

THE SCOTTISH AGRICULTURAL COLLEGE

**ANNUAL ACCOUNTS
YEAR TO 31 MARCH 2008**

Foreword

Chief Executive

I am pleased to present SAC's Annual Report and Accounts for 2007/08. The financial performance of the organisation has continued to improve in terms of operating margin and the strength of the balance sheet, including a marked improvement in the FRS17 pension situation. Whilst income growth has been limited over the past year, we look to the future with some significant optimism, given the upturn in the fortunes of the agricultural industry in general and the renewed requirement for research and training in the land-based industries.

The general climate in which SAC operates has changed significantly for the better in the past year. Food prices have risen dramatically, food security is now well up the political agenda, the impacts of climate change are being increasingly recognised and the need to produce energy from renewable resources is an everyday topic of conversation.

Therefore the Research, Consultancy and Education services provided by SAC will be more and more in demand. We expect to see, during the coming year, a real increase in income in our Consultancy Division with the introduction of the Scottish Rural Development Plan and a growing need for ever better technical advice. In our Research Division we expect to see a similar upturn in business as a result of the recognition by government of the need for reinvestment in applied land-based research which can address the problems of sustainable agricultural production in the face of global population growth and climate change.

Over the past twelve months there have been a number of developments which will secure the business for future years, including the formal recognition of SAC as a Higher Education Institute, and the further development of a number of relationships with our research and education partners.

Up until this year, SAC has been in the unusual position of being the last remaining Central Institution that provides tertiary education in Scotland. We have been directly funded for Education by the Scottish Government. Two years ago, with the support of Ministers, we decided that we should change. We aspired to become a Higher Education Institution in our own right, and to seek to become a Fundable Body and to join the other Scottish HEIs under the umbrella of the Scottish Funding Council.

By 1st August 2008 we will have achieved these aims. We will be a Higher Education Institute and we will become a full member of Universities Scotland, the organisation which encompasses the interests of all the Higher Education Institutions in Scotland. This is a significant achievement which has resulted from a great deal of hard work by a whole range of staff across SAC in order to meet the stringent criteria set for teaching quality, for institutional governance, and for disciplinary excellence, set by the Quality Assurance Agency, the Scottish Funding Council and by Government.

In terms of developing strategic partnerships we have taken some significant steps forward.

In Ayr, we have secured funding, along with the new University of the West of Scotland, for a completely new joint campus development, alongside Ayr College, on the riverside. This will bring together two HE organisations and an FE College on a single site, creating an exciting new and vibrant student community in Ayr. In Inverness, we are exploring a joint development of a new campus with Inverness College and the UHI Millennium Institute.

In terms of research resources, we have secured agreement on the development of the Easter Bush Research Consortium in Edinburgh, along with the University of Edinburgh Veterinary School, the Moredun Institute and the Roslin Institute. The Consortium will bring together in Scotland a world class group of research staff dedicated to animal and veterinary science. And on the International front I was delighted to sign an agreement with AgResearch in New Zealand, which will herald the development of joint research contracts, exchange of staff and, in the longer term, the exchange of student between our countries.

As our Annual Report shows, SAC is continuing to grow and change as a business and as an organisation which the country's students, policy makers and land managers can continue to trust. SAC is continuing to work closely with those in the land-based industries, government and our

research colleagues to ensure that our work is not only relevant to today's problems, but remains at the cutting edge for tomorrow's solutions.

I look forward to continuing to oversee the management, development and growth of SAC as a business ready to tackle the issues of a 21st century world.

Professor W A C McKelvey
Chief Executive and Principal
26 August 2008

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DIRECTORS' REPORT

Principal Activities

The Scottish Agricultural College's (SAC) mission is *'to enhance the rural economy and environment.'*

SAC upholds the following values:

1. **Making a Difference** -SAC staff aim to make a difference through focussing on work which is relevant, by being supportive and by taking a practical approach to all aspects of our work.
2. **Being Objective**-SAC staff are open-minded and impartial. They take a measured approach, carefully considering all aspects of any situation and the impact that their actions may have.
3. **Forward Looking**- SAC staff look to improving the business through developing imaginative and innovative ideas and being adaptable so as to facilitate the adoption of new ideas.
4. **Behaving Professionally**-SAC staff value a climate where mutual respect is shown by all. They are committed to being dependable, competent and behaving in a business like manner.

SAC is an innovative, knowledge-based organisation, and strives to be a leader of innovation and sustainable development in the rural sector through the continued development of the following:

- specialist research and development resources;
- education and training provision; and
- expert advisory and consultancy services

SAC's work is wide ranging but there is a particular emphasis on agriculture and related sciences, rural business development and management, food chain quality and safety and rural resource and environmental management.

Legal Status and Scope of the Accounts

SAC is a private company limited by guarantee, registered in Scotland (103046) and with charitable status (SC003712). Its registered address is West Mains Road, Edinburgh, EH9 3JG. Its origins stem from the three regional Scottish Agricultural Colleges which formally merged their activities into a single institution in 1990.

SAC has, until recently, been in the unusual position of being the last remaining Central Institution that provides tertiary education in Scotland, and has been directly funded, for Education, by the Scottish Government, via the Rural Affairs Department. Two years ago SAC took the decision, in conjunction with the Scottish Government that SAC should change. SAC aspired to become a Higher Education Institution (HEI) in its own right, seek to become a Fundable Body, and to join the other Scottish HEIs under the umbrella of the Scottish Funding Council. On 1 August 2008, SAC became a Higher Education Institute, as well as a full member of Universities Scotland, the organisation which represents the interests of HEIs in Scotland.

SAC's commercial subsidiary, SAC Commercial Ltd, was incorporated in 1994 and operates a number of business activities; it allows flexibility of operation and access to wider markets than would otherwise be available to SAC. Summary accounts for SAC Commercial Ltd are shown at note 27.

The SAC Foundation is a charitable trust established to support the functions of SAC. In these accounts the SAC Group is taken to include SAC, SAC Commercial Ltd, its relevant subsidiary undertakings and the SAC Foundation. These Accounts show the consolidated Group figures for the above companies and any quasi subsidiary or subsidiary companies in which SAC has an interest (see note 28, 29).

Format of the Accounts

The format of the Accounts is in accordance with the Statement of Recommended Practice (SORP): Accounting for Higher Education Institutions. Given that SAC obtained HEI status on 1 August 2008, the Directors believe that this presentation provides the most relevant and useful information for the reader of these Accounts.

Financial Position

SAC has shown a sustained improvement in operating performance over the last five years. The Consolidated Income and Expenditure Account for the five years to 31 March 2008, can be summarised as follows:

	2008 £000's	2007 £000's	2006 £000's	2005 £000's	2004 £000's
Income	44,878	44,096	43,659	43,099	42,369
Expenditure	44,143	43,791	43,486	42,935	42,205
Operating Surplus for the year	735	305	173	164	164

The financial performance of the Group is considered to be very satisfactory with overall operating budgets having been exceeded in a challenging year and operating costs have been successfully contained. SAC has generated strong cash flow over the last five years, and the improved financial position of the organisation was reflected by the fact that SAC generated net interest income of £135k for the year ended 31 March 2008 compared to net interest expense of £165k in 2007. For the year ended 31 March 2008, SAC's commercial subsidiary, SAC Commercial Ltd, made a small loss of £54k for the year (2006: £63k loss) after a significant gift aid contribution of £914k (2007: £1,365k) to SAC.

FRS 17 – Retirement Benefits

FRS 17, which sets out the accounting treatment for retirement benefits and replaces SSAP 24 "Accounting for pension costs", was fully applied in these Accounts for the first time last year. The main requirements of FRS 17 that are applicable to SAC are:

1. Pension scheme assets are measured using market values
2. Pension scheme liabilities are measured using a projected unit method and discounted at an AA corporate bond rate
3. The pension scheme surplus or deficit is recognised on the face of the balance sheet
4. The movement in the scheme surplus/(deficit) is analysed into:
 - a) The current service cost and past service costs; these are recognised in operating profit
 - b) The interest cost and expected return on assets; these are recognised as other finance costs
 - c) Actuarial gains and losses; these are recognised in the statement of total gains and losses

The FRS 17 valuation of the LAWDC scheme (which is more fully described in Note 30) determined that the difference between the value of assets and the value of the FRS17 liabilities has further increased from a £ 219k surplus as at 31 March 2007 to a £1,765k surplus as at 31 March 2008. The change in assumptions underlying the valuation of the FRS17 liabilities following the increase in AA corporate bond yields over the year gave rise to a significant fall in the estimated level of liability which more than offset a lower investment return than assumed due to increased market volatility arising from the credit crunch.

Fixed Assets

The freehold land and buildings shown in the accounts have, in the opinion of the directors, a market value in excess of the book value.

Business Transformation Plan

SAC's Business Transformation Plan ("the BTP") was developed and approved by the SAC Board and subsequently endorsed by the Minister for the Environment and Rural Development in September 2004. The BTP sets out the disposal of non-core assets to allow SAC to reinvest in state-of-the-art educational facilities, in conjunction with key partners in Ayr and Aberdeen. The BTP also allows for improvement in facilities at SAC's Edinburgh sites and at the organisation's offices and laboratories at several locations across Scotland. There were several major developments during the year:

- SAC as a leading partner in EBRC, agreed to move a significant number of its Edinburgh based research staff to a new world class bioscience centre that is being created. A major new institute building is to be built within the Veterinary Sciences precinct at Easter Bush, integrated with teaching and clinical care of the Royal (Dick) School of Veterinary Studies (R(D)SVS).

- Significant RERAD funding was made available to upgrade SAC's research farms' infrastructure and carry out refurbishment of several of its VSD facilities
- SAC continues to work in partnership with the University of West of Scotland to jointly develop a new campus at Ayr and has applied for planning permission to develop its Auchincruive campus.
- SAC is working with UHI Millennium Institute (UHI) to relocate its Inverness based activities within the UHI Inverness campus

Financial Risk Management Policy

The company's principal financial instruments comprise cash, cash equivalents and bank loans. Other financial assets and liabilities, such as trade debtors and creditors arise directly from the group's operating activities.

The main risks associated with the company's financial assets and liabilities are set out below.

Interest rate risk

Interest is charged on both a fixed and floating rate basis on bank loans (Note 17). Therefore, with regard to those loans where interest is charged on a floating basis, financial liabilities, interest charges and cash flows can be affected by movements in interest rates. No hedging activity is undertaken to mitigate the risk of increases to the base rate.

Credit risk

A significant percentage of the Group's income is derived from UK government departments in the form of grant-in-aid and other project funding. SAC's commercial activities are spread across a significant number of smaller customers and the Group therefore has a relatively low level of exposure to external credit risk.

Liquidity risk

The company aims to mitigate liquidity risk by managing cash generated by its operations. Flexibility is maintained by retaining surplus cash in readily accessible bank deposit accounts. All Capital expenditure is approved by the Executive Management Team.

Foreign currency risk

The company's principal transactions in foreign currency are Single Farm Payments and EU funded Research projects. As a result, the group's income can be affected by movements in the Euro exchange rate. No hedging activity is undertaken to mitigate this risk.

Supplier Payment Terms

SAC agreed to follow the Better Payment Practice Code. As a business SAC's policy is:

- Agree payment terms at the outset and stick to them;
- Explain our payment procedures to suppliers;
- Pay bills in accordance with any contract agreed with the supplier or as required by law;
- Tell suppliers without delay when an invoice is contested, and settle disputes quickly.
-

As at 31 March 2008 there were 38 days (2007: 36 days) worth of purchases shown in the Balance Sheet.

Third Party Indemnity Insurance

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Learning & Development

To ensure the continuing success of the organisation SAC is committed to a staff learning strategy that supports the development of skills and knowledge and the achievement of organisational and individual goals. The current and longer-term emphasis will be on the importance of effective management, devolution of responsibility to the appropriate level, on getting staff involved and on maximising their potential. SAC recognises the importance of Investors in People and is pleased to have retained this status and work towards future retention. The importance of developing staff in

order to achieve the strategic aims and objectives is fully supported by the SAC Board and Executive Management Team.

Environmental Policy

SAC revised its Environmental Policy in February 2008 to reinforce its commitment for:

- Promoting the protection of the environment and minimising any adverse impacts of its activities at all levels, directly and through its influence on others;
- Integrating good environmental management policies and practices into every level of the organisation, to at least ensure compliance with environmental legislation;
- Providing a safe working environment for its employees, students and clients;
- Contributing to national targets for mitigation of climate change

To achieve this SAC is in the process of establishing an Environmental Management System, based on ISO 14001, which will provide a framework for establishing targets and taking action to improve our environmental footprint - an important component of SACs strategy.

Health and Safety Policy

The SAC Board of Directors provides and promotes responsible leadership attitudes towards health and safety.

The Board regards its staff as a key resource, recognises its statutory obligations, and fully accepts the responsibilities it has for the health and safety of all employees, students, contractors, and visitors. It has established a Health and Safety Policy Committee which reports to the Audit Committee and is chaired by a Non-Executive Director.

A cornerstone of our approach is to plan for continuous improvement in health and safety management systems and to confirm on-going compliance while re-evaluating performance in focus areas, such as Health and Safety Executive (HSE) National Priorities. The Board also ensures management systems provide for effective monitoring and reporting of SAC's health and safety performance.

SAC submitted the existing health and safety management system to the RoSPA Quality Safety Audit (QSA) process during April 2008. The QSA tested SAC's performance for each of the key elements of a safety management systems model; examined the culture and commitment of SAC and; sought to gain evidence of continuous improvement in our business operations. The result of the surveillance audit was a QSA Level 2 Award that indicates a progressive and significant improvement in the development of our health and safety management system (Level 5 being the highest award). SAC has previously undertaken this type of audit in 2006 and then again in 2007, when we received a Level 0 and Level 1 safety award, respectively.

SAC believes that excellence in the management of health and safety is an essential element of its overall business plan and we plan for more continuous improvement.

Communication with staff

SAC is conscious of the need to keep employees informed of the progress and future plans of the organisation and of the mutual benefit that is engendered by good internal communications. This is achieved through the use of a monthly Core Brief, which provides staff with a summary of the key issues faced by SAC and any actions considered necessary by the Executive Management Team and also provides details of successes enjoyed. Line managers are asked to supplement the Core Brief with information and news relevant to their immediate reports and staff.

Additionally, as part of the annual business planning process, all staff are encouraged to participate and provide feedback to their line manager.

Equal Opportunities

SAC is committed to a policy of equal opportunity for all employees and potential recruits irrespective of a person's gender, age, marital status, parental status, race, colour, nationality, ethnic origin, religious beliefs, sexual orientation, gender identity, gender reassignment, transexualism or physical or mental disability, or any other inappropriate distinction. Information is maintained to enable appropriate data to be collated.

The aim of SAC's policy is to ensure that the talents of all employees are used to the full and that each individual has the opportunity to fulfil their potential and achieve their career ambitions.

SAC believes that excellence will be achieved through recognising the value of every individual. We aim to create an environment that respects the diversity of employees and enables them to achieve their full potential, to contribute fully, and to derive maximum benefit and enjoyment from their involvement in the business life of SAC.

Auditors

Every four years SAC tenders for external audit services. The most recent tender process was completed in June 2005 and Ernst & Young LLP were subsequently reappointed as auditors at the Annual General Meeting in October 2005 for a further three-year term.

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 6. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

By Order of the Board

Janet D Swadling
Company Secretary
26 August 2008

BOARD OF DIRECTORS

The following Directors held office during the year

	Date of Appointment	Date of Retirement	Status of Appointment	Committee Membership
Mr D Biggar	4 Oct 2006	Oct 2010	Non-Executive (Vice Chairman from Oct 2007)	Audit
Professor G Bulfield	4 Oct 2007	Oct 2011	Non-Executive	
Professor R Crofts	9 Oct 2002	Oct 2010	Non-Executive	Audit, Finance & General Purposes, Education & Skills, Student Liaison
Mr I Douglas	9 Oct 2002	4 Oct 2007	Non-Executive	Audit
Dr S Gemmell	13 Aug 2002	n/a	Executive	
Dr J Gilliland	4 Oct 2007	Oct 2011	Non-Executive	
Mr H Graham	9 Oct 2003	Oct 2009	Non-Executive	Finance & General Purposes
Mr J Henderson	9 Oct 2002	Oct 2008	Non-Executive	Finance & General Purposes, Trusts
Mr I Ivory	4 Apr 2000	4 Oct 2007	Non-Executive Chairman (2003)	Appointments & Remuneration, Finance & General Purposes
Lord Jamie Lindsay	5 Oct 2005	Oct 2009	Non-Executive (Chairman from Oct 2007)	Appointments & Remuneration
Mr P Machray	4 Oct 2007	Oct 2011	Non-Executive	Finance & General Purposes, Trusts
Professor W A C McKelvey	1 Jun 1999	n/a	Chief Executive (2002)	
Professor W Stevely	5 Oct 2005	Oct 2009	Non-Executive (Vice Chairman from Oct 2007)	Education & Training Appointments & Remuneration
Ms J D Swadling	2 Oct 2001	n/a	Executive	
Professor C T Whittemore	1 Aug 2000	Oct 2008	Non-Executive	Appointments & Remuneration, Audit, Health & Safety Policy

Note: Non-Executive Directors are appointed for four years. Their appointment may be extended for one further four year period. It is the practice of the Board to extend these appointments on an annual basis.

CORPORATE GOVERNANCE

SAC is committed to upholding best practice in all aspects of Corporate Governance. In June 2005, the Board approved revised Corporate Governance policies and procedures to ensure that it continues to develop best practice.

The importance of the work of the internal auditors has continued to be stressed.

Summary of Scottish Agricultural College's Structure of Corporate Governance

The Board comprises Non-Executive and Executive Directors. The roles of Chairman and Vice-Chairmen of the Board are separated from the role of the Chief Executive & Principal. The Board is responsible for the on-going strategic direction of SAC, approval of major developments and the receipt of regular reports from Executive Directors and Managers on the day to day operations of its business and its subsidiary companies.

The Board meets five times a year and has several committees including: an Appointments & Remuneration Committee, Audit Committee, Finance & General Purposes Committee, and an Education & Skills Committee. There are two sub committees: a Health & Safety Policy Committee and a Trust Committee which report to the Audit Committee and the Finance & General Purposes Committee respectively. All of these Committees are formally constituted with terms of reference and comprise mainly non-Executive Directors, one of whom is the Chair, and are attended as appropriate by members of the Executive Management Team. During the year all committees have reviewed their terms of reference.

Details of the Directors' attendance record at Board meetings and relevant Board Committee meetings in 2007/08 is set out below. The number in brackets represents the number of meetings that the Director was eligible as a member of the Board or Committee to attend during the year.

	Board	A & R Committee	Audit Committee	F & GP Committee	Education & Skills Committee	Safety Policy Committee	Trust
Number of meetings in period	5	4	4	4	2	2	1
Mr Donald Biggar	5		4				
Professor Grahame Bulfield	3 (3)						
Professor Roger Crofts	4 (5)		1 (2)	1 (2)	0		
Mr Ian Douglas	1 (1)		2 (2)				
Dr Stewart Gemmell	5						
Dr John Gilliland	3 (3)						
Mr Henry Graham	5			4			
Mr John Henderson	5			4			1
Mr Ian Ivory	1 (1)	1 (2)		2 (2)			1
Lord Jamie Lindsay	5	4	2 (2)				
Mr Patrick Machray	2 (3)			2 (2)			
Professor William McKelvey	5	4	4	4	2		1
Professor Bill Stevely	5	4			2		
Ms Janet Swadling	5	4	4	4		2	1
Professor Colin Whittemore	5	4	4			2	

() number of meetings during their period on the Board/Committee

The Appointments & Remuneration Committee considers nominations for new Directors and determines the remuneration of Executive Directors. It also considers overall pay, employment terms for SAC and makes the recommendations to the Board for the Professorial and Honorary awards.

The Audit Committee meets to discuss audit findings and to consider detailed internal audit reports and recommendations for the improvement of SAC's systems of internal control, together with management's response and implementation plans. It monitors adherence to regulatory requirements

and reviews the annual accounts together with accounting policies. The Committee has the opportunity to meet annually with the external auditors for independent discussions with no Executive Directors present. Both External and Internal Auditors have access to the committee for independent discussion at any time. Following a tender process, KPMG was appointed to undertake the internal audit process from 1 April 2004 for a period of three years, which has subsequently been renewed on an annual basis. Ernst & Young LLP were reappointed as external auditors in October 2005 for a period of four years.

The Health & Safety Policy Sub Committee is concerned with monitoring the health and safety policies for the organization. The remit has been extended to include health specifically given its increasing importance. It reports through the Audit Committee to the Board.

The Finance & General Purposes Committee is responsible for overseeing the financial affairs of SAC and advising the Board on financial policy and planning. It also provides strategic direction in terms of estates and farming policy. The Trusts Committee is primarily concerned with the investment and disbursement of funds managed by SAC. It reports through the Finance & General Purposes Committee to the Board.

As a result of recommendations received in SAC's Enhancement-led Institutional Review, an Education & Skills Committee ("ESC") was established in 2006/07; the membership is made up of students (both undergraduate and postgraduate) from each campus together with key stakeholders. The ESC receives reports from the Student Liaison Committees at each SAC campus which allows students to have a direct input to Non-Executive Directors and to comment on relevant strategic and operational issues. Student Liaison Committees meet at least twice per annum at each campus.

In addition to the above, the SAC Board convenes three consultative committees, each chaired by a Non-Executive Member of the SAC Board, including key individuals within the sector and partner organisations. The Consultative Committees are as follows:

- Competitive Agriculture;
- Environment and Rural Landscapes;
- Rural Economic Development.

These Consultative Committees help guide SAC's strategy by obtaining external views on its current and future activities. The members of the Consultative Committees, together with the SAC Board and the SAC Education and Skills Committee make up the SAC Council.

Signed on behalf of the Board by:

Janet D Swadling
Company Secretary
26 August 2008

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board is responsible for the administration and management of SAC's affairs, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of SAC, and ensure that the financial statements are prepared in accordance with the Companies Acts, the Statement of Recommended Practice on Accounting in Higher Education Institutions, and other relevant accounting standards. The Directors are aware that the unique structure and functions of SAC which, through "The Scottish System", integrates Education, Research and Consultancy functions, do not directly compare with other Higher Education Institutions. However on balance, the Directors believe the presentation provides the most relevant and useful information for the Accounts user. In addition, within the terms and conditions of a Financial Memorandum agreed between SAC and RERAD, the Board, through its designated Accountable Officer (Chief Executive), is required to prepare Accounts for each financial year which give a true and fair view of SAC's state of affairs and of the surplus or deficit and cash flows for that year.

In causing the Accounts to be prepared, the Board has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Accounts;
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Institution will continue in operation. The Board is satisfied that it has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the Accounts.

The Board has taken reasonable steps to:

- ensure that funds from RERAD and other public funding bodies are used only for the purposes for which they have been granted;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of SAC and prevent and detect fraud;
- secure the economical, efficient and effective management of SAC's resources and expenditure.

The key elements of SAC's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- clear definitions of the responsibilities of, and the authority delegated to, Heads of Divisions and Group Managers;
- a comprehensive planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board;
- comprehensive Financial Procedures and Regulations, detailing financial controls and procedures, approved by the Audit Committee;
- a professional Internal Audit team whose annual programme is approved by the Audit Committee and endorsed by the Board and which provides the Board through the Audit Committee with a report on internal audit activity within SAC and on work completed during the year-end on the adequacy and effectiveness of SAC's system of internal control. The Board also monitors the implementation of the Internal Audit recommendations.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

Signed on behalf of the Board by:

Janet D Swadling
Company Secretary
26 August 2008

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAC

We have audited the group and parent company financial statements (the "financial statements") of SAC for the year ended 31 March 2008 which comprise the Statement of Accounting Policies, the Group Income and Expenditure Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes 1 to 30. 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 are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), the Statement of Recommended Practice: Accounting for Further and Higher Education and United Kingdom Law as 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, in accordance with accounting principles generally accepted in the United Kingdom, are properly prepared in accordance with the Companies Act 1985 and the Statement of Recommended Practice: Accounting for Further and Higher Education

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 are also required to report to you whether, in our opinion, funds from whatever source, administered by the College for specific purposes have, in all material respects, been properly applied to those purposes and managed in accordance with the terms and conditions attached to them and whether income has, in all material respects, been applied in accordance with the relevant legislation and with the Financial memorandum of 1993 between SAC and RERAD

We read other information contained in the Financial Statements, and consider whether it is consistent with the audited financial statements. This other information comprises the Directors Report, Chief Executive's Review, The Statement on Corporate Governance and Statement of Directors Responsibilities. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 group's and 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 group's and the parent company's affairs as at 31 March 2008 and of the group's surplus for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education
- the information given in the directors' report is consistent with the financial statements;
- income from RERAD grant-in-aid and income for specific purposes and from other restricted funds administered by SAC have been applied for the purposes for which they were received. Income has been applied in accordance with the Financial Memorandum of 1993 between SAC and RERAD and in accordance with SAC's policies.

Ernst & Young LLP
Registered Auditor
Edinburgh
26 August 2008

STATEMENT OF ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of Preparation

These Accounts have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting in Further and Higher Education Institutions and applicable Accounting Standards.

Basis of Accounting

These Accounts have been prepared under the historical cost convention with the exception of endowment assets which are shown at market value.

Basis of Consolidation

The consolidated Accounts include SAC and its subsidiary and quasi-subsidiary undertakings. The activities of the Student Representative Council have not been consolidated as SAC has no financial interest and no control or significant influence over policy decisions.

Recognition of Income

Recurrent grants from The Scottish Government Rural and Environment Research and Analysis Directorate (RERAD) are recognised in the period in which they are receivable.

Income from research grants, contracts and other services rendered is included to the extent of the expenditure incurred during the year, together with any related contributions towards overhead costs. All income from short-term deposits is credited to the income & expenditure account in the period in which it is earned.

Non-recurrent grants from RERAD or other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

Maintenance of Premises

The cost of maintenance is charged to the income & expenditure account in the period in which it is incurred.

Foreign Currency Translation

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at year-end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income & expenditure for the financial year.

Pension Schemes

Retirement benefits to employees of the SAC Group are provided by three superannuation schemes, the first being the RERAD scheme, the second being the Group Pension Plan and the third being the Local Authorities Waste Disposal Companies (LAWDC) Scheme.

The RERAD scheme is a defined benefit scheme contracted out of the State Earnings Related Scheme. Contributions to the RERAD scheme are made in accordance with an agreed funding model.

The Group Pension Scheme is a defined contribution scheme. Contributions are charged in the income & expenditure account as they become payable in accordance with the rules of the scheme.

The LAWDC Scheme is a defined benefit plan. The assets of these plans are held in separate trustee administered funds. The defined benefit plan's assets are measured using market values. Pension

plan liabilities are measured by an actuary using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the Group's defined benefit pension plans expected to arise from employee service in the period is charged to operating profit. The expected return on the plan's assets and the increase during the period in the present value of the plan's liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

The pension plan surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet.

Tangible Fixed Assets

a) Land and Buildings

SAC's land and buildings are stated at cost. Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful economic life to SAC of 50 years.

Where land and buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are credited to a deferred capital account and are released to the income & expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

Finance costs which are directly attributable to the construction of land and buildings are capitalised as part of the cost of those assets.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable.

Buildings under construction are accounted for at cost, based on the value of architects' certificates and other direct costs incurred to 31 March. They are not depreciated until they are brought into use.

RERAD maintain an interest in tangible fixed assets funded by capital grant from them.

b) Equipment

Equipment costing less than £5,000 per individual item is written off to the income & expenditure account in the period of acquisition. All other equipment is capitalised at cost. Capitalised equipment is depreciated over its useful life as follows.

Motor Vehicles	4 years
Computer and other equipment	5 years
Equipment acquired for specific research or other projects	Project Life

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to income & expenditure account over the expected useful economic life of the related equipment.

Leased Assets

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Leasing agreements which transfer to SAC substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under financial leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the income & expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

Investments

Endowment asset investments are included in the balance sheet at valuation. Income less expenditure and net movements in the valuation are included in the Statement of Total Recognised Gains and Losses.

Intangible Assets

Intangible Assets which represent the acquisition of milk and other agricultural quotas, are shown at cost and are amortised over the expected useful life of the assets as follows:

Milk and other Quotas – over 5 years

Stock

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

Taxation

SAC is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506 (1) of the Income and Corporation Taxes Act (ICTA) 1988. Accordingly, SAC is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the ICTA 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

SAC receives no similar exemption in respect of Value Added Tax, the irrecoverable element of which is charged to the income & expenditure account.

SAC's subsidiary companies are subject to Corporation Tax and VAT in the same way as any commercial organisation. Surpluses where they arise are covenanted to the SAC Foundation.

Provisions

Provisions are recognised when SAC has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

GROUP INCOME & EXPENDITURE ACCOUNT

Year to 31 March 2008

	Note	2008 £000's	2007 £000's
Income			
Scottish Government (RERAD) Grants	1	21,199	21,296
Tuition Fees and Education Contracts	2	2,675	2,790
Research Grants and Contracts	3	6,251	6,684
Advisory and Consultancy	4	10,284	9,529
Other Operating Income	5	4,195	3,583
Interest Receivable		274	214
Total Income		<u>44,878</u>	<u>44,096</u>
Expenditure			
Staff Costs	6	26,405	25,745
Depreciation & Amortisation	12 & 13	2,148	2,286
Other Operating Expenditure	8	15,451	15,381
Interest	10	139	379
Total Expenditure		<u>44,143</u>	<u>43,791</u>
Surplus on continuing Operations after Depreciation of Tangible Fixed Assets at Cost and Tax		735	305
Gain on Disposal of Fixed Assets		41	156
Surplus for the Year Retained within Reserves		<u>776</u>	<u>461</u>

BALANCE SHEET
At 31 March 2008

	Note	Group		Company	
		2008	2007	2008	2007
		£000's	£000's	£000's	£000's
Fixed Assets					
Tangible Fixed Assets	12	41,634	40,289	41,634	40,289
Intangible Fixed Assets	13	13	28	13	28
		<u>41,647</u>	<u>40,317</u>	<u>41,647</u>	<u>40,317</u>
Endowment Asset Investments	20	<u>3,168</u>	<u>3,383</u>	<u>3,168</u>	<u>3,383</u>
Current Assets					
Stocks	18	1,160	951	1,160	951
Debtors	14	4,917	4,590	4,046	3,666
Cash in Hand		5,605	4,107	5,394	3,972
Total Current Assets		<u>11,682</u>	<u>9,648</u>	<u>10,600</u>	<u>8,589</u>
Less Creditors – amounts falling due within one year	15	<u>(11,722)</u>	<u>(9,611)</u>	<u>(11,366)</u>	<u>(9,332)</u>
Net Current (Liabilities)/Assets		<u>(40)</u>	<u>37</u>	<u>(766)</u>	<u>(743)</u>
Total Assets Less Current Assets / (Liabilities)		<u>44,775</u>	<u>43,737</u>	<u>44,049</u>	<u>42,957</u>
Less Creditors – amounts falling due after one year	16	<u>(3,314)</u>	<u>(3,694)</u>	<u>(3,314)</u>	<u>(3,694)</u>
Total Net Assets excluding pension asset / (liability)		<u>41,461</u>	<u>40,043</u>	<u>40,735</u>	<u>39,263</u>
Pension asset	31	<u>1,765</u>	<u>219</u>	<u>1,765</u>	<u>219</u>
Net Assets including pension asset		<u>43,226</u>	<u>40,262</u>	<u>42,500</u>	<u>39,482</u>
Represented by:					
Deferred Capital Grants	19	31,696	30,579	31,696	30,579
Reserves					
Endowment	20	3,224	3,431	3,224	3,431
General Reserve including pension asset	21	8,306	6,252	7,580	5,472
Total Funds		<u>43,226</u>	<u>40,262</u>	<u>42,500</u>	<u>39,482</u>

The accounts were approved on 26 August and signed on behalf of the Board by:

Lord Jamie Lindsay
Chairman

Professor W A C McKelvey
Chief Executive & Principal

GROUP CASH FLOW STATEMENT
For the year ended 31 March 2008

		2008	2007
	Note	£000's	£000's
Net Cash Inflow from Operating Activities	22	2,479	2,745
Return on Investments and Servicing of Finance	23	26	(74)
Capital Expenditure and Financial Investment	24	(658)	(233)
Financing	25	(350)	(874)
Increase in Cash in the Period		<u>1,497</u>	<u>1,564</u>
 Reconciliation of Net Cash Flow to Movement in Net Debt			
Increase in Cash in the Period	26	1,497	1,564
Decrease in Debt and Leasing Finance	26	350	874
Decrease in Net Debt		<u>1,847</u>	<u>2,438</u>
Net Debt at start of year	26	388	(2,050)
Net Cash as at 31 March	26	<u>2,235</u>	<u>388</u>

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 March 2008

Surplus for Year	776	461
Net additions to endowments	7	2
(Depreciation)/Appreciation of endowments	(214)	165
Actuarial gain in respect of pension scheme	1,278	4,350
Total recognised gains and losses since last annual report	<u>1,847</u>	<u>4,978</u>

NOTES TO THE 2007-2008 ACCOUNTS

		2008	2007
	Note	£000's	£000's
1. Rural and Environment Research and Analysis Directorate (RERAD) Grants			
Recurrent Grant			
- Education		5,947	5,836
- Research and Development		6,951	6,952
- Advisory		6,639	6,844
	11	<u>19,537</u>	<u>19,632</u>
Release from Deferred Capital Grants			
- Buildings	19	719	678
- Equipment	19	943	986
		<u>21,199</u>	<u>21,296</u>
2. Tuition Fees & Education Contracts			
UK Higher Education Students		1,317	1,281
European Union (EU) Students		37	30
Non-EU Students		59	34
UK Further Education Students		40	8
		<u>1,453</u>	<u>1,353</u>
Education Contracts		124	191
Short course fees		1,098	1,246
		<u>2,675</u>	<u>2,790</u>
3. Research Grants & Contracts			
RERAD – Farm Accounts Scheme		711	710
– Flexible Funds		656	348
– National List Trials		348	290
– Fellowship Funding		0	97
European Union		691	1,008
Other (excluding RERAD)		3,845	4,231
Research Grants		<u>6,251</u>	<u>6,684</u>
4. Advisory & Consultancy Income			
Subscriptions		2,385	2,364
Analytical Services		2,157	2,116
Consultancies		5,572	4,851
Publications		170	198
		<u>10,284</u>	<u>9,529</u>

	2008	2007
	£000's	£000's
5. Other Operating Income		
Residences, Catering and Conferences	1,156	965
Sales of Farm Products	2,282	2,038
HE Joint Operations	113	0
Rents	519	446
Other Income	125	134
	<u>4,195</u>	<u>3,583</u>
6. Staff Costs		
Wages and Salaries	22,957	22,128
Social Security Costs	1,868	1,793
Other Pension Costs	1,580	1,824
	<u>26,405</u>	<u>25,745</u>

The average weekly number of persons (including Executive Directors) employed by SAC during the period, expressed as full-time equivalent was:

Professional	315	311
Technical & Scientific	261	250
Administrative	164	159
Manual	56	50
	<u>796</u>	<u>770</u>

	Group 2008		Group 2007	
	Number Directors	Number Other Staff	Number Directors	Number Other Staff

The number of staff, including Executive Directors and Chief Executive & Principal, who received remuneration in the following ranges excluding employers' pension contribution was:

£50,001 to £60,000	-	26	-	23
£60,001 to £70,000	-	4	-	1
£70,001 to £80,000	-	3	-	3
£80,001 to £90,000	-	2	-	1
£90,001 to £100,000	-	-	-	-
£100,001 to £110,000	-	-	1	-
£110,001 to £120,000	1	-	-	-
£120,001 to £130,000	1	-	1	-
£130,001 to £160,000	-	-	-	-
£160,001 to £170,000	-	-	-	-
£170,001 to £180,000	-	-	1	-
£180,001 to £190,000	-	-	-	-
£190,001 to £200,000	1	-	-	-
	<u>3</u>	<u>35</u>	<u>3</u>	<u>28</u>

7. Directors' Remuneration

	Group	
	2008	2007
	Number	Number
The number of Executive Directors during the year including the Chief Executive & Principal	3	3
	£000's	£000's
Salaries	440	405
Fees (Non-Executive Directors)	97	85
Pension Contributions	34	28
	571	518
Emoluments of Chief Executive & Principal	194	178

Fees paid to Non-executive directors are for services provided to SAC Commercial Ltd.

The emoluments of the Chief Executive & Principal are shown on the same basis as for other staff.

The Chief Executive & Principal's emoluments are settled by the Appointments & Remuneration Committee, as are all the Directors.

The total pension contributions in respect of the Chief Executive & Principal include employer's contributions to the Research Councils' Pension Scheme and are paid at the same rate as for employees and amounted to £8,707 (2006/07 £8,019).

8. Other Operating Expenditure

	2008	2007
	£000's	£000's
Residences, Catering and Conference Operating Expenses	1,662	1,570
Consumables and Laboratory Expenditure	1,746	1,750
Books and Periodicals	216	214
Computing (equipment, maintenance and software)	764	750
Equipment Purchases	282	299
Heat, Light, Water and Power	1,106	990
Postage, Phones, Stationery and other communication costs	910	894
Repairs and General Maintenance	478	435
Rents	335	361
Travel and Subsistence (including Vehicle Costs)	1,658	1,530
Auditors Remuneration		
- External Audit	30	29
- Internal Audit	40	31
- Other Services from External Auditors	25	16
Equipment Operating Lease Rentals	26	32
Sub-Contract External and Consultants	3,059	3,469
Bad Debts	39	30
Insurance	295	300
Irrecoverable VAT	377	366
Other Expenses	1,920	1,843
Marketing	315	323
Equipment Maintenance and Leasing	168	149
	15,451	15,381

9. Analysis of 2007-2008 Expenditure by Activity for Group

	Staff Costs	Other Expenditure	Depreciation & Amortisation	Total
	£000's	£000's	£000's	£000's
Academic Departments	3,557	2,441	6	6,004
Research Grants and Contracts	7,379	4,933	155	12,467
Administration and Central Services	3,402	2,649	38	6,089
Premises and Estates	633	3,229	949	4,811
Residencies, Catering and Conferences	152	278	0	430
Other Costs	11,282	1,921	1,000	14,203
	<u>26,405</u>	<u>15,451</u>	<u>2,148</u>	<u>44,004</u>

10. Interest Payable

	2008	2007
	£000's	£000's
On Loans repayable in less than five years	199	238
On Loans repayable in more than five years	47	47
On Financial Leases	2	3
Net Interest Charge – Pension Scheme	(109)	91
	<u>139</u>	<u>379</u>

11. Rural and Environment Research and Analysis Directorate (RERAD)

Grant Income	19,537	19,632
Capital Funding	2,779	1,050
	<u>22,316</u>	<u>20,682</u>

Amounts paid by RERAD in respect of their liabilities which SAC administers on their behalf.
These payments are not recognised in these Accounts

Recurrent Superannuation	2,610	8,106
Non Recurrent Superannuation	843	667
Early Retirement Costs	448	932
Transfer Value & Refunds	0	27
	<u>3,901</u>	<u>9,732</u>

12. Tangible Fixed Assets – Group & Company

	Freehold Land £000's	Buildings £000's	Equip £000's	Leased Equip £000's	Vehicles £000's	Total £000's
Cost						
At 1 April 2007	143	46,699	20,748	1,000	1,088	69,678
Additions	-	2,567	726	-	185	3,478
Disposals	-	-	-	-	(106)	(106)
At 31 March 2008	143	49,266	21,474	1,000	1,167	73,050
Depreciation						
At 1 April 2007	-	8,635	18,808	1,000	946	29,389
Charge for year	-	1,036	996	-	101	2,133
Disposals	-	-	-	-	(106)	(106)
As at 31 March 2008	-	9,671	19,804	1,000	941	31,416
Net Book Value						
At 31 March 2008	143	39,595	1,670	-	226	41,634
Net Book Value						
At 1 April 2007	143	38,064	1,940	-	142	40,289

Net book value of vehicles above includes an amount of £77,525 (2007 £78,110) in respect of assets held under Finance leases and Hire Purchase agreements. Depreciation charge for vehicles above in the year includes an amount of £19,381 (2007 £19,381) in respect of assets held under Finance leases and hire purchase agreements.

13. Intangible Assets

	Group & Company	
	2008	2007
	£000's	£000's
Milk and Other Quotas		
Cost		
At 1 April 2007	79	79
Addition during year	-	-
At 31 March 2008	79	79
Amortisation		
At 1 April 2007	51	35
Charge for year	15	16
As at 31 March 2008	66	51
Net Book Value	13	28

14. Debtors	Group		Company	
	2008 £000's	2007 £000's	2008 £000's	2007 £000's
Trade Debtors (less provisions)	3,796	3,039	1,132	956
Prepayments & Accrued Income	1,121	1,551	914	1,187
SAC Commercial Ltd	-	-	1,032	158
SAC Foundation-Gift Aid	-	-	968	1,365
	<u>4,917</u>	<u>4,590</u>	<u>4,046</u>	<u>3,666</u>

15. Creditors due within one year

Trade Creditors		3,493	1,736	3,518	1,710
Other Taxation and Social Security		1,002	1,127	1,002	1,127
Other Creditors		79	93	79	93
Accruals and Deferred Income		6,814	6,332	5,300	4,946
Loans	17a	324	305	324	305
Finance Leases	17b	10	18	10	18
SAC Foundation		-	-	1,133	1,133
		<u>11,722</u>	<u>9,611</u>	<u>11,366</u>	<u>9,332</u>

16. Creditors due after more than one year.

Loans	17a	3,028	3,378	3,028	3,378
Finance Leases	17b	7	18	7	18
Deferred Pension Costs		279	298	279	298
		<u>3,314</u>	<u>3,694</u>	<u>3,314</u>	<u>3,694</u>

17. Borrowings

a. Bank Loans

	Note	Group & Company	
		2008 £000's	2007 £000's
Bank loans are repayable in instalments as follows:			
In one year or less	15	324	305
Between one and two years	16	2,610	299
Between two and five years	16	180	2,655
Five years or more	16	238	424
		<u>3,352</u>	<u>3,683</u>
Details of loans are as follows:			
Bank of Scotland		2,814	3,085
Lloyds TSB		538	598
		<u>3,352</u>	<u>3,683</u>

The Bank of Scotland loans are repayable over 10 years. Interest on the fixed rate loans is charged at between 6.81% to 9.8% per annum. The rates on variable loans range from base plus 1% to base plus 1.25%. The long-term loans are secured by a floating charge over the Group's assets, excluding those assets in which RERAD maintains an interest. A negative pledge in respect of offering further securities has been provided to the Bank of Scotland.

The loans from Lloyds TSB are repayable over 20 years and the rate of interest is between base plus 1% and 8.9%. A first ranking standard security has been granted in favour of Lloyds TSB plc over the land and buildings related to Sutton Halls, Aberdeen.

b. Finance Leases	2008	2007
The net finance leases to which the Group is committed are repayable:	£000's	£000's
In one year or less	10	18
Between one and two years	7	11
Between two and five years	0	7
	<u>17</u>	<u>36</u>

18. Stocks

Farm Stocks	1,160	951
Total Stocks	<u>1,160</u>	<u>951</u>

19. Deferred Capital Grants – Group and Company

At 1 April 2007

- Buildings	28,220
- Equipment	2,359
	<u>30,579</u>

Received during year

- Buildings	2,049
- Equipment	730
	<u>2,779</u>

Released to Income & Expenditure Account

- Buildings	(719)
- Equipment	(943)
	<u>(1,662)</u>

At 31 March 2008

- Buildings	29,550
- Equipment	2,146
Total at 31 March 2008	<u>31,696</u>

Deferred Capital Grants received in the year are as follows:

	Buildings	Equipment	Total
	£000's	£000's	£000's
RERAD	<u>2,049</u>	<u>730</u>	<u>2,779</u>

		Group & Company	
		2008	2007
		£000's	£000's
20. Endowment Assets			
At 1 April 2007		3,431	3,264
Donations		1	-
Income		138	132
Disbursements		(132)	(131)
(Fall)/Increase in value of investments		(214)	166
At 31 March 2008		<u>3,224</u>	<u>3,431</u>
Represented by:			
Fixed Interest Stocks (Listed)		808	743
Equities (Listed)		2,187	2,630
Cash on Deposit		173	10
		<u>3,168</u>	<u>3,383</u>
Cash Balances		56	48
		<u>3,224</u>	<u>3,431</u>
		Group	Company
21. General Reserve		£000's	£000's
At 1 April 2007		6,252	5,472
Surplus/(deficit) for the year		776	(138)
Gift Aid		-	968
Actuarial gain recognised in STRGL		1,278	1,278
At 31 March 2008		<u>8,306</u>	<u>7,580</u>
22. Reconciliation of Consolidated Operating Surplus to Net Cash Inflow from Operating Activities		2008	2007
		£000's	£000's
Operating Surplus		735	305
Pension Costs less contributions payable		(159)	323
Depreciation and Amortisation	12 & 13	2,148	2,286
Deferred Capital Grants released to Income	19	(1,662)	(1,664)
Interest Received		(274)	(214)
Interest Paid	10	139	379
		<u>927</u>	<u>1,415</u>
(Increase)/Decrease in Stock	18	(209)	(81)
(Increase)/Decrease in Debtors	14	(327)	(84)
Increase/(Decrease) in Creditors	15 & 16	2,080	1,494
Movement in Endowment Cash Balances		8	1
Net Cash Inflow from Operating Activities		<u>2,479</u>	<u>2,745</u>

		Group & Company		
23. Returns on Investments and Servicing of Finance	Note	2008 £000's	2007 £000's	
Bank Interest Received		274	214	
Bank Interest paid	10	(199)	(238)	
Interest paid on Loans not wholly repayable within five years	10	(47)	(47)	
Interest paid on Finance Leases	10	(2)	(3)	
Net Cash Inflow/(Outflow) from return on Investments and Servicing of Finance		<u>26</u>	<u>(74)</u>	
24. Capital Expenditure and Financial Investment				
Purchase of tangible fixed assets	12	(3,478)	(1,439)	
Sale of tangible fixed assets		41	156	
Deferred capital grants received	19	2,779	1,050	
Net cash inflow/(outflow) from investing activities		<u>(658)</u>	<u>(233)</u>	
25. Financing				
Repayment of Group Loans	17 a	(331)	(842)	
Rental Repayments	17 b	(19)	(32)	
Net cash outflow from financing activities		<u>(350)</u>	<u>(874)</u>	
26. Analysis of Changes in Net Funds	Note	At 1 April 2007 £000's	Net Change £000's	At 31 March 2008 £000's
Cash in Hand and at Bank		<u>4,107</u>	<u>1,497</u>	<u>5,604</u>
Debt due after 1 year	16	(3,378)	350	(3,028)
Debt due within 1 year	17a	(305)	(19)	(324)
Finance Leases	17b	(36)	19	(17)
		<u>(3,719)</u>	<u>350</u>	<u>(3,369)</u>
Net Cash		<u>388</u>	<u>1,847</u>	<u>2,235</u>

27. Subsidiary and Quasi-subsubsidiary Companies

The Accounts of the SAC Foundation and the SAC Commercial Group have been consolidated into the SAC Accounts in accordance with financial reporting requirements (FRS 5). These comprise:

	2008	2007
	£000's	£000's
Profit & Loss Account		
Turnover	15,109	14,049
Expenditure		
Directors Fees	97	85
Other Operating Expenses	14,123	12,662
Total Expenditure	<u>14,220</u>	<u>12,747</u>
Profit on Ordinary Activities before gift aid	914	1,302
Gift aid – SAC	(968)	(1,365)
Loss for the Year	<u>(54)</u>	<u>(63)</u>
Balance Sheet		
Tangible Assets	100	100
Net Current Assets	726	780
Total Net Assets	<u>826</u>	<u>880</u>
Represented by:		
Share Capital	100	100
Profit & Loss Account	726	780
Reserves	<u>826</u>	<u>880</u>

28. Subsidiary Companies

The following companies are wholly owned subsidiaries of SAC and are registered in Scotland

	Nature of Business
SAC Corporate Trustee Limited	Trustee Company
The East of Scotland College of Agriculture	Dormant
The North of Scotland College of Agriculture	Dormant
The West of Scotland College	Dormant

The SAC Group also uses the following trade names: Edinburgh Genetics, Capital Diagnostics, Greens of Scotland and SAC International.

29. Capital Commitments

The anticipated capital expenditure on capital works authorised and contracted at the year end amount to:

	Group and Company	
	2008	2007
	£000's	£000's
Buildings	<u>1,500</u>	<u>-</u>

30. Pensions

The Research Councils' Pension Scheme ("RCPS") is a defined benefit scheme. The RCPS is an analogous scheme to the Principal Civil Service Pension Scheme (PCSPS) being the main government scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The RCPS is a multi-employer scheme and it is not possible to identify each participating institution's share of the underlying assets and liabilities of the scheme hence contributions to the scheme are accounted for as if it were a defined contribution scheme. Employees provide 1.5% of their salary as widows or widowers benefit. Funding for the scheme comes primarily from RERAD with a monthly contribution from SAC. From 1 October 1998 this scheme was closed to new employees of SAC.

The Group Pension Plan is a defined contribution scheme. The assets are held separately from those of the Company in an independently administered fund through Standard Life. The contributions are set at 5% for employees and 10% for SAC. From 1 January 2001 to 31 December 2004 this scheme was closed to new employees of SAC. This scheme was reopened to new employees from 1 January 2005.

The LAWDC scheme is a defined benefit scheme and was offered to new entrants from 1 June 2001 until the scheme's closure to new entrants on 31 December 2004. The assets of the scheme are held in a separately administered fund. A triennial scheme valuation was carried out as at 31 March 2006 and a funding deficit on an ongoing basis of £390k was determined. As a result, a recovery plan was prepared by the trustees and subsequently agreed by SAC. In accordance with the recovery plan, employer contributions have increased from 13.5% to 16.2% plus an additional contribution of £4k per month. Employee contribution has remained at 6%.

The following disclosures are required under FRS 17 for the LAWDC scheme.

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 31 March 2006 and updated by Hymans Robertson to take account of FRS 17 in order to assess the liabilities of the scheme at 31 March 2008. Scheme assets are stated at their market values at the respective balance sheet dates.

Assumptions as at	2008	2007	2006
	%p.a.	%p.a.	%p.a.
Price Inflation	3.60	3.20	3.10
Pensions Increases LPI 5%	3.35	2.95	2.85
Pensions Increases LPI 2.5%	2.00	2.00	2.00
Salary Increases	4.6	4.2	4.10
Discount Rate	6.9	5.4	4.90

Balance Sheet Position

Assets	Long Term Return %p.a.	Fund Value at 2008 £000's	Long Term Return %p.a.	Fund Value at 2007 £000's	Long Term Return %p.a.	Fund Value At 2006 £000's
Equities	7.00	7,184	7.00	8,106	6.70	6,973
Corporate Bonds	6.90	766	5.40	316	4.90	234
Government Bonds	4.50	1,149	4.50	491	4.20	347
Cash	5.25	479	5.25	352	4.50	54
Total Value of Assets		<u>9,578</u>		<u>9,265</u>		<u>7,608</u>
Actuarial Value of Liabilities		<u>(7,813)</u>		<u>(9,046)</u>		<u>(11,325)</u>
Net Pension Asset/(Deficit)		<u><u>1,765</u></u>		<u><u>219</u></u>		<u><u>(3,717)</u></u>

Analysis of amount charged to the Income and Expenditure Account

	2008 £000's	2007 £000's
Current Service Cost	676	991
Total Operating Charge	<u>676</u>	<u>991</u>

Analysis of net return on pension scheme

	2008 £000's	2007 £000's
Expected return on pension scheme assets	625	498
Interest on pension liabilities	(516)	(589)
Net Return	<u>109</u>	<u>(91)</u>

Analysis of Amount Recognised in Statement of Total Recognised Gains and Losses (STRGL)

	2008 £000's	2007 £000's
Actual return less expected return on pension scheme assets	(1,479)	91
Experience gains and losses arising on the scheme liabilities	(22)	1,980
Changes in assumptions underlying the present value of the scheme liabilities	2,779	2,279
Actuarial gain recognised in STRGL	<u>1,278</u>	<u>4,350</u>

Movement in Surplus during the Year

	2008 £000's	2007 £000's
Surplus/(Deficit) in scheme at beginning of the year	219	(3,717)
Current Service Cost	(676)	(991)
Employer Contributions	887	725
Other outgoings	(52)	(57)
Net return	109	(91)
Actuarial gains	1,278	4,350
Surplus in scheme at end of year	<u><u>1,765</u></u>	<u><u>219</u></u>

History of Experience Gains and Losses

	2008	2007	2006	2005	2004
	£000's	£000's	£000's	£000's	£000's
Difference between the actual and expected return on scheme assets	(1,479)	91	1,176	205	373
Value of Plan assets	9,578	9,265	7,608	4,895	3,358
Percentage of scheme assets	-15.4%	1.0%	15.5%	4.2%	11.1%
Experience gains/(losses) on scheme liabilities	(22)	1,980	(364)	(639)	(322)
Present value of scheme liabilities	7,813	9,046	11,325	6,618	4,406
Percentage of the present value of scheme liabilities	-0.3%	21.9%	-3.2%	-9.7%	-7.3%
Actuarial gains/(losses) recognised in STRGL	1,278	4,350	(1,710)	(621)	(361)
Present value of scheme liabilities	7,813	9,046	11,325	6,618	4,406
Percentage of the present value of scheme liabilities	16.3%	48.1%	-15.1%	-9.4%	-8.2%

GENERAL INFORMATION

Chairman	Lord Jamie Lindsay
Chief Executive and Principal	Professor William A C McKelvey BVMS PhD MRCVS CBiol FIBiol FRAGS
Company Secretary and Finance & Corporate Affairs Director	Janet D Swadling BA MBA FCIS
External Auditors	Ernst & Young LLP Ten George Street Edinburgh EH2 2DZ
Internal Auditors	KPMG Saltire Court 20 Castle Terrace Edinburgh EH1 2EG
Bankers	Bank of Scotland New Uberior House 11 Earl Grey Street Edinburgh EH3 9BN
Solicitors	Morton Fraser 30-31 Queen Street Edinburgh EH2 1JX
Actuaries	Hymans Robertson 221 West George Street Glasgow G2 2ND
Stockbrokers	Speirs & Jeffrey 36 Renfield Street Glasgow G2 1NA