but are conscious of the difficult operating conditions that prevail.

EMPLOYEE POLICY

The Institute is an equal opportunity employer committed to effect positive policies in recruitment, training and career development for staff members (and potential staff members) regardless of marital status, religion, colour, race, ethnic origin or disability. The Institute gives full consideration to applications for employment by disabled persons where the requirement for the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled it is the Institute's policy, wherever possible, to provide continuing employment under similar terms and conditions and to provide training and career development.

INVESTORS IN PEOPLE

The charity is accredited under the Investors in People scheme. It is fully committed to the principles surrounding the scheme and has developed strategies to improve the performance of the company through its people. The impact of the performance of the organisation is evaluated through performance measurement and continuous improvement.

CREDITORS PAYMENT POLICY

It is the policy of the Institute's management to ensure that creditors are paid within the agreed credit limit. Where this does not happen, due to unforeseen circumstances, payment is made at the earliest possible date.

INTERNAL CONTROL

Professor Fitzpatrick has responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives whilst safeguarding the public funds and assets for which she is personally responsible, in accordance with the responsibilities assigned to her.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the organisation's policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

DIRECTORS' REPORT (Continued)
YEAR ENDED 31 MARCH 2012

INTERNAL CONTROL (Continued)

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. This process was in place up to the date of approval of the annual report and accounts and accords with guidance from Scottish Government Ministers.

Professor Fitzpatrick also has responsibility for reviewing the effectiveness of the system of internal control. The following processes have been established:

- The board considered risk management and internal control at each quarterly meeting during the year.
- Risk management is fully incorporated into the corporate planning and decision making processes of the organisation.
- A full risk and control assessment was carried out and from this an organisation wide risk register was compiled which is regularly maintained and which prioritises and ranks all risks.
- A business recovery and continuity plan is in place and was developed in conjunction with other members of the Moredun group. This is reviewed on an annual basis.
- Periodic reports are made to the board by the chairman of the organisation's audit committee concerning internal control.
- Regular reports are received from the Institute's internal auditors, Henderson Loggie, which includes an opinion on the adequacy and effectiveness of the system of internal controls tested together with recommendations for improvement.
- Committees are in place, attended by representatives of staff throughout the organisation, during which the organisation's objectives in that area are determined together with the related risks. A control strategy for each of the significant risks is in place.
- The Senior Management Group meets two to three times per month and the Group Management Group (which includes other members of the group senior management) meets on a quarterly basis. These sessions include reports from divisional heads on the steps they are taking to manage risks in their areas of responsibility including progress reports on key projects. In addition the group senior management have two sessions of away days each year which include financial training and risk management awareness sessions.

Professor Fitzpatrick's review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letters and other reports.

ULTIMATE HOLDING ORGANISATION

Moredun Research Institute is a wholly owned subsidiary of The Moredun Foundation.

AUDITORS

Scott-Moncrieff is eligible for re-appointment as auditor to the company and a resolution proposing its re-appointment will be proposed at the AGM.

STATUS

The company is recognised by Her Majesty's Inland Revenue as a Scottish Charity, No SC022353.

GOVERNING INSTRUMENT

Moredun Research Institute is a company limited by guarantee, governed by its Memorandum and Articles of Association.

ORGANISATIONAL STRUCTURE

The activities of the charity are ultimately controlled by the Board of Directors, which in turn delegates authority for the day to day management of the charity to the Scientific Director, Professor Julie Fitzpatrick.

SUBSIDIARIES

Moredun Research Institute has one wholly owned trading subsidiary, Inocul8 Limited, which is a development company focused on the commercialisation of academic research to yield high impact livestock vaccines. A further five dormant subsidiaries exist: Activ8 Science Limited, Wormvax Limited, Evalu8 Science Limited, Gener8 Science Limited and Anticip8 Science Limited.

JOINT VENTURES

During the year Moredun Research Institute continued to be a member of two consortia of Public Sector Research Establishments that were funded from the Government's Public Sector Research Exploitation Fund and also from the European Regional Development Fund.

The first, Genomia Management Limited, is a company limited by guarantee, and runs the Genomia Fund which provides seed fund support for proof of concept and business development proposals targeting the important developments in science and encourages the commercialisation of the science output in the five member organisations and other partner organisations. The members are Moredun Research Institute, Roslin Foundation, Rowett Institute of Nutrition and Health, the Institute for Animal Health and the Scottish Agricultural College.

The second, Genecom Limited, is also a company limited by guarantee and allows the member organisations to share their experiences, develop their intellectual property and results in new and innovative commercial opportunities being identified and exploited from the research base of each member body. There is also a training programme to encourage scientists to develop their commercial awareness and network with entrepreneurs from existing biotechnology related organisations. The members are Moredun Research Institute, Roslin Foundation, and the Institute for Animal Health.

SPECIAL EXEMPTIONS

The directors have taken advantage of the special exemption conferred by section 61 of the Companies Act 2006 applicable to companies limited by guarantee, allowing them to dispense with the requirement of using the word Limited, or the abbreviation Ltd., after the company name.

The directors have also taken advantage of the exemption conferred by section 400 of the Companies Act 2006 to dispense with the requirement to prepare consolidated accounts when these are included in the accounts of a larger group. As noted above, Moredun Research Institute is a wholly owned subsidiary of The Moredun Foundation.

BY ORDER OF THE BOARD

Professor J L Fitzpatrick
Chief Executive & Scientific Director

Edinburgh

Professor The Lord Trees
Chairman

Date: 5 September 2012

**MOREDUN RESEARCH INSTITUTE (Registered Number: SC149440)
INDEPENDENT AUDITORS' REPORT TO THE MEMBER AND TRUSTEES
FOR THE YEAR ENDED 31 MARCH 2012**

We have audited the financial statements of Moredun Research Institute for the year ended 31 March 2012 which comprise the Income and Expenditure Account, the Cash Flow Statement, the Statement of Financial Activities, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made exclusively to the member, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006 and to the charity's trustees, as a body, in accordance with section 44 (1) (c) of the Charities and Trustee Investment (Scotland) Act 2005 and Regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audit work has been undertaken so that we might state to the member and the charitable company's trustees those matters we are required to state to them in an auditor's 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 charitable company and its members and trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the trustees (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed as auditor under section 44 (1) (c) of the Charities and Trustee Investment (Scotland) Act 2005 and under the Companies Act 2006 and report in accordance with regulations made under those Acts. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (United Kingdom and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the charitable company's affairs as at 31 March 2012 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulations 6 and 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 and the Charities Accounts (Scotland) Regulations 2006 (as amended) requires us to report to you if, in our opinion:

- the charitable company has not kept proper and adequate accounting records or returns adequate for our audit have not been received from branches not visited by us; or
- the charitable company's financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Gillian Donald (Senior Statutory Auditor)

for and on behalf of Scott-Moncrieff, Statutory Auditor, Chartered Accountants
Eligible to act as an auditor in terms of Section 1212 of the Companies Act 2006
Exchange Place 3, Sempole Street, Edinburgh, EH3 8BL

Date 5 September 2012

MOREDUN RESEARCH INSTITUTE (Registered Number: SC149440)**INCOME AND EXPENDITURE ACCOUNT
YEAR ENDED 31 MARCH 2012**

		2012	2011
	Note	£	As restated
		£	£
Income		12,346,227	10,869,035
Direct research costs		(11,959,078)	(10,642,919)
Gross surplus		387,149	226,116
Administrative expenses		(1,244,672)	(954,142)
Operating deficit		(857,523)	(728,026)
Interest receivable and similar income	2	91,725	94,803
Deficit for the financial year	3	(765,798)	(633,223)

All amounts relate to continuing operations. A reconciliation of movements in members' funds is shown in the Statement of Financial Activities on page 14. This also reflects other movements in reserves.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
YEAR ENDED 31 MARCH 2012**

		2012	2011
	Note	£	£
Deficit for the financial year	3	(765,798)	(633,223)
Capital grants		75,376	417,028
Total recognised losses and gains relating to the year		(690,422)	(216,195)

The notes on pages 16 to 29 form part of these financial statements

**CASH FLOW STATEMENT
YEAR ENDED 31 MARCH 2012**

		2012		2011 <i>As restated</i>	
	Note	£	£	£	£
Reconciliation of operating deficit to net cash inflow from operating activities					
Operating deficit		(857,523)		(728,026)	
Depreciation of tangible fixed assets		715,841		705,148	
Amortisation of intangible fixed assets		18,793		15,452	
Gain on sale of fixed assets		(7,581)		(46)	
Decrease in debtors		29,576		53,909	
(Increase)/decrease in stocks		(14,481)		42,863	
Increase/(decrease) in creditors		2,242,279		(393,746)	
Net cash inflow/(outflow) from operating activities			2,126,904		(304,446)
CASH FLOW STATEMENT					
Net cash inflow/(outflow) from operating activities			2,126,904		(304,446)
Returns on investments and servicing of finance	5	91,725		94,803	
Net capital expenditure	5	(323,560)		(457,291)	
Increase/(decrease) in cash in the period			1,895,069		(666,934)
Reconciliation of net cash flow to movement in net funds					
Increase/(decrease) in cash in the period	6		1,895,069		(666,934)
Net funds at 1 April 2011			8,437,987		9,104,921
Net funds at 31 March 2012			10,333,056		8,437,987

The notes on pages 16 to 29 form part of these financial statements

STATEMENT OF FINANCIAL ACTIVITIES
YEAR ENDED 31 MARCH 2012

	Note	Unrestricted Funds £	Restricted Funds £	Total 2012 £	Total 2011 As restated £
INCOMING RESOURCES					
<i>Incoming resources from generated funds:</i>					
Investment Income	2	91,725	-	91,725	94,803
<i>Incoming resources from charitable activities:</i>					
Research – revenue grants		420,000	10,141,499	10,561,499	9,577,249
Research – capital grants		-	75,376	75,376	417,028
Research – costs refunded & other		598,545	-	598,545	631,555
Bioservices		731,279	-	731,279	270,562
Diagnostics		290,300	-	290,300	252,200
		2,040,124	10,216,875	12,256,999	11,148,594
<i>Other incoming resources:</i>					
Royalty income		164,604	-	164,604	137,469
TOTAL INCOMING RESOURCES		2,296,453	10,216,875	12,513,328	11,380,866
RESOURCES EXPENDED					
<i>Charitable activities:</i>					
Research	7	-	11,893,673	11,893,673	10,299,307
Bioservices	7	942,026	-	942,026	886,121
Diagnostics	7	275,883	-	275,883	286,474
		1,217,909	11,893,673	13,111,582	11,471,902
<i>Governance costs:</i>	8	24,940	13,294	38,234	38,959
<i>Other resources expended:</i>					
Scientists royalties		53,934	-	53,934	86,200
TOTAL RESOURCES EXPENDED		1,296,783	11,906,967	13,203,750	11,597,061
NET INCOMING RESOURCES BEFORE FUNDS TRANSFERS		999,670	(1,690,092)	(690,422)	(216,195)
Transfers Between Funds:					
Amortisation of capital grants		593,554	(593,554)	-	-
Other funds transfers		(1,415,009)	1,415,009	-	-
NET MOVEMENT IN FUNDS		178,215	(868,637)	(690,422)	(216,195)
Reconciliation of Funds:					
Balances brought forward		6,776,717	4,677,374	11,454,091	11,670,286
BALANCES CARRIED FORWARD AT 31 MARCH 2012		6,954,932	3,808,737	10,763,669	11,454,091

The notes on pages 16 to 29 form part of these financial statements

MOREDUN RESEARCH INSTITUTE (Registered Number: SC149440)**BALANCE SHEET
AT 31 MARCH 2012**

		2012		2011 <i>As restated</i>	
	Note	£	£	£	£
Fixed assets					
Intangible assets	9		282,440		236,194
Tangible assets	10		3,037,237		3,411,600
Investments	11		58,589		58,589
			3,378,266		3,706,383
Current assets					
Stock	12	169,632		155,151	
Debtors: due within one year	13	1,174,738		1,134,554	
Debtors: due after more than one year	13	165,549		235,309	
Cash at bank and in hand		10,333,056		8,437,987	
		11,842,975		9,963,001	
Creditors: Amounts falling due within one year	14	(4,292,023)		(1,979,984)	
Net current assets			7,550,952		7,983,017
Total assets less current liabilities			10,929,218		11,689,400
Creditors: Amounts falling due after more than one year	14		(165,549)		(235,309)
NET ASSETS			10,763,669		11,454,091
Funds					
Restricted funds	15,16		3,808,737		4,677,374
Unrestricted funds	16		6,954,932		6,776,717
TOTAL FUNDS	16		10,763,669		11,454,091

Signed on behalf of the board of directors

Professor J L Fitzpatrick
Chief Executive & Scientific Director**Professor The Lord Trees**
Director

Approved by the board: 5 September 2012

Company Number: SC149440

The notes on pages 16 to 29 form part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2012**

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding period.

a) Accounting Convention

The financial statements are prepared under the historical cost convention, applicable accounting standards and the Statement of Recommended Practice "Accounting and Reporting by Charities" 2005 issued by the Charity Commissioners for England and Wales and relevant Scottish Government accountancy guidance papers.

b) Going Concern

The directors are of the opinion that the company will continue to trade for the foreseeable future.

c) Funds

In accordance with the Statement of Recommended Practice "Accounting and Reporting by Charities" all income and expenditure is dealt with through the statement of financial activities, including those items which affect capital reserves. Funds are classified as either restricted funds or unrestricted funds. The statement of financial activities provides information on all recognised gains and losses experienced during the year and incorporates information on movements in capital resources to form a single statement of all movements between opening and closing funds. Incoming resources include not only incoming revenue but also receipts of capital such as Scottish Government capital grants.

d) Incoming Resources: Grants – Research Expenditure

Grants for research expenditure are credited to income in the period in which they are receivable and in which associated costs are incurred. Where unconditional grant entitlement depends on conditions being met by the Institute, sums received against future costs are shown as deferred income. The major source of grant income is the Scottish Government.

e) Incoming Resources: Grants – Capital Expenditure

Grants in respect of capital expenditure are recognised in the statement of financial activities when received and treated as a restricted fund. These grants are amortised at rates equal to the corresponding depreciation charge.

f) Pension Costs

The Institute is a member of the Research Councils Pension Scheme which is administered by the Joint Superannuation Services ("JSS"). The Institute remits contributions to the scheme for employees carrying out work funded by sponsors other than the Scottish Government.

g) Restricted Income and Associated Expenditure

Restricted income is any income which is for purposes as designated by the granter or donor and can only be applied to those purposes. Where expenditure in the income and expenditure account has been financed by restricted income, both have been dealt with under the accruals concept.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2012

1. ACCOUNTING POLICIES (Continued)

h) Expenditure Recognition and Allocation

Expenditure is recognised when a liability is incurred. Costs of generating funds are those costs incurred in attracting voluntary income, and those incurred in non-primary purpose trading activities that raise funds. Charitable activities include expenditure associated with research work, bioservices and diagnostic services and include both the direct costs and support costs relating to these activities. Governance costs include those incurred in the governance of the charity and its assets and are primarily associated with constitutional and statutory requirements. Support costs include central functions and have been allocated to activity cost categories on a basis consistent with the use of resources. When this has not been possible an estimate has been made of the allocation to each activity.

i) Foreign Currency Translation

Assets and liabilities held in foreign currencies are converted to sterling using the rate at the balance sheet date. Any exchange differences arising on transactions during the year are taken to the income and expenditure account.

j) Operating Leases

Operating lease payments are charged to the Income and Expenditure account as they fall due over the term of lease.

k) Tangible Fixed Assets and Depreciation

Fixed assets are shown in the balance sheet at cost less amounts written off by way of depreciation. Tangible fixed assets costing more than £1,000 are capitalised and included at cost including any incidental expenses of acquisition. Depreciation is provided using the straight line method at the following rates: Scientific Equipment 10%, Motor Vehicles 25%, Computer Equipment 25%, Furniture & Fittings 10%. Leasehold improvements are depreciated over the remainder of the lease term.

l) Intangible Fixed Assets and Amortisation

Intangible fixed assets are shown in the balance sheet at cost less amounts written off by way of amortisation over their estimated useful life. Amortisation is provided using the straight line method at the following rates: Patents 5%, Trademarks 10%.

m) Investments

Investments are valued at cost less any provisions for impairment.

n) Stocks

Stocks are stated at the lower of cost or net realisable value.

o) Taxation

The Moredun Research Institute has been recognised by the Inland Revenue as a charity for the purposes of Section 505, Income & Corporation Taxes Act 1988. Accordingly the charity is potentially exempt from taxation in respect of income or capital gains to the extent that such income or gains are applied to charitable purposes. The Institute receives no similar exemption in respect of Value Added Tax, the irrecoverable element of which is charged to the income and expenditure account.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2012

1. ACCOUNTING POLICIES (Continued)

p) Annual Compensation Payments (ACP's)

ACP's in respect of early staff departures relate to the estimated future cost of payments due to these former employees until they reach 60 years of age. The Scottish Government has undertaken to pay the restructuring grant to cover these liabilities. Accordingly provision is made in the accounts to reflect both the debtor and creditor amounts.

2. INTEREST RECEIVABLE AND SIMILAR INCOME

Interest receivable and similar income represents interest receivable on bank deposits and is shown as investment income in the Statement of Financial Activities.

3. DEFICIT FOR THE FINANCIAL YEAR

The deficit for the financial year is stated after charging the following:

	2012 £	2011 £
Gain on the sale of fixed assets	(7,581)	(46)
Depreciation (note 10)	715,841	705,148
Staff costs (note 4)	5,191,876	5,326,887
Operating lease rentals - property	816,702	815,640
External auditors' remuneration - audit fee	6,075	5,900
External auditors' remuneration - non-audit work	4,300	-
Internal auditors' remuneration - audit fee	5,785	6,618

4. ANALYSIS OF STAFF COSTS

	2012 £	2011 £
Staff costs comprised:		
Wages and salaries	4,671,373	4,857,224
Redundancy costs	41,308	-
Pension costs	142,143	136,431
Social security costs	337,052	333,232
	5,191,876	5,326,887

Where a member of staff is contractually employed by a third party, and all associated staff costs are recharged to the Institute, these are shown in the wages and salaries headline figure above.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2012

4. ANALYSIS OF STAFF COSTS (Continued)

The average number of full time equivalent employees during the year was as follows:

	2012	2011
Scientific	125	128
Other	16	17
	141	145

The aggregate numbers of employees whose emoluments exceeded £60,000 were as follows:

	2012	2011
£60,001 - £70,000	-	-
£70,001 - £80,001	-	-
£80,001 - £90,000	1	1
£90,001 - £100,000	-	-
£100,001 - £110,000	-	-
£110,001 - £120,000	1	1
	2	2

The two employees noted above are accruing pension rights under the Research Councils Pension Scheme. During the year contributions were paid in to the scheme on behalf of these employees totalling £54,545 (2011: £51,614).

5. GROSS CASH FLOWS

	2012 £	2011 £
Returns on investments and servicing of finance		
Interest received	91,725	94,803
	91,725	94,803

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2012

5. GROSS CASH FLOWS (Continued)

	2012 £	2011 £
Net capital expenditure		
Payments to acquire tangible fixed assets	(341,477)	(820,480)
Payments to acquire intangible fixed assets	(65,039)	(54,450)
Capital funds received – Scottish Government	-	350,000
Capital funds received - Other	75,376	67,028
Proceeds on sale of fixed assets	7,580	611
	(323,560)	(457,291)

6. ANALYSIS OF CHANGES IN NET FUNDS

	At 1 April 2011 £	Cash Flows £	At 31 March 2012 £
Cash at bank and in hand	8,437,987	1,895,069	10,333,056

7. ANALYSIS OF CHARITABLE EXPENDITURE

The Institute undertakes direct charitable activities only and does not make grant payments.

	Research £	Bioservices £	Diagnostics £	Total 2012 £	Total 2011 <i>As restated</i> £
Research activity	9,159,362	171,232	261,158	9,591,752	8,192,995
Premises costs	1,113,669	478,248	-	1,591,917	1,587,741
Direct depreciation	482,986	89,687	-	572,673	564,118
Gain on sale of fixed asset	(7,581)	-	-	(7,581)	(46)
Travel and subsistence	5,103	-	1,494	6,597	7,427
Training	38,978	11,340	-	50,318	45,304
Professional fees	29,224	-	-	29,224	39,392
Irrecoverable VAT	318,068	-	-	318,068	79,297
Support costs (note 8)	753,864	191,519	13,231	958,614	955,674
	11,893,673	942,026	275,883	13,111,582	11,471,902

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2012

8. ALLOCATION OF SUPPORT COSTS

The Institute allocates its support costs as shown in the table below and then further apportions those costs between the three charitable activities undertaken (see note 7). Support costs are allocated on a basis consistent with the use of resources. When this has not been possible an estimate has been made of the allocation to each activity.

	Research	Bioservices	Diagnostics	Governance	Total 2012	Total 2011 <i>As restated</i>
	£	£	£	£	£	£
Staff costs	223,018	27,534	587	11,151	262,290	270,654
Office & premises	517,879	153,718	12,644	12,643	696,884	689,510
Legal & prof. fees	4,083	-	-	215	4,298	5,705
Audit fees	-	-	-	13,994	13,994	14,264
Sundries	8,884	10,267	-	231	19,382	14,500
	753,864	191,519	13,231	38,234	996,848	994,633

9. FIXED ASSETS – INTANGIBLE

The movement on these assets during the year was as follows:

	Trademarks £	Patents £	Total £
Cost/Valuation			
At 1 April 2011	22,413	293,284	315,697
Additions	140	64,899	65,039
Disposals	-	-	-
At 31 March 2012	22,553	358,183	380,736
Amortisation			
At 1 April 2011	8,849	70,654	79,503
Charge for the year	2,247	16,546	18,793
Eliminated on disposals	-	-	-
At 31 March 2012	11,096	87,200	98,296
At 31 March 2012	11,457	270,983	282,440
At 31 March 2011	13,564	222,630	236,194

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2012

10. FIXED ASSETS – TANGIBLE

The movement on these assets during the year was as follows:

	Leasehold Improvements £	Motor Vehicles £	Computer Equipment £	Scientific Equipment £	Fixtures & Fittings £	Total £
Cost/Valuation						
At 1 April 2011	1,048,673	67,466	980,620	7,815,026	163,130	10,074,915
Additions	-	29,580	63,677	247,420	800	341,477
Disposals	-	(20,415)	(123,520)	(20,236)	-	(164,171)
At 31 March 2012	1,048,673	76,631	920,777	8,042,210	163,930	10,252,221
Depreciation						
At 1 April 2011	235,826	48,673	658,453	5,594,392	125,971	6,663,315
Charge for the year	62,444	15,116	130,706	500,105	7,470	715,841
Eliminated on disposals	-	(20,415)	(123,520)	(20,237)	-	(164,172)
At 31 March 2012	298,270	43,374	665,639	6,074,260	133,441	7,214,984
Net Book Values						
At 31 March 2012	750,403	33,257	255,138	1,967,950	30,489	3,037,237
At 31 March 2011	812,847	18,793	322,167	2,220,634	37,159	3,411,600

11. FIXED ASSETS - INVESTMENTS

The directors have taken advantage of the exemption conferred by section 400 of the Companies Act 2006 to dispense with the requirement to prepare consolidated accounts when these are included in the accounts of a larger group. Moredun Research Institute is a wholly owned subsidiary of The Moredun Foundation. The investments in subsidiaries, joint ventures and other unlisted entities are noted below.

Shares in group undertakings:

During the year the company held equity investments in the following subsidiaries:

Company Name	Country of Incorporation and Registered Number	Nominal Value of Shareholding and Percentage Shareholding
Inocul8 Limited	Scotland - SC347044	10 ordinary shares of £1 each <i>100% of the share capital</i>
Activ8 Science Limited	Scotland - SC357619	10 ordinary shares of £1 each <i>100% of the share capital</i>
Wormvax Limited	Scotland - SC357621	10 ordinary shares of £1 each <i>100% of the share capital</i>
Evalu8 Science Limited	Scotland - SC357622	10 ordinary shares of £1 each <i>100% of the share capital</i>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2012

11. FIXED ASSETS - INVESTMENTS (Continued)

Shares in group undertakings (continued):

Company Name	Country of Incorporation and Registered Number	Nominal Value of Shareholding and Percentage Shareholding
Gener8 Science Limited	Scotland - SC357623	10 ordinary shares of £1 each <i>100% of the share capital</i>
Anticip8 Science Limited	Scotland - SC357624	10 ordinary shares of £1 each <i>100% of the share capital</i>

Financial data relating to the above equity investments is as follows:

Company Name	Year Ended	Profit/(Loss)	Aggregate Amount of Capital and reserves
Inocul8 Limited	31 March 2012	£nil	£10
Activ8 Science Limited	31 March 2012	£nil	£10
Wormvax Limited	31 March 2012	£nil	£10
Evalu8 Science Limited	31 March 2012	£nil	£10
Gener8 Science Limited	31 March 2012	£nil	£10
Anticip8 Science Limited	31 March 2012	£nil	£10

All subsidiaries were dormant during the year other than Inocul8 Limited which is a development company focused on the commercialisation of academic research to yield high impact livestock vaccines.

Joint ventures:

During the year the company was a member in the following joint venture companies which are both limited by guarantee:

Company Name	Country of Incorporation and Registered Number	Nominal Value of Shareholding and Percentage Shareholding
Genomia Management Ltd	Scotland – SC266593	N/A
Genecom Limited	Scotland – SC270942	N/A

Including Moredun Research Institute, there are five members in Genomia Management Limited and three members in Genecom Limited.

Financial data relating to the above joint venture companies is as follows:

Company Name	Year Ended	Profit/(Loss)	Aggregate Amount of Capital and reserves
Genomia Management Ltd	31 March 2012	£nil	£nil
Genecom Limited	31 March 2012	£14,855	£77,029

The principal activity of Genomia Management Limited is to provide seed fund support for proof of concept and business development proposals targeting important developments in science and to encourage the commercialisation of the science output in the five member organisations and in partner organisations.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2012

11. FIXED ASSETS - INVESTMENTS (Continued)

Joint ventures (continued):

The principal activity of Genecom Limited is to allow the member organisations to share their experiences, develop their intellectual property and to identify and help exploit new and innovative commercial opportunities from the research base of each member body.

Other investments:

During the year the company held equity investments in the following unlisted entities:

Company Name	Country of Incorporation and Registered Number	Nominal Value of Shareholding and Percentage Shareholding
BigDNA Limited	Scotland – SC311480	2,470 ordinary shares of £0.01 each <i>7% of the share capital</i>

The principal activity of BigDNA Limited is to develop and commercialise bacteriophage vaccination technology.

Cost value of investments:

The cost value of investments in subsidiaries, joint ventures and other investments is as follows:

Company	At 31 March 2011 £	Additions £	Disposals £	At 31 March 2012 £
Unlisted – investments in subsidiaries	60	-	-	60
Unlisted – other investments	58,529	-	-	58,529
	58,589	-	-	58,589

12. STOCK AND WORK-IN-PROGRESS

	2012 £	2011 £
Livestock	71,967	68,640
Consumables	97,665	86,511
	169,632	155,151

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2012

13. DEBTORS

	2012	2011
	£	<i>As restated</i> £
Due within one year:		
Amounts due from group undertakings	404,004	142,999
Trade debtors	165,496	177,414
Other debtors	524,404	674,188
Restructuring grant: Annual Compensation Payments	80,834	139,953
	1,174,738	1,134,554
	2012	2011
	£	£
Due after more than one year:		
Restructuring grant: Annual Compensation Payments*	165,549	235,309
	165,549	235,309

* Restructuring grant is receivable in line with liabilities for Annual Compensation Payments as per note 14.

14. CREDITORS

	2012	2011
	£	<i>As restated</i> £
Due within one year:		
Amounts due to group undertakings	270,139	213,192
Trade creditors	107,942	176,352
Accruals and deferred income	3,405,729	1,126,684
Other taxes and social security	390,086	323,561
Other creditors	37,293	242
Annual Compensation Payments	80,834	139,953
	4,292,023	1,979,984
	2012	2011
	£	£
Due after more than one year:		
Annual Compensation Payments due within 1 to 2 years	67,474	78,479
Annual Compensation Payments due within 2 to 5 years	98,075	146,024
Annual Compensation Payments due in more than 5 years	-	10,806
	165,549	235,309

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2012

15. RESTRICTED FUNDS

Restricted funds are as follows:

- The **Capital Equipment Fund** relates to funds received for the purchase of capital equipment. An amount equivalent to the depreciation charge on the assets purchased is released to the Income and Expenditure Account annually.
- The **Scottish Government Fund** was established in 1995, to provide scientific research, funded by Core and Flexible Fund grants from The Scottish Government. The grants are given for specific research projects.
- The **Innovation Fund** was set up in 2009 to target at attracting grants and other revenue streams which can be used for innovative research and developing the research output of the Institute.
- The **Intellectual Property Development Fund** was set up in 2003 to finance work in developing the intellectual property of the Institute.
- The **Moredun Scientific Limited Studentship Fund** and the **Pentlands Science Park Limited Studentship Fund** were set up in 2006 to finance studentships out of funds Gift Aided by these companies to the group holding company, The Moredun Foundation, and subsequently granted to the Institute.
- **Other Restricted Funds** represents monies received from various sources for specific purposes which have been fully spent during the financial year. Included within this figure is the deficit arising from unfunded overhead costs supporting the scientific work which is covered by transfer from the Unrestricted Reserves.

The movements on restricted funds, including transfers, during the year were as follows:

	Balance at 1 April 2011 £	Movement in Funds			Balance at 31 March 2012 £
		Incoming £	Outgoing £	Transfers £	
Capital Equipment Fund	3,886,123	75,376	-	(593,554)	3,367,945
Scottish Government Fund	-	6,035,313	(6,035,313)	-	-
Intellectual Property Development Fund	60,948	-	-	-	60,948
Moredun Scientific Ltd Studentship Fund	23,215	-	-	-	23,215
Pentlands Science Park Ltd Studentship Fund	32,865	-	(12,865)	-	20,000
Innovation Fund	674,223	-	(337,594)	-	336,629
Other Restricted Funds	-	4,106,186	(5,521,195)	1,415,009	-
	4,677,374	10,216,875	(11,906,967)	821,455	3,808,737

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2012

15. RESTRICTED FUNDS (Continued)

Grants received from the Scottish Government can be analysed as follows:

	2012 £	2011 £
Grants for current expenditure:		
Research Portfolio	6,014,464	6,014,000
Flexible Fund	20,849	205,033
Grants for pensions	950,000	921,136
Grants and lump sums for retirement and death in service	138,812	116,639
Grants and lump sums for early severance	-	-
	7,124,125	7,256,808

Whereof:

Included in income	6,035,313	5,869,033
Included in debtors/creditors	1,088,812	1,037,775
Included in capital	-	350,000
	7,124,125	7,256,808

16. ANALYSIS OF NET ASSETS BETWEEN FUNDS

The analysis of net assets at 31 March 2012, between funds, is as follows:

	Fixed Assets £	Current Assets Less Liabilities £	Total £
Restricted Funds			
Capital Equipment Fund	2,349,150	1,018,795	3,367,945
Scottish Government Fund	-	-	-
Innovation Fund	-	336,629	336,629
Intellectual Property Development Fund	-	60,948	60,948
MSL Studentship Fund	-	23,215	23,215
PSP Studentship Fund	-	20,000	20,000
	2,349,150	1,459,587	3,808,737

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2012

16. ANALYSIS OF NET ASSETS BETWEEN FUNDS (Continued)

	Fixed Assets £	Current Assets Less Liabilities £	Total £
Unrestricted Funds			
General Fund	1,029,116	5,803,846	6,832,962
Designated Scientists Funds	-	121,970	121,970
	1,029,116	5,925,816	6,954,932
Total Funds	3,378,266	7,385,403	10,763,669

All assets are held for charitable purposes

17. ULTIMATE HOLDING ORGANISATION

Moredun Research Institute is a wholly owned subsidiary of The Moredun Foundation, a company limited by guarantee, having charitable status, registered in Scotland No: SC151865. The annual report of the Moredun Foundation is available for inspection at Companies House.

18. RELATED PARTIES

Ultimate Control: Moredun Research Institute is ultimately controlled by The Moredun Foundation, which is the only voting member. Exemption has therefore been taken under FRS8, from disclosing related party transactions. The results of Moredun Research Institute are included in the consolidated financial statements of The Moredun Foundation, which are available for inspection at Companies House. Transactions between Moredun Research Institute and The Moredun Foundation are conducted on an arms length basis. The commercial relationship between the two bodies is that of Landlord and Tenant. No singularly material transactions have occurred.

Directors' Expenses and Remuneration: During the year six (2011: four) Directors claimed travel expenses, the total of which amounted to £2,395 (2011: £1,075). No Directors received remuneration however Mr J Jeffrey received a total of £6,974 (2011: £10,000) from Pentlands Science Park Limited, a wholly owned subsidiary of The Moredun Foundation, for services to the group. Lord Trees received a total of £3,144 (2011: £Nil) from the same source and for the same purpose. A Directors/Trustees Indemnity policy is in place which covers all Directors. This is deemed essential given the nature of the work involved within the Institute.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2012

19. LEASE COMMITMENTS

The company has operating lease commitments to pay in respect of:

Property Leases:	2012	2011
	£	£
Expiring after more than 5 years	815,640	815,640

20. CONTINGENT LIABILITIES

In the event that Genomia Management Limited ('Genomia'), registered number: SC266593, breaches its agreement with Moredun Research Institute or the Department for Business Innovation, and Skills ('DBIS'), remaining unspent funds within Genomia would have to be paid back to the government agency via the Institute as the lead partner. Furthermore In the event that Genecom Limited ('Genecom'), registered number: SC270942, breaches its agreement with Moredun Research Institute or the Department for Business Innovation and Skills ('DBIS'), remaining unspent funds relating to PSRE4 within Genecom would have to be paid back to the government agency via the Institute.

21. PENSION SCHEME

Moredun Research Institute is a member of the Research Councils Pension Scheme ('RCPS') which is administered by the Joint Superannuation Services ("JSS"). The Scottish Government meets the actuarially calculated cost of the pension provision for staff whose employment is funded by the Scottish Government Research Portfolio by way of a grant to the Institute. Employees who are employed on projects funded by other sponsors are also members of the pension scheme but the employers' contribution is remitted by the Institute to the scheme along with the Scottish Government funded component. The RCPS, as with most public sector schemes, is a multi-employer, defined benefit scheme where the employer is unable to identify its share of the underlying assets and liabilities in the schemes on a consistent and reasonable basis, therefore, as permitted by FRS 17 "Retirement benefits" these scheme benefits are accounted for by the company as if they were defined contribution schemes. For 2011/12, the Institute remitted £142,143 (net of Government grants) to the scheme (2010/11: £136,431) at a flat rate of 26 per cent of pensionable pay. The remittance rates reflect benefits as they are accrued not when the costs are actually incurred and reflect past experience of the scheme. At the balance sheet date, payments outstanding amounted to £Nil (2011: £Nil). Most staff were members of the scheme which was non contributory however a deduction of either 1.5% or 3.5%, dependant on starting date and/or choice of pension, was made from employees to provide widows and dependants benefits. Details of grants received in respect of pensions and lump sums are disclosed in note 15 above.

22. PRIOR YEAR ADJUSTMENT

Following the completion of a VAT review, a prior year adjustment was required. As a result other debtors decreased by £32,152, other taxes and social security liability increased by £214,980 and unrestricted reserves decreased by £247,632. Irrecoverable VAT increased by £68,843.

**INCOME AND EXPENDITURE ACCOUNT ANALYSIS
YEAR ENDED 31 MARCH 2012**

	2012		2011 <i>As restated</i>	
	£	£	£	£
Income				
Grants – Scottish Government	6,035,313		5,869,033	
Grants - research contracts	4,106,186		3,268,216	
Grants - The Moredun Foundation	420,000		440,000	
Diagnostic fees	290,300		252,200	
Royalties	164,604		137,469	
Refund of salaries and other costs recovered	598,545		631,555	
Bioservices	731,279		270,562	
Total income		12,346,227		10,869,035
Direct research costs				
Establishment expenses (<i>Appendix B</i>)	2,374,336		2,360,382	
Laboratory research costs	1,800,998		1,969,181	
Subcontracted resources	2,310,371		673,419	
Experimental livestock costs	227,563		226,851	
Salaries and royalties	5,245,810		5,413,086	
		11,959,078		10,642,919
Gross surplus		387,149		226,116
Administrative costs (<i>Appendix B</i>)		(1,244,672)		(954,142)
Operating deficit		(857,523)		(728,026)
Interest receivable and similar income		91,725		94,803
Deficit for the financial year		(765,798)		(633,223)

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**INCOME AND EXPENDITURE ACCOUNT ANALYSIS
YEAR ENDED 31 MARCH 2012**

	2012		2011 <i>As restated</i>	
	£	£	£	£
Establishment expenses				
Fit-out costs	226,538		226,538	
Heat & light	417,461		378,899	
Depreciation	715,841		705,148	
Rent, rates & service charges	1,234,502		1,269,895	
Cleaning costs	43,809		42,167	
		2,638,151		2,622,647
Attributable to:				
Direct research costs (90%)	2,374,336		2,360,382	
Administrative costs (10%)	263,815		262,265	
		2,638,151		2,622,647
Administrative costs				
Establishment expenses (<i>Above</i>)	263,815		262,265	
Equipment rental	8,568		5,151	
Repairs & maintenance	297,368		247,605	
Insurance	103,411		105,440	
Hospitality & catering	43,533		41,415	
Motor expenses	13,757		9,679	
Telephone & postage	21,204		24,250	
Printing & stationery	12,509		14,277	
Subscriptions	11,655		17,795	
Training	50,318		45,304	
Agency recruitment costs	8,750		-	
Travel & subsistence	6,379		8,164	
Legal, professional & consultancy fees	21,489		28,525	
Audit and accounting	13,994		14,264	
Health & safety	12,033		16,572	
Advertising & exhibitions	16,914		13,346	
Bank Charges	574		565	
Gain on sale of fixed assets	(7,581)		(46)	
Patent amortisation	18,793		15,452	
Sundries	5,623		4,822	
Irrecoverable VAT	318,068		79,297	
Loss on foreign currency exchange	3,498		-	
Total administrative costs		1,244,672		954,142

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