

MOREDUN RESEARCH INSTITUTE

**ANNUAL REPORT
YEAR ENDED 31 MARCH 2013**

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 2013**

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MOREDUN RESEARCH INSTITUTE (Registered Number: SC149440)

**COMPANY INFORMATION
YEAR ENDED 31 MARCH 2013**

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 Auditor: Scott-Moncrieff
Statutory Auditor
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Internal Auditor: Henderson Loggie
34 Melville Street
Edinburgh
EH3 7HA

Solicitors: Tods Murray LLP
Edinburgh Quay
133 Fountainbridge
Edinburgh
EH3 9AG

Dundas & Wilson CS LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EN

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 2013**

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 2013. 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 output and outcome-driven institute which aims to impact livestock health globally, in the UK and in Scotland, through undertaking world-class research in infectious diseases in livestock species, especially sheep, cattle, goats, pigs, poultry and aquaculture. Through these activities it aims to contribute significantly to finding solutions to global food security – that is, the sustainable production of sufficient amounts of high quality, affordable, safe food required to underpin health and wellbeing of human populations world-wide. This aim must be achievable within the context of climate change and environmental protection, while also ensuring optimal health and wellbeing of livestock kept for food, fibre or power.

The Institute's principal activities include research, development, and knowledge exchange.

Research is conducted through two output-centred Pillars – (1) Vaccines and Diagnostic Tests and (2) Disease Control Strategies, both of which include underpinning, targeted and strategic studies. The research focuses on infections and diseases of livestock species. It is multi-disciplinary, encompassing the spectrum from genomic and molecular analyses of pathogens, interactions between pathogens and their host species, through to whole animal or population studies. It is innovative, employing new technologies in concert with traditional skills. The Pillars contribute to a number of important outcomes including improved livestock health and welfare, optimising productivity and efficiency, food security and safety, reduced risk to humans from zoonotic disease, and improved understanding of biological mechanisms through a comparative medicine approach. Outputs from these studies in turn feeds directly into the product development pipeline, or provides information to a broad range of stakeholders.

Development is also focused on the same practical outputs – Vaccines and Diagnostic Tests, and Disease Control Strategies, and describes a road map where research outputs translate into a discernible tool, product, or plan. Steps in the development pipeline include protecting and defending intellectual assets, licensing agreements, and commercialisation options including the formation of spin-out, joint venture companies or novel business models. Income generated from these activities will contribute to the sustainability of the Moredun Research Institute in the future.

Knowledge Exchange is the essential bridge between scientists and end-user communities, encompassing interactions with a wide range 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.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

During the year under review the Institute recorded several significant achievements.

Moredun entered into an agreement with AbD Serotec, a leader in antibody products for veterinary research, to commercialise novel immunology tools to support veterinary research. The tools were developed at Moredun in collaboration with the Institute of Animal Health. Cattle and sheep dendritic cell growth kits are the first products to be launched under the agreement and are now available to veterinary researchers from AbD. Dendritic cells are immune cells forming part of the mammalian immune system. Being able to grow these cells in the laboratory is important for studies of the immune response in cattle and sheep to a variety of different infections. The new kits enable researchers to consistently grow these cells in the laboratory, which will save both time and money, and potentially reduce the number of animals used in veterinary research as researchers will be able to take a more targeted and informed approach to vaccine evaluation. Moredun is internationally renowned for its research in the infectious diseases of livestock. The development of these growth kits is an example of how Moredun's research and expertise is supporting animal health research around the World. In addition to funding from the Scottish Government the development of the dendritic cell growth kits was supported by the Genomia Fund, BBSRC Immunological Toolbox Project and NADIR (The Network of Animal Disease Infectiology Research Facilities).

Scotland continued to cement its reputation as a world leader in animal health at a conference to tackle the problem of drug resistance and livestock which was held in July 2012. Livestock producers are under increasing political pressure to reduce antimicrobial use because of fears about an accompanying resistance in drugs use in human medicine. The two-day event, which was hosted by Moredun Research Institute and the National Farmers Union Scotland (NFUS) successfully examined the use of smart strategies to deal with prevalent livestock diseases whilst mitigating against the growing problems of antimicrobial and anthelmintic resistance.

In September 2012, Moredun welcomed representatives from Akita Co Ltd and Pfizer Animal Health to the research institute to discuss poultry red mite research. Infestation with *Dermanyssus gallinae*, the poultry red mite, is a major health and welfare issue for laying hens worldwide, causing serious reduction in bird performance, a potentially fatal anaemia, and an increased incidence of aggressive pecking and cannibalism which are important welfare considerations. Akita Co Ltd is a Japanese company which employs more than 800 people in their egg production facilities in Japan and are responsible for the importation and distribution of vaccines and pharmaceuticals to the Japanese poultry industry. In addition Moredun Research Institute was the lead body in a new BBSRC funded project to investigate the development of a vaccine to control poultry red mite. The BBSRC awarded a substantial research grant to Moredun scientists, in collaboration with Pfizer Animal Health, to develop a vaccine to help protect hens against these blood sucking mites.

Moredun was also delighted to be part of the Royal Highland Education Trust's Food and Farming Day at Auchincruive where over one hundred Primary 4 pupils from local Ayrshire schools, and their teachers, took to the countryside to learn about food and farming. As one of the exhibitors, Moredun staff were on hand to talk to the children and their teachers. The award winning Healthy Sheep are Happy Sheep exhibit is a great interactive introduction to the importance of safeguarding farm animal health, and generated lots of enthusiasm and questions from both the pupils and teachers. Supported by the Scottish Government, the objective of RHET's Food and Farming Days is to provide a 'hands on' educational experience to enable pupils to learn where their food comes from and provides an opportunity for children to be exposed to local farming and the countryside.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS (Continued)

The weather has been ideal for fluke transmission because wet, mild conditions favour the fluke's intermediate host snail, leading to heavy contamination of pasture with infectious fluke cysts. Flooding events have served to compound the problem by disseminating infected snails and parasites. As a result, we have seen fluke outbreaks in previously fluke-free areas and unusually severe fluke problems in areas that would traditionally be able to control the parasite. Such has been the burden of fluke infection on pasture this year that animals are becoming rapidly re-infected and suffering severe liver damage, often despite effective flukicide treatment. We have also seen the emergence of another fluke parasite, rumen fluke, which has a similar life-cycle to liver fluke, and may even utilise the same species of intermediate host snail. Adult rumen fluke appear to be well-tolerated in the stomach of grazing livestock but heavy infestations of stock with immature rumen fluke have recently been associated with clinical disease and deaths in both sheep and cattle. Both fluke species are traditionally diagnosed by detection of eggs in faecal samples but their eggs look very similar and could be confused. Differential diagnosis is important because most flukicides do not kill rumen fluke and because a false diagnosis of liver fluke treatment failure could be made. Over the past year, Moredun, with support from Quality Meat Scotland, has been evaluating a new diagnostic test for liver fluke on sheep and cattle farms in Scotland. The new test was able to give a rapid and clear indication of flukicide treatment outcome in established infections allowing an alternative flukicide treatment to be administered, if necessary. As all the currently available diagnostic tests for fluke have their limitations, we are now evaluating alternative approaches using DNA-based methods for fluke detection. If successful, this would represent a significant step forward in our diagnostic capability.

The Moredun Research Institute and Moredun Scientific are partners in a €9 million EU-funded research project to improve the safety of European drinking water. The five-year Aquavalens project will develop and apply more rapid methods of detecting viruses, bacteria and parasites in water to reduce the incidence of water-related disease. The 39 consortium partners include small businesses, industries, universities and research institutes from 13 European countries. The project is funded by the European Union's Framework Programme 7. Moredun has a long standing expertise in research into protozoan parasites such as *Cryptosporidium* species and *Toxoplasma gondii* that can be important sources of contamination in water supplies. Our role will be to help develop innovative diagnostic techniques to detect these pathogens in collaboration with the other project partners. It is hoped that the project will deliver significant improvements to human health through a reduction in the incidence of water-related disease.

FINANCIAL REVIEW

The surplus for the financial year amounted to £279,753 (2012: deficit £765,798). The directors recommend that this amount be transferred to 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. The income of the Institute increased by 9.5% during the year. Investment in direct research costs increased by 2.2% and, following a review of the cost base, overheads fell by 8.5%. 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.

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.

**DIRECTORS' REPORT (Continued)
YEAR ENDED 31 MARCH 2013**

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, Inocul8 Limited and Genomia Management 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 109 peer reviewed publications in 2012 an increase of almost 5% over 2011.

In the financial year 2012/2013 the Institute secured 53.5% of its total revenue income (excluding bank interest received) from competitive and commercial activity (2011/2012: 51%).

In the financial year 2012/2013 the Institute's reserves increased by £378,781 (2011/2012: decrease of £690,422), after investing £187,455 from the Innovation Fund. Research contracts income grew by over 23%.

The commercial scientific subsidiary of The Moredun Foundation, Moredun Scientific Limited, generated £2,009,337 (2011/2012 £1,811,677) of commercial turnover – an increase of almost 11%. The increase in research contracts funding noted above was partly a result of increasing collaborative work with industry partners, some of which are noted earlier in the report.

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

Roadshow events were again 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. Attendance at roadshow meetings during 2012 increased by 44% over the calendar year 2011 with 99% of respondents indicating they were better informed after the meeting.

PLANS FOR FUTURE PERIODS

Financial targets continue to be focused on achieving a balanced budget and growing income from competitive and commercial sources by 2% per annum. A key element of this will be the acquisition of further research contracts which fully contribute to overhead recovery.

DIRECTORS' REPORT (Continued)
YEAR ENDED 31 MARCH 2013

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:

Professor The Lord Trees [§] (<i>Chairman</i>)	Mr John C Bell (<i>Appointed 05.12.2012</i>)
Professor Eileen Devaney	Dr Alexander I Donaldson (<i>Retired 05.09.2012</i>)
Mr Ian Duncan Millar (<i>Retired 05.09.2012</i>) [^]	Professor Richard M Elliot (<i>Appointed 05.12.2012</i>)
Professor Peter H Holmes (<i>Appointed 05.12.2012</i>)	Mr John Kinnaird*
Professor Duncan J Maskell	Professor J Charles Milne
Professor Randolph H Richards (<i>Retired 05.09.2012</i>)	Sir Muir Russell

* *Member of the Group Audit Committee.*

§ *Member of the Group Remuneration Advisory Committee.*

^ *Member of the Group Chairman's Executive Committee.*

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 2013**

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 AUDITOR

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 auditor is 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 auditor is aware of that information.

DIRECTORS' REPORT (Continued)
YEAR ENDED 31 MARCH 2013

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 consumer prices index ("CPI"). CPI over the twelve months to 31 March 2013 was 2.8%. The UK accounts with the largest balances earned average interest of between 2.7% and 3.15%. 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 CPI on all deposited funds.

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 2013 at 6 months average income due to the flat funding from the Scottish Government and the potential adverse impact on existing reserves. Based on the incoming resources for the year, this would be £6.8 million (2012: £6.3 million). Unrestricted reserves at 31 March 2013 amounted to £7.9 million (2012: £6.9 million). The directors are also aware that fixed assets account for £0.6 million of the unrestricted reserves and are satisfied that reserves increased during the year.

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 2013

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.

AUDITOR

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: ArxBio 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 allowed the member organisations to share their experiences and develop their intellectual property. This resulted in new and innovative commercial opportunities being identified and exploited from the research base of each member body. During the year, the funding streams for Genecom Limited came to an end and the company ceased its activities on 30 September 2012. 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: 4 September 2013

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBER AND TRUSTEES
FOR THE YEAR ENDED 31 MARCH 2013**

We have audited the financial statements of Moredun Research Institute for the year ended 31 March 2013 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 2013 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' 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, Semple Street, Edinburgh, EH3 8BL

Date: 4 September 2013

MOREDUN RESEARCH INSTITUTE (Registered Number: SC149440)**INCOME AND EXPENDITURE ACCOUNT
YEAR ENDED 31 MARCH 2013**

		2013	2012
	Note	£	£
Income		13,525,206	12,346,227
Direct research costs		(12,224,682)	(11,959,078)
Gross surplus		1,300,524	387,149
Administrative expenses		(1,197,084)	(1,244,672)
Operating surplus/(deficit)		103,440	(857,523)
Interest receivable and similar income	2	176,313	91,725
Surplus/(deficit) for the financial year	3	279,753	(765,798)

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 2013**

		2013	2012
	Note	£	£
Surplus/(deficit) for the financial year	3	279,753	(765,798)
Capital grants		40,500	75,376
Total recognised gains and losses relating to the year		320,253	(690,422)

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

**CASH FLOW STATEMENT
YEAR ENDED 31 MARCH 2013**

		2013		2012	
	Note	£	£	£	£
Reconciliation of operating deficit to net cash inflow from operating activities					
Operating deficit		103,440		(857,523)	
Depreciation of tangible fixed assets		657,450		715,841	
Amortisation of intangible fixed assets		21,742		18,793	
Gain on sale of fixed assets		(8,000)		(7,581)	
Impairment of investment		58,528		-	
(Increase)/decrease in debtors		(365,596)		29,576	
Increase in stocks		(6,397)		(14,481)	
(Decrease)/increase in creditors		(1,727,000)		2,242,279	
Net cash (outflow)/inflow from operating activities			(1,265,833)		2,126,904
CASH FLOW STATEMENT					
Net cash (outflow)/inflow from operating activities		(1,265,833)		2,126,904	
Returns on investments and servicing of finance	5	176,313		91,725	
Net capital expenditure	5	(462,650)		(323,560)	
(Decrease)/increase in cash in the period			(1,552,170)		1,895,069
Reconciliation of net cash flow to movement in net funds					
(Decrease)/increase in cash in the period	6	(1,552,170)		1,895,069	
Net funds at 1 April 2012		10,333,056		8,437,987	
Net funds at 31 March 2013			8,780,886		10,333,056

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

STATEMENT OF FINANCIAL ACTIVITIES
YEAR ENDED 31 MARCH 2013

	Note	Unrestricted Funds £	Restricted Funds £	Total 2013 £	Total 2012 £
INCOMING RESOURCES					
<i>Incoming resources from generated funds:</i>					
Investment Income	2	176,313	-	176,313	91,725
<i>Incoming resources from charitable activities:</i>					
Research – revenue grants		420,000	11,403,995	11,823,995	10,561,499
Research – capital grants		-	40,500	40,500	75,376
Research – costs refunded & other		845,804	-	845,804	598,545
Bioservices		423,971	-	423,971	731,279
Diagnostics		255,866	-	255,866	290,300
Other Income		150,000	-	150,000	-
		2,095,641	11,444,495	13,540,136	12,256,999
<i>Other incoming resources:</i>					
Royalty income		25,570	-	25,570	164,604
TOTAL INCOMING RESOURCES		2,297,524	11,444,495	13,742,019	12,513,328
RESOURCES EXPENDED					
<i>Charitable activities:</i>					
Research	7	-	12,109,984	12,109,984	11,893,673
Bioservices	7	973,203	-	973,203	942,026
Diagnostics	7	242,254	-	242,254	275,883
Impairment of investment	7	58,528	-	58,528	-
		1,273,985	12,109,984	13,383,969	13,111,582
<i>Governance costs:</i>					
	8	24,651	10,847	35,498	38,234
<i>Other resources expended:</i>					
Scientists royalties		2,299	-	2,299	53,934
TOTAL RESOURCES EXPENDED		1,300,935	12,120,831	13,421,766	13,203,750
NET INCOMING/(OUTGOING) RESOURCES BEFORE FUNDS TRANSFERS					
		996,589	(676,336)	320,253	(690,422)
Transfers Between Funds:					
Amortisation of capital grants		436,964	(436,964)	-	-
Other funds transfers		(579,381)	579,381	-	-
NET MOVEMENT IN FUNDS		854,172	(533,919)	320,253	(690,422)
Reconciliation of Funds:					
Balances brought forward		6,954,932	3,808,737	10,763,669	11,454,091
BALANCES CARRIED FORWARD AT 31 MARCH 2013		7,809,104	3,274,818	11,083,922	10,763,669

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

MOREDUN RESEARCH INSTITUTE (Registered Number: SC149440)

**BALANCE SHEET
AT 31 MARCH 2013**

		2013		2012	
	Note	£	£	£	£
Fixed assets					
Intangible assets	9		320,165		282,440
Tangible assets	10		2,831,470		3,037,237
Investments	11		61		58,589
			3,151,696		3,378,266
Current assets					
Stock	12	176,029		169,632	
Debtors: due within one year	13	1,607,808		1,174,738	
Debtors: due after more than one year	13	98,075		165,549	
Cash at bank and in hand		8,780,886		10,333,056	
			10,662,798		11,842,975
Creditors: Amounts falling due within one year	14	(2,632,497)		(4,292,023)	
Net current assets			8,030,301		7,550,952
Total assets less current liabilities			11,181,997		10,929,218
Creditors: Amounts falling due after more than one year	14		(98,075)		(165,549)
NET ASSETS			11,083,922		10,763,669
Funds					
Restricted funds	15,16		3,274,818		3,808,737
Unrestricted funds	16		7,809,104		6,954,932
TOTAL FUNDS	16		11,083,922		10,763,669

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: 4 September 2013

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 2013**

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.

h) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2013

1. ACCOUNTING POLICIES (Continued)

i) Operating Leases

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

j) 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.

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 HM Revenue & Customs 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.

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.

q) Designated Scientists Funds

These derive from scientific staff carrying out consultancy or other external paid work. One third is retained by the Institute and the remaining balance is allocated to the member of staff to be used within the Institute or paid to the scientist through salary.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2013

1. ACCOUNTING POLICIES (Continued)

r) Consolidated Financial Statements

The Moredun Foundation is the only member of Moredun Research Institute. The company's results are included in the consolidated financial statements of the Moredun Foundation which are publicly available. Consequently the company has taken advantage of the exception from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

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. SURPLUS/(DEFICIT) FOR THE FINANCIAL YEAR

The surplus/(deficit) for the financial year is stated after charging/(crediting) the following:

	2013	2012
	£	£
Gain on the sale of fixed assets	(8,000)	(7,581)
Impairment of investment	58,528	-
Depreciation (note 10)	657,450	715,841
Staff costs (note 4)	5,104,965	5,191,876
Operating lease rentals - property	816,707	816,702
External auditor's remuneration - audit fee	6,151	6,075
External auditor's remuneration - non-audit work	8,150	4,300
Internal auditor's remuneration - audit fee	5,267	5,785

4. ANALYSIS OF STAFF COSTS

	2013	2012
	£	£
Staff costs comprised:		
Wages and salaries	4,286,508	4,671,373
Redundancy costs	377,238	41,308
Pension costs	104,271	142,143
Social security costs	336,948	337,052
	5,104,965	5,191,876

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 2013

4. ANALYSIS OF STAFF COSTS (Continued)

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

	2013	2012
Scientific	115	125
Other	11	16
	126	141

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

	2013	2012
£60,001 - £70,000	7	-
£80,001 - £90,000	-	1
£110,001 - £120,000	1	1
	8	2

The eight 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 £124,143 (2012: £54,545).

5. GROSS CASH FLOWS

	2013 £	2012 £
Returns on investments and servicing of finance		
Interest received	176,313	91,725
	176,313	91,725
Net capital expenditure		
Payments to acquire tangible fixed assets	(451,683)	(341,477)
Payments to acquire intangible fixed assets	(59,467)	(65,039)
Capital funds received – Scottish Government	-	-
Capital funds received – Other	40,500	75,376
Proceeds on sale of fixed assets	8,000	7,580
	(462,650)	(323,560)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2013

6. ANALYSIS OF CHANGES IN NET FUNDS

	At 1 April 2012	Cash Flows	At 31 March 2013
	£	£	£
Cash at bank and in hand	10,333,056	(1,552,170)	8,780,886

7. ANALYSIS OF CHARITABLE EXPENDITURE

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

	Research	Bioservices	Diagnostics	Impairment of investment	Total 2013	Total 2012
	£	£	£	£	£	£
Research activity	9,451,230	171,232	228,207	58,528	9,909,197	9,591,752
Premises costs	1,170,831	490,979	-	-	1,661,810	1,591,917
Direct depreciation	433,815	92,145	-	-	525,960	572,673
Gain on sale of fixed asset	(8,000)	-	-	-	(8,000)	(7,581)
Travel and subsistence	7,583	-	755	-	8,338	6,597
Training	20,268	11,340	-	-	31,608	50,318
Professional fees	35,996	3,605	-	-	39,601	29,224
Irrecoverable VAT	260,309	-	-	-	260,309	318,068
Support costs (note 8)	737,952	203,902	13,292	-	955,146	958,614
	12,109,984	973,203	242,254	58,528	13,383,969	13,111,582

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2013

8. ALLOCATION OF SUPPORT COSTS (Continued)

	Research	Bioservices	Diagnostics	Governance	Total 2013	Total 2012
	£	£	£	£	£	£
Staff costs	216,703	27,255	571	10,835	255,364	262,290
Office & premises	506,336	157,322	12,721	12,721	689,100	696,884
Legal & prof. fees	5,800	901	-	305	7,006	4,298
Audit fees	-	-	-	11,418	11,418	13,994
Sundries	9,113	18,424	-	219	27,756	19,382
	737,952	203,902	13,292	35,498	990,644	996,848

9. FIXED ASSETS – INTANGIBLE

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

	Trademarks £	Patents £	Total £
Cost			
At 1 April 2012	22,553	358,183	380,736
Additions	-	59,467	59,467
At 31 March 2013	22,553	417,650	440,203
Amortisation			
At 1 April 2012	11,096	87,200	98,296
Charge for the year	2,255	19,487	21,742
At 31 March 2013	13,351	106,687	120,038
At 31 March 2013	9,202	310,963	320,165
At 31 March 2012	11,457	270,983	282,440

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2013

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						
At 1 April 2012	1,048,673	76,631	920,777	8,042,210	163,930	10,252,221
Additions	-	-	8,626	443,057	-	451,683
Disposals	-	-	-	(20,000)	-	(20,000)
At 31 March 2013	1,048,673	76,631	929,403	8,465,267	163,930	10,683,904
Depreciation						
At 1 April 2012	298,270	43,374	665,639	6,074,260	133,441	7,214,984
Charge for the year	62,444	14,248	107,978	465,333	7,447	657,450
Eliminated on disposals	-	-	-	(20,000)	-	(20,000)
At 31 March 2013	360,714	57,622	773,617	6,519,593	140,888	7,852,434
Net Book Values						
At 31 March 2013	687,959	19,009	155,784	1,945,674	23,042	2,831,470
At 31 March 2012	750,403	33,257	255,138	1,967,950	30,489	3,037,237

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 100% of the share capital
Activ8 Science Limited	Scotland - SC357619	10 ordinary shares of £1 each 100% of the share capital
Wormvax Limited	Scotland - SC357621	10 ordinary shares of £1 each 100% of the share capital
Evalu8 Science Limited	Scotland - SC357622	10 ordinary shares of £1 each 100% of the share capital

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2013

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 2013	£nil	£10
Activ8 Science Limited	31 March 2013	£nil	£10
Wormvax Limited	31 March 2013	£nil	£10
Evalu8 Science Limited	31 March 2013	£nil	£10
Gener8 Science Limited	31 March 2013	£nil	£10
Anticip8 Science Limited	31 March 2013	£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 2013	£nil	£nil
Genecom Limited	31 March 2013	£(9,745)	£67,284

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 2013

11. FIXED ASSETS - INVESTMENTS (Continued)

Joint ventures (continued):

The principal activity of Genecom Limited was 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. Genecom Limited ceased its trading activities on 30 September 2012.

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 2012 £	Additions	Disposals/ Impairment £	At 31 March 2013 £
Unlisted – investments in subsidiaries	60	-	-	60
Unlisted – other investments	58,529	-	(58,528)	1
	58,589	-	(58,528)	61

12. STOCK AND WORK-IN-PROGRESS

	2013 £	2012 £
Livestock	68,715	71,967
Consumables	107,314	97,665
	176,029	169,632

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2013

13. DEBTORS

	2013	2012
	£	£
Due within one year:		
Amounts due from group undertakings	208,659	404,004
Trade debtors	489,005	165,496
Other debtors	842,670	524,404
Restructuring grant: Annual Compensation Payments	67,474	80,834
	1,607,808	1,174,738
Due after more than one year:	£	£
Restructuring grant: Annual Compensation Payments*	98,075	165,549
	98,075	165,549

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

14. CREDITORS

	2013	2012
	£	£
Due within one year:		
Amounts due to group undertakings	287,963	270,139
Trade creditors	205,021	107,942
Other creditors	58,289	37,293
Other taxes and social security	159,767	390,086
Accruals	104,844	155,275
Deferred income	1,749,139	3,250,454
Annual Compensation Payments	67,474	80,834
	2,632,497	4,292,023
Due after more than one year:	£	£
Annual Compensation Payments due within 1 to 2 years	98,075	67,474
Annual Compensation Payments due within 2 to 5 years	-	98,075
Annual Compensation Payments due in more than 5 years	-	-
	98,075	165,549
Deferred grant income arises as follows:	£	£
Opening balance	3,250,454	1,013,028
Received in the year	6,190,816	12,886,078
Released in the year	(7,692,131)	(10,648,652)
Closing balance	1,749,139	3,250,454

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2013

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 grants and other revenue streams which can be used for innovative research and to develop 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 2012 £	Movement in Funds			Balance at 31 March 2013 £
		Incoming £	Outgoing £	Transfers £	
Capital Equipment Fund	3,367,945	40,500	-	(436,964)	2,971,481
Scottish Government Fund	-	6,291,646	(6,291,646)	-	-
Intellectual Property Development Fund	60,948	-	-	-	60,948
Moredun Scientific Ltd Studentship Fund	23,215	20,000	-	-	43,215
Pentlands Science Park Ltd Studentship Fund	20,000	30,000	-	-	50,000
Innovation Fund	336,629	-	(187,455)	-	149,174
Other Restricted Funds	-	5,062,349	(5,641,730)	579,381	-
	3,808,737	11,444,495	(12,120,831)	142,417	3,274,818

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2013

15. RESTRICTED FUNDS (Continued)

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

	2013 £	2012 £
Grants for current expenditure:		
Research Portfolio	5,935,886	6,014,464
Flexible Fund	-	20,849
Grants for pensions	875,000	950,000
Grants and lump sums for retirement and death in service	-	138,812
Grants and lump sums for early severance	355,760	-
	7,166,646	7,124,125

Whereof:

Included in income	6,291,646	6,035,313
Included in debtors/creditors	875,000	1,088,812
Included in capital	-	-
	7,166,646	7,124,125

16. ANALYSIS OF NET ASSETS BETWEEN FUNDS

The analysis of net assets at 31 March 2013, between funds, is as follows:

	Fixed Assets £	Current Assets Less Liabilities £	Total £
Restricted Funds			
Capital Equipment Fund	2,616,268	355,213	2,971,481
Scottish Government Fund	-	-	-
Innovation Fund	-	149,174	149,174
Intellectual Property Development Fund	-	60,948	60,948
MSL Studentship Fund	-	43,215	43,215
PSP Studentship Fund	-	50,000	50,000
	2,616,268	658,550	3,274,818

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 MARCH 2013

16. ANALYSIS OF NET ASSETS BETWEEN FUNDS (Continued)

	Fixed Assets £	Current Assets Less Liabilities £	Total £
Unrestricted Funds			
General Fund	593,956	7,090,920	7,684,876
Designated Scientists Funds	-	124,228	124,228
	593,956	7,215,148	7,809,104
Total Funds	3,210,224	7,873,698	11,083,922

All assets are held for charitable purposes

Designated scientists funds

As stated in note 1, these funds arise from scientific staff carrying out personal consultancies or other external paid work. One third is retained by the Institute within general funds and the remaining balance is either paid to the member of staff by way of the usual payroll system or retained in a designated fund to be used within the Institute at the discretion of the member of staff.

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 eight (2012: six) Directors claimed travel expenses, the total of which amounted to £3,872 (2012: £2,395). No Directors received remuneration however Mr J Jeffrey received a total of £Nil (2012: £6,974) from Pentlands Science Park Limited, a wholly owned subsidiary of The Moredun Foundation, for services to the group. Lord Trees received a total of £10,000 (2012: £3,144) 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 2013

19. LEASE COMMITMENTS

The company has annual commitments under non-cancellable operating leases as follows:

Property Leases:	2013	2012
	£	£
Expiring after more than 5 years	816,704	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 2012/13, the Institute remitted £104,271 (net of Government grants) to the scheme (2011/12: £142,143) 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 (2012: £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.

**INCOME AND EXPENDITURE ACCOUNT ANALYSIS
YEAR ENDED 31 MARCH 2013**

	2013		2012	
	£	£	£	£
Income				
Grants – Scottish Government	6,291,646		6,035,313	
Grants - research contracts	5,062,349		4,106,186	
Grants - The Moredun Foundation	470,000		420,000	
Donations	150,000		-	
Diagnostic fees	255,866		290,300	
Royalties	25,570		164,604	
Refund of salaries and other costs recovered	845,804		598,545	
Bioservices	423,971		731,279	
Total income		13,525,206		12,346,227
Direct research costs				
Establishment expenses (<i>Appendix B</i>)	2,400,409		2,374,336	
Laboratory research costs	2,055,056		1,800,998	
Subcontracted resources	2,459,269		2,310,371	
Experimental livestock costs	202,684		227,563	
Salaries and royalties	5,107,264		5,245,810	
		12,224,682		11,959,078
Gross surplus		1,300,524		387,149
Administrative costs (<i>Appendix B</i>)		(1,197,084)		(1,244,672)
Operating Surplus/(deficit)		103,440		(857,523)
Interest receivable and similar income		176,313		91,725
Surplus/(deficit) for the financial year		279,753		(765,798)

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**INCOME AND EXPENDITURE ACCOUNT ANALYSIS
YEAR ENDED 31 MARCH 2013**

	2013		2012	
	£	£	£	£
Establishment expenses				
Fit-out costs	226,538		226,538	
Heat & light	471,773		417,461	
Depreciation	657,450		715,841	
Rent, rates & service charges	1,267,533		1,234,502	
Cleaning costs	43,827		43,809	
		2,667,121		2,638,151
Attributable to:				
Direct research costs (90%)	2,400,409		2,374,336	
Administrative costs (10%)	266,712		263,815	
		2,667,121		2,638,151
Administrative costs				
Establishment expenses (<i>Above</i>)	266,712		263,815	
Equipment rental	9,125		8,568	
Repairs & maintenance	253,947		297,368	
Insurance	93,550		103,411	
Hospitality & catering	41,877		43,533	
Motor expenses	21,579		13,757	
Telephone & postage	21,210		21,204	
Printing & stationery	9,549		12,509	
Subscriptions	18,319		11,655	
Training	31,608		50,318	
Agency recruitment costs	-		8,750	
Travel & subsistence	9,479		6,379	
Legal, professional & consultancy fees	35,031		21,489	
Audit and accounting	11,418		13,994	
Health & safety	11,576		12,033	
Advertising & exhibitions	22,691		16,914	
Bank Charges	656		574	
Gain on sale of fixed assets	(8,000)		(7,581)	
Impairment of Investments	58,528		-	
Patent amortisation	21,742		18,793	
Sundries	6,178		5,623	
Irrecoverable VAT	260,309		318,068	
Loss on foreign currency exchange	-		3,498	
Total administrative costs		1,197,084		1,244,672

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