

**MOREDUN RESEARCH INSTITUTE**

**ANNUAL REPORT  
YEAR ENDED 31 MARCH 2014**

Company Registered Number: SC149440

Scottish Charity Number: SC022353



Moredun

**MOREDUN RESEARCH INSTITUTE (Registered Number: SC149440)**

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YEAR ENDED 31 MARCH 2014**

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**MOREDUN RESEARCH INSTITUTE (Registered Number: SC149440)**

**COMPANY INFORMATION  
YEAR ENDED 31 MARCH 2014**

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**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

CMS Cameron McKenna 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](http://www.moredun.org.uk)

**Scottish Charity Number:** SC022353

**TRUSTEES' ANNUAL REPORT  
YEAR ENDED 31 MARCH 2014**

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The trustees present their annual report (including their strategic report) and financial statements for the year ended 31 March 2014. The financial statements are prepared in accordance with the accounting policies set out in note 1 to the financial statements and comply with the company's constitution, applicable law and the requirements of the Statement of Recommended Practice – Accounting and Reporting by Charities (revised 2005).

**REFERENCE AND ADMINISTRATIVE DETAILS OF THE CHARITY, ITS TRUSTEES AND ITS ADVISORS**

The principal address, the company and Scottish charity registration numbers are noted on the company information page.

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

Professor The Lord Trees <sup>§^</sup> ( <i>Chairman</i> )	Mr John C Bell
Professor Eileen Devaney	Professor Richard M Elliot
Professor Peter H Holmes	Mr John Kinnaird*
Professor Duncan J Maskell	Professor J Charles Milne ( <i>Resigned 30 June 2014</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 trustees 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.

**STRUCTURE, GOVERNANCE AND MANAGEMENT**

**Structure**

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. Moredun Research Institute was formed in 1994.

Moredun Research Institute is a company limited by guarantee governed by its Memorandum and Articles of Association (as amended) dated 6 March 2003. The company is recognised by Her Majesty's Inland Revenue as a Scottish Charity, No SC022353.

The trustees 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 trustees 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.

**Structure (continued)**

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.

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 second, Genecom Limited, is also a company limited by guarantee was set up to allow the member organisations to share their experiences and develop their intellectual property. Following the cessation of funding the company ceased its activities on 30 September 2012.

**Governance**

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.

New trustees 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. All trustees are made aware of their duties and responsibilities as charity trustees under the Charities and Trustee Investment (Scotland) Act and are provided with guidance materials issued by OSCR and Companies House. Trustees are also supplied with other guidance material as it becomes available from OSCR during the term of their appointment.

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 trustees' responsibilities**

The trustees (who are also the directors of the company for the purposes of company law) are responsible for preparing the Trustees' Annual Report, the Strategic Report and the Financial Statements in accordance with applicable law and regulations.

**Statement of trustees' responsibilities (continued)**

Company law requires the trustees to prepare financial statements for each financial year. Under that law the trustees 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 trustees 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 trustees 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 trustees 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.

**Management**

The activities of the charity are ultimately controlled by the board of trustees which meets four times per year. The Chief Executive (who is also the Scientific Director), Professor Julie Fitzpatrick, continues to ensure the efficient and effective running of the business.

The Chief Executive 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.

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 considers 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.

**Management (continued)**

- 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 include 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.

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.

**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 trustee has taken all the steps that he or she ought to have taken as a trustee 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.

**Auditor**

The auditor, Scott-Moncrieff, will be proposed for reappointment at the annual general meeting in accordance with section 485 of the Companies Act 2006.

**OBJECTIVES AND ACTIVITIES**

**Objectives**

The objects of Moredun Research Institute as set out in the Memorandum of Association are to undertake, promote and assist in promoting and undertaking experimental and other scientific research concerning the diseases of farm livestock and of other animals whose health affects that of farm livestock and other scientific research concerning animal disease which affects animal welfare, human health, the environment or otherwise is of public concern and to disseminate the results of such research and generally to promote agricultural, arboricultural and horticultural research and the dissemination of the results of such research.

### **Activities**

The major areas of activity are research, development, and knowledge exchange. 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.

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 feed 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.

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## **TRUSTEES' STRATEGIC REPORT**

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### **Achievements and performance**

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

Our scientific staff made a major breakthrough in the battle to prevent and control parasitic worm infections by successfully protecting sheep using vaccination. The team at Moredun had their results published in the leading scientific journal *Vaccine* and the paper reports the most successful attempt yet to protect animals against worms, using a laboratory produced vaccine, giving hope for a sustainable control strategy that does not rely on drugs. Parasitic worms (nematodes) have profound effects on human and animal health and welfare worldwide: over 1 billion humans, primarily in the developing world, are affected by soil-transmitted nematodes. When measured in terms of disability-adjusted life years, their global impact is comparable to that of malaria or tuberculosis. Infection of livestock with closely related parasitic nematodes can have devastating effects on health and production, affecting food security in developed and developing regions.



**Achievements and performance (continued)**

Despite decades of intensive research, the development of vaccines against these pathogens has been unsuccessful. The approach taken by the team at Moredun involved identifying a number of key proteins which the worm produces, some of which enable it to escape the immune response and to survive and multiply within the animal. *By immunizing sheep with these key proteins the research team showed that the vaccinated animals had significantly reduced numbers of adult worms and eggs shed into the environment.*

A new study was published in the *Veterinary Record* which showed that targeting anthelmintic treatments to horses that have a high worm egg count in the faeces was more cost effective than the more traditional approach of interval treatments of all horses on a yard at the same time. A targeted approach will also help to increase the long term efficacy of the existing drugs by reducing the selection pressure for drug resistance. The study, which involved collaboration with Bristol, Liverpool and Edinburgh Veterinary schools, involved 368 horses in 16 different yards across the UK. Faecal samples were screened for the presence of worm eggs in all horses enrolled in the study and on the basis of the results obtained only those horses with high counts were selected for worming treatment. The cost of this regime was compared with a more traditional approach of all horses in the yard being treated 4 times a year. The average annual saving of adopting the targeted treatment approach was around £300 per yard. The frequent use of anthelmintics in horses has contributed to the development and spread of drug resistance in equine worm populations, which has led to problems with the efficacy of treatments. *This study has shown that if we target the treatment to the horses that actually need it we will help to reduce the development of drug resistant parasite populations and save money too.*

Moredun Research Institute and Ross University School of Veterinary Medicine (RUSVM), St. Kitts, announced the appointment of a two year research fellowship to take a lead role in contributing to a new international RUSVM/MRI collaborative research program in molecular epidemiology. The new role will address zoonotic infectious diseases important to livestock and other animals in the Caribbean, focusing initially on *Toxoplasma gondii*, a protozoan parasite that can cause serious disease in farm livestock and humans. The parasite occurs worldwide and can infect all warm blooded animals. *If women or sheep become infected with Toxoplasma gondii for the first time during pregnancy the parasite can cause serious disease or death in the developing foetus. This is one example of where we seek to fulfil our objectives through our international collaborations.*

Moredun Research Institute was also delighted to announce a new relationship with the Fish Vet Group (FVG) to develop novel vaccines to protect farmed fish against disease. A new research group has been established within the Institute to work on strategies to combat a number of defined pathogens that cause significant economic loss to aquaculture fish stocks. Moredun has considerable experience in developing vaccines for the livestock sector against a wide range of different pathogens including viruses, bacteria and parasites. Salmon production in Scotland generates circa £434 million per year and Scotland is now the world's second largest salmon producer. The industry also supports employment in remote and rural communities in the Highlands and Islands of Scotland. The expansion of the aquaculture industry in recent years has also been accompanied by the emergence of many infectious diseases causing significant economic losses and welfare issues. Moredun's strategy has always been that disease prevention is better than cure and vaccines offer a more sustainable and environmentally friendly approach to disease control, as they reduce reliance on pharmacological drugs and pesticide. *The new research group will be embedded within Moredun, initially for a five year period, enabling exciting opportunities for cross disciplinary collaborations among the different groups of scientists. Expertise will be applied to develop effective solutions to ensure the health and sustainability of the aquaculture industry both in the UK and globally.*

**Achievements and performance (continued)**

Researchers from the Institute and Scotland's Rural College received a major funding award to develop a project that could ultimately lead to an early warning system for poor health and welfare states in dairy cattle. Initial work by the team has found that easily recordable immune traits could be used to predict an individual farm animal's susceptibility to, and recovery from, a range of health conditions. Being able to use immune traits to identify health and welfare problems - such as lameness - could be of huge benefit to the industry as they can be used to measure and monitor the challenges that dairy cows face and develop prediction and prevention tools that could help reduce the incidence of ill health. Current recording of health and welfare events is costly and highly labour intensive. Furthermore, such events are often missed as the signs in the cow can be subtle and difficult to detect. In contrast, immune traits can be measured in a high throughput manner in easily obtainable biological samples such as blood and milk, and may identify more subtle changes in health or welfare status. *Being able to identify potential problems in dairy cows at the very earliest opportunity would not only save the cows from unnecessary suffering but would also prevent lost productivity associated with poor health, so representing a significant economic benefit too, for individual farmers and the dairy industry as a whole.*

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 project is led by the University of East Anglia. 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. Lead researcher Professor Paul Hunter from UEA's Norwich Medical School said: "With the technologies we currently have it can take two or more days to identify infectious risks in drinking water and by then the affected water is likely to have been consumed. This project will develop more rapid methods so that problems can be identified earlier." 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.*

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

<b>Agreed Performance Targets</b>	<b>Performance achieved</b>
1. Consolidate the distinguished scientific research reputation of the Institute through publications in respected scientific journals.	Institute scientists published 97 refereed publications in 2013. This represented an 11% decrease over the 2012 figures partly due to reorganisation and restructuring within the Institute.
2. Maintain the Institute's income from competitive and commercial funding sources above 50%.	In 2013/2014 the Institute secured 52.3% of its total revenue income (excluding bank interest received) from competitive and commercial activity (2012/2013: 53.5%).
3. Invest in innovative science capabilities and achieve a sustainable financial outcome for the Institute through attracting new research income.	In 2013/2014 the reserves increased by £387,340 (2012/2013: increase of £320,253), after investing £40,719 from the Innovation Fund and £246,350 in capital expenditure. Research contracts income fell by 16% due to the phasing on one contract.

**Achievements and performance (continued)**

**Agreed Performance Targets**

4. Maintain and establish new collaborative research programmes between commercial companies and the Institute by encouraging the thriving interface with private sector industry through group companies..
5. Develop staff and consolidate the procedures put in place to comply with Investors in People.
6. Improve knowledge management in the Institute and transfer this knowledge to third parties for public benefit.

**Performance achieved**

The commercial scientific subsidiary of The Moredun Foundation, Moredun Scientific Limited, generated £2,506,544 (2012/2013 £2,009,337) of commercial turnover – an increase of almost 25%.

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. Average level of employee absence was 4.04 days per annum as against the Chartered Institute of Personnel and Development UK average of 7.3 days.

Eleven roadshow events were held throughout the UK covering worm control, fluke control, sheep health, calf health, cryptosporidiosis and Johne's disease. A number of high profile events were again held at Moredun to disseminate recent research advances. Interactive educational exhibits have been further developed to encourage and inform young people about science as a career.

**Financial Review**

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.

The surplus for the financial year amounted to £387,340 (2013: £320,253). 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 decreased by 7.8% during the year (largely down to the phasing of income on one large contract) however the operating surplus increased by 174% with careful management of the cost base and a greater focus on cost recoveries. 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.

Funds not immediately required are invested in high interest term deposits with interest credited to the profit and loss account.

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.

**Financial Review (continued)**

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 2014 at 6 months average income due to the reduced funding from the Scottish Government and the potential adverse impact on existing reserves. Based on the incoming resources for the year, this would be £6.3 million (2013: £6.8 million). Unrestricted reserves at 31 March 2014 amounted to £8.6 million (2013: £7.8 million). The directors are also aware that fixed assets account for £0.7 million of the unrestricted reserves. As not all reserves are held in liquid funds, and given the nature of the charity's work, the directors are satisfied with the level of reserves during the year.

**Plans for future periods**

Financial targets continue to be focused on achieving a balanced budget and growing income from competitive and commercial sources. A key element of this will be the acquisition of further research contracts which fully contribute to overhead recovery. 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. The Institute plans to continue to develop strong links with collaborators nationally and internationally and further serve its stakeholders as an independent centre of expertise. Performance targets and budgets 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.

**Principal risks and uncertainties**

The board regularly reviews and updates the risk register for the Institute, categorising risks under the headings of Strategic, Operational, Financial and Regulatory. Principal risks are in the areas of future funding, health and safety, IT processes, contract performance and the implications of the Independence Referendum in 2014.

In approving the Trustees' Annual Report, the trustees are also approving the Strategic Report in their capacity as company directors.

**By order of the board**

**Professor J L Fitzpatrick**  
Chief Executive & Scientific Director

Edinburgh

**Professor The Lord Trees**  
Chairman

Date: 4 September 2014

## **MOREDUN RESEARCH INSTITUTE (Registered Number: SC149440)**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBER AND TRUSTEES FOR THE YEAR ENDED 31 MARCH 2014**

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We have audited the financial statements of Moredun Research Institute for the year ended 31 March 2014 which comprise the Statements of Financial Activities (incorporating the Income and Expenditure Account), the Balance Sheet, the Cash Flow Statement 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 solely to the company's trustees and members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, 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 company's trustees and members 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 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 trustees and auditor**

As explained more fully in the Trustees' Responsibilities Statement, the trustees (who are also the directors of the 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 (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at [www.frc.uk/apb/scope/private/cfm](http://www.frc.uk/apb/scope/private/cfm).

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the charity's affairs as at 31 March 2014 and of the charity's incoming resources and application of resources, including its income and expenditure, 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 requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 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 Trustees' Annual Report and Strategic 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) require 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 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  
Exchange Place 3, Semple Street, Edinburgh, EH3 8BL

Date: 4 September 2014

**MOREDUN RESEARCH INSTITUTE (Registered Number: SC149440)****INCOME AND EXPENDITURE ACCOUNT  
YEAR ENDED 31 MARCH 2014**

		2014	2013
	Note	£	£
Income		12,464,043	13,525,206
Direct research costs		(10,911,054)	(12,224,682)
<b>Gross surplus</b>		<b>1,552,989</b>	<b>1,300,524</b>
Administrative expenses		(1,269,370)	(1,197,084)
<b>Operating surplus</b>		<b>283,619</b>	<b>103,440</b>
Interest receivable and similar income	2	103,721	176,313
<b>Surplus for the financial year</b>	<b>3</b>	<b>387,340</b>	<b>279,753</b>

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 2014**

		2014	2013
	Note	£	£
Surplus for the financial year	3	387,340	279,753
Capital grants		-	40,500
<b>Total recognised gains and losses relating to the year</b>		<b>387,340</b>	<b>320,253</b>

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

**CASH FLOW STATEMENT  
YEAR ENDED 31 MARCH 2014**

		2014		2013	
	Note	£	£	£	£
<b>Reconciliation of operating deficit to net cash inflow from operating activities</b>					
Operating surplus		283,619		103,440	
Depreciation of tangible fixed assets		614,454		657,450	
Amortisation of intangible fixed assets		25,028		21,742	
Gain on sale of fixed assets		(170)		(8,000)	
Impairment of investment		-		58,528	
Decrease/(increase) in debtors		410,507		(365,596)	
Decrease/(increase) in stocks		73,590		(6,397)	
Increase/(decrease) in creditors		16,276		(1,727,000)	
<b>Net cash inflow/(outflow) from operating activities</b>			<b>1,423,304</b>		<b>(1,265,833)</b>
<b>CASH FLOW STATEMENT</b>					
Net cash inflow/(outflow) from operating activities		1,423,304		(1,265,833)	
Returns on investments and servicing of finance	5	103,721		176,313	
Net capital expenditure	5	(323,459)		(462,650)	
<b>Increase/(decrease) in cash in the period</b>			<b>1,203,566</b>		<b>(1,552,170)</b>
<b>Reconciliation of net cash flow to movement in net funds</b>					
Increase/(decrease) in cash in the period	6	1,203,566		(1,552,170)	
Net funds at 1 April 2013		8,780,886		10,333,056	
<b>Net funds at 31 March 2014</b>			<b>9,984,452</b>		<b>8,780,886</b>

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

STATEMENT OF FINANCIAL ACTIVITIES  
YEAR ENDED 31 MARCH 2014

	Note	Unrestricted Funds £	Restricted Funds £	Total 2014 £	Total 2013 £
<b>INCOMING RESOURCES</b>					
<i>Incoming resources from generated funds:</i>					
Investment Income	2	103,721	-	103,721	176,313
<i>Incoming resources from charitable activities:</i>					
Research – revenue grants		440,000	10,220,177	10,660,177	11,823,995
Research – capital grants		-	-	-	40,500
Research – costs refunded & other		760,612	-	760,612	845,804
Bioservices		764,550	-	764,550	423,971
Diagnostics		259,906	-	259,906	255,866
Other Income		-	-	-	150,000
		2,225,068	10,220,177	12,445,245	13,540,136
<i>Other incoming resources:</i>					
Royalty income		18,798	-	18,798	25,570
<b>TOTAL INCOMING RESOURCES</b>		<b>2,347,587</b>	<b>10,220,177</b>	<b>12,567,764</b>	<b>13,742,019</b>
<b>RESOURCES EXPENDED</b>					
<i>Charitable activities:</i>					
Research	7	-	10,962,097	10,962,097	12,109,984
Bioservices	7	963,953	-	963,953	973,203
Diagnostics	7	214,527	-	214,527	242,254
Impairment of investment	7	-	-	-	58,528
		1,178,480	10,962,097	12,140,577	13,383,969
<i>Governance costs:</i>					
	8	23,585	12,856	36,441	35,498
<i>Other resources expended:</i>					
Scientists royalties		3,406	-	3,406	2,299
<b>TOTAL RESOURCES EXPENDED</b>		<b>1,205,471</b>	<b>10,974,953</b>	<b>12,180,424</b>	<b>13,421,766</b>
<b>NET INCOMING/(OUTGOING) RESOURCES BEFORE FUNDS TRANSFERS</b>					
		1,142,116	(754,776)	387,340	320,253
<b>Transfers Between Funds:</b>					
Amortisation of capital grants		418,495	(418,495)	-	-
Other funds transfers		(745,549)	745,549	-	-
<b>NET MOVEMENT IN FUNDS</b>		<b>815,062</b>	<b>(427,722)</b>	<b>387,340</b>	<b>320,253</b>
<b>Reconciliation of Funds:</b>					
Balances brought forward		7,809,104	3,274,818	11,083,922	10,763,669
<b>BALANCES CARRIED FORWARD AT 31 MARCH 2014</b>		<b>8,624,166</b>	<b>2,847,096</b>	<b>11,471,262</b>	<b>11,083,922</b>

All results for the year are derived from continuing operations.

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



**MOREDUN RESEARCH INSTITUTE (Registered Number: SC149440)**

**BALANCE SHEET  
AT 31 MARCH 2014**

		2014		2013	
	Note	£	£	£	£
<b>Fixed assets</b>					
Intangible assets	9		374,945		320,165
Tangible assets	10		2,460,837		2,831,470
Investments	11		61		61
			<b>2,835,843</b>		<b>3,151,696</b>
<b>Current assets</b>					
Stock	12	102,439		176,029	
Debtors: due within one year	13	1,256,864		1,607,808	
Debtors: due after more than one year	13	38,512		98,075	
Cash at bank and in hand		9,984,452		8,780,886	
			<b>11,382,267</b>		<b>10,662,798</b>
<b>Creditors: Amounts falling due within one year</b>	14	<b>(2,708,336)</b>		<b>(2,632,497)</b>	
<b>Net current assets</b>			<b>8,673,931</b>		<b>8,030,301</b>
<b>Total assets less current liabilities</b>			<b>11,509,774</b>		<b>11,181,997</b>
<b>Creditors: Amounts falling due after more than one year</b>	14		<b>(38,512)</b>		<b>(98,075)</b>
<b>NET ASSETS</b>			<b>11,471,262</b>		<b>11,083,922</b>
<b>Funds</b>					
Restricted funds	15,16		2,847,096		3,274,818
Unrestricted funds	16		8,624,166		7,809,104
<b>TOTAL FUNDS</b>	16		<b>11,471,262</b>		<b>11,083,922</b>

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 2014

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 2014**

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**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 2014

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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 10-20%, 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 2014**

**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 FOR THE FINANCIAL YEAR**

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

	2014 £	2013 £
Gain on the sale of fixed assets	(170)	(8,000)
Impairment of investment	-	58,528
Depreciation (note 10)	614,454	657,450
Staff costs (note 4)	4,775,992	5,107,264
Operating lease rentals - property	821,704	816,707
External auditor's remuneration - audit fee	6,381	6,151
External auditor's remuneration - non-audit work	1,000	8,150
Internal auditor's remuneration - audit fee	5,425	5,267

**4. ANALYSIS OF STAFF COSTS**

	2014 £	2013 £
<b>Staff costs comprised:</b>		
Wages and salaries	4,161,996	4,286,508
Redundancy costs	16,005	377,238
Pension costs	268,984	104,271
Social security costs	324,759	336,948
Scientists royalties and other staffing costs	4,248	2,299
	<b>4,775,992</b>	<b>5,107,264</b>

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 2014

4. ANALYSIS OF STAFF COSTS (Continued)

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

	2014	2013
Scientific	100	115
Other	9	11
	109	126

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

	2014	2013
£60,001 - £70,000	6	7
£70,001 - £80,000	1	-
£110,001 - £120,000	-	1
£140,001 - £150,000	1	-
	8	8

The eight (2013: 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 £147,890 (2013: £124,143).

5. GROSS CASH FLOWS

	2014 £	2013 £
<b>Returns on investments and servicing of finance</b>		
Interest received	103,721	176,313
	103,721	176,313
	2014 £	2013 £
<b>Net capital expenditure</b>		
Payments to acquire tangible fixed assets	(246,350)	(451,683)
Payments to acquire intangible fixed assets	(79,808)	(59,467)
Capital funds received – Scottish Government	-	-
Capital funds received – Other	-	40,500
Proceeds on sale of fixed assets	2,699	8,000
	(323,459)	(462,650)

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
YEAR ENDED 31 MARCH 2014

6. ANALYSIS OF CHANGES IN NET FUNDS

	At 1 April 2013	Cash Flows	At 31 March 2014
	£	£	£
Cash at bank and in hand	8,780,886	1,203,566	<b>9,984,452</b>

7. ANALYSIS OF CHARITABLE EXPENDITURE

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

	Research	Bioservices	Diagnostics	Total 2014	Total 2013
	£	£	£	£	£
Research activity	8,335,672	147,083	201,297	8,684,052	9,909,197
Premises costs	1,140,506	516,159	-	1,656,665	1,661,810
Direct depreciation	409,619	81,944	-	491,563	525,960
Gain on sale of fixed asset	(170)	-	-	(170)	(8,000)
Travel and subsistence	8,589	-	294	8,883	8,338
Training	24,482	230	-	24,712	31,608
Professional fees	22,940	3,726	-	26,666	39,601
Irrecoverable VAT	306,134	-	-	306,134	260,309
Support costs (note 8)	714,325	214,811	12,936	942,072	955,146
	<b>10,962,097</b>	<b>963,953</b>	<b>214,527</b>	<b>12,140,577</b>	<b>13,383,969</b>

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 2014

8. ALLOCATION OF SUPPORT COSTS (Continued)

	Research	Bioservices	Diagnostics	Governance	Total 2014	Total 2013
	£	£	£	£	£	£
Staff costs	200,820	27,410	529	10,041	238,800	255,364
Office & premises	501,503	169,805	12,407	13,097	696,812	689,100
Legal & prof. fees	3,716	455	-	196	4,367	7,006
Audit fees	-	-	-	12,806	12,806	11,418
Other costs	8,286	17,141	-	301	25,728	27,756
	<b>714,325</b>	<b>214,811</b>	<b>12,936</b>	<b>36,441</b>	<b>978,513</b>	<b>990,644</b>

9. FIXED ASSETS – INTANGIBLE

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

	Trademarks £	Patents £	Total £
<b>Cost</b>			
At 1 April 2013	22,553	417,650	440,203
Additions	80	79,728	79,808
<b>At 31 March 2014</b>	<b>22,633</b>	<b>497,378</b>	<b>520,011</b>
<b>Amortisation</b>			
At 1 April 2013	13,351	106,687	120,038
Charge for the year	2,276	22,752	25,028
<b>At 31 March 2014</b>	<b>15,627</b>	<b>129,439</b>	<b>145,066</b>
<b>At 31 March 2014</b>	<b>7,006</b>	<b>367,939</b>	<b>374,945</b>
At 31 March 2013	9,202	310,963	320,165

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
YEAR ENDED 31 MARCH 2014

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 £
<b>Cost</b>						
At 1 April 2013	1,048,673	76,631	929,403	8,465,267	163,930	10,683,904
Additions	-	-	29,329	214,532	2,489	246,350
Disposals	-	-	-	(7,988)	-	(7,988)
<b>At 31 March 2014</b>	<b>1,048,673</b>	<b>76,631</b>	<b>958,732</b>	<b>8,671,811</b>	<b>166,419</b>	<b>10,922,266</b>
<b>Depreciation</b>						
At 1 April 2013	360,714	57,622	773,617	6,519,593	140,888	7,852,434
Charge for the year	54,925	7,915	90,049	455,158	6,407	614,454
Eliminated on disposals	-	-	-	(5,459)	-	(5,459)
<b>At 31 March 2014</b>	<b>415,639</b>	<b>65,537</b>	<b>863,666</b>	<b>6,969,292</b>	<b>147,295</b>	<b>8,461,429</b>
<b>Net Book Values</b>						
<b>At 31 March 2014</b>	<b>633,034</b>	<b>11,094</b>	<b>95,066</b>	<b>1,702,519</b>	<b>19,124</b>	<b>2,460,837</b>
At 31 March 2013	687,959	19,009	155,784	1,945,674	23,042	2,831,470

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 2014

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 2014	£nil	£10
Activ8 Science Limited	31 March 2014	£nil	£10
Wormvax Limited	31 March 2014	£nil	£10
Evalu8 Science Limited	31 March 2014	£nil	£10
Gener8 Science Limited	31 March 2014	£nil	£10
Anticip8 Science Limited	31 March 2014	£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 2014	£nil	£nil
Genecom Limited	31 March 2014	£(989)	£66,295

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 2014

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 was originally to develop and commercialise bacteriophage vaccination technology however this has changed to become a drug development company for the treatment of cancer.

Cost value of investments:

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

Company	At 31 March 2013 £	Disposals/ Additions	Impairment	At 31 March 2014 £
Unlisted – investments in subsidiaries	60	-	-	60
Unlisted – other investments	1	-	-	1
	61	-	-	61

12. STOCK AND WORK-IN-PROGRESS

	2014 £	2013 £
Livestock	23,910	68,715
Consumables	78,529	107,314
	102,439	176,029

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
YEAR ENDED 31 MARCH 2014

13. DEBTORS

	2014	2013
	£	£
<b>Due within one year:</b>		
Amounts due from group undertakings	315,547	208,659
Trade debtors	448,204	489,005
Other debtors	433,550	842,670
Restructuring grant: Annual Compensation Payments	59,563	67,474
	<b>1,256,864</b>	<b>1,607,808</b>
<b>Due after more than one year:</b>	£	£
Restructuring grant: Annual Compensation Payments*	38,512	98,075
	<b>38,512</b>	<b>98,075</b>

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

14. CREDITORS

	2014	2013
	£	£
<b>Due within one year:</b>		
Amounts due to group undertakings	279,919	287,963
Trade creditors	186,089	205,021
Other creditors	4,313	58,289
Other taxes and social security	142,250	159,767
Accruals	94,755	104,844
Deferred income	1,941,447	1,749,139
Annual Compensation Payments	59,563	67,474
	<b>2,708,336</b>	<b>2,632,497</b>
<b>Due after more than one year:</b>	£	£
Annual Compensation Payments due within 1 to 2 years	38,512	98,075
	<b>38,512</b>	<b>98,075</b>
<b>Deferred grant income arises as follows:</b>	£	£
Opening balance	1,749,139	3,250,454
Received in the year	4,855,818	6,190,816
Released in the year	(4,663,510)	(7,692,131)
Closing balance	1,941,447	1,749,139

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED 31 MARCH 2014**

**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:

	<b>Balance at 1 April 2013 £</b>	<b>Movement in Funds</b>			<b>Balance at 31 March 2014 £</b>
		<b>Incoming £</b>	<b>Outgoing £</b>	<b>Transfers £</b>	
Capital Equipment Fund	2,971,481	-	-	(418,495)	<b>2,552,986</b>
Scottish Government Fund	-	5,947,129	(6,111,260)	164,131	-
Innovation Fund	149,174	-	(40,719)	-	<b>108,455</b>
Intellectual Property Development Fund	60,948	-	-	-	<b>60,948</b>
Moredun Scientific Ltd Studentship Fund	43,215	20,000	(8,508)	-	<b>54,707</b>
Pentlands Science Park Ltd Studentship Fund	50,000	20,000	-	-	<b>70,000</b>
Other Restricted Funds	-	4,233,048	(4,814,466)	581,418	-
	<b>3,274,818</b>	<b>10,220,177</b>	<b>(10,974,953)</b>	<b>327,054</b>	<b>2,847,096</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
YEAR ENDED 31 MARCH 2014

15. RESTRICTED FUNDS (Continued)

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

	2014 £	2013 £
Grants for current expenditure:		
Research Portfolio	5,947,129	5,935,886
Grants for pensions	660,000	875,000
Grants and lump sums for early severance	-	355,760
	<b>6,607,129</b>	<b>7,166,646</b>
<b>Whereof:</b>		
Included in income	5,947,129	6,291,646
Included in debtors/creditors	660,000	875,000
	<b>6,607,129</b>	<b>7,166,646</b>

16. ANALYSIS OF NET ASSETS BETWEEN FUNDS

The analysis of net assets at 31 March 2014, between funds, is as follows:

	Fixed Assets £	Other Assets Less Liabilities £	Total £
<b>Restricted Funds</b>			
Capital Equipment Fund	1,731,288	821,698	<b>2,552,986</b>
Scottish Government Fund	-	-	-
Innovation Fund	-	108,455	<b>108,455</b>
Intellectual Property Development Fund	-	60,948	<b>60,948</b>
MSL Studentship Fund	-	54,707	<b>54,707</b>
PSP Studentship Fund	-	70,000	<b>70,000</b>
	<b>1,731,288</b>	<b>1,115,808</b>	<b>2,847,096</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
YEAR ENDED 31 MARCH 2014

16. ANALYSIS OF NET ASSETS BETWEEN FUNDS (Continued)

	Fixed Assets £	Other Assets Less Liabilities £	Total £
<b>Unrestricted Funds</b>			
General Fund	729,549	7,798,223	<b>8,527,772</b>
Designated Scientists Funds	-	96,394	<b>96,394</b>
	729,549	7,894,617	<b>8,624,166</b>
<b>Total Funds</b>	2,460,837	9,010,425	<b>11,471,262</b>

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 (2013: eight) Directors claimed travel expenses, the total of which amounted to £3,859 (2013: £3,872). No Directors received remuneration however Lord Trees received a total of £10,000 (2013: £10,000) from Pentlands Science Park Limited, a wholly owned subsidiary of The Moredun Foundation, for services to the group. 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 2014**

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**19. LEASE COMMITMENTS**

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

<b>Property Leases:</b>	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Expiring after more than 5 years	<b>821,704</b>	816,704

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**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 2013/14, the Institute remitted £268,984 (net of Government grants) to the scheme (2012/13: £104,271) 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 (2013: £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 2014**

	2014		2013	
	£	£	£	£
<b>Income</b>				
Grants – Scottish Government	5,947,129		6,291,646	
Grants - research contracts	4,233,048		5,062,349	
Grants - The Moredun Foundation	480,000		470,000	
Donations	-		150,000	
Diagnostic fees	259,906		255,866	
Royalties	18,798		25,570	
Refund of salaries and other costs recovered	760,612		845,804	
Bioservices	764,550		423,971	
<b>Total income</b>		<b>12,464,043</b>		<b>13,525,206</b>
<b>Direct research costs</b>				
Establishment expenses ( <i>Appendix B</i> )	2,355,562		2,400,409	
Laboratory research costs	2,090,483		2,055,056	
Subcontracted resources	1,304,640		2,459,269	
Experimental livestock costs	384,377		202,684	
Salaries and royalties	4,775,992		5,107,264	
		<b>10,911,054</b>		<b>12,224,682</b>
<b>Gross surplus</b>		<b>1,552,989</b>		<b>1,300,524</b>
<b>Administrative costs</b> ( <i>Appendix B</i> )		<b>(1,269,370)</b>		<b>(1,197,084)</b>
<b>Operating surplus</b>		<b>283,619</b>		<b>103,440</b>
<b>Interest receivable and similar income</b>		<b>103,721</b>		<b>176,313</b>
<b>Surplus for the financial year</b>		<b>387,340</b>		<b>279,753</b>



**INCOME AND EXPENDITURE ACCOUNT ANALYSIS  
YEAR ENDED 31 MARCH 2014**

	2014		2013	
	£	£	£	£
<b>Establishment expenses</b>				
Fit-out costs	226,538		226,538	
Heat & light	481,643		471,773	
Depreciation	614,454		657,450	
Rent, rates & service charges	1,249,212		1,267,533	
Cleaning costs	45,444		43,827	
		<b>2,617,291</b>		<b>2,667,121</b>
<b>Attributable to:</b>				
Direct research costs (90%)	2,355,562		2,400,409	
Administrative costs (10%)	261,729		266,712	
		<b>2,617,291</b>		<b>2,667,121</b>
<b>Administrative costs</b>				
Establishment expenses ( <i>Above</i> )	261,729		266,712	
Equipment rental	9,137		9,125	
Repairs & maintenance	317,302		253,947	
Insurance	100,567		93,550	
Hospitality & catering	48,129		41,877	
Motor expenses	22,528		21,579	
Telephone & postage	22,646		21,210	
Printing & stationery	22,162		9,549	
Subscriptions	18,793		18,319	
Training	24,712		31,608	
Agency recruitment costs	1,500		-	
Travel & subsistence	10,736		9,479	
Legal, professional & consultancy fees	21,831		35,031	
Audit and accounting	12,806		11,418	
Health & safety	9,201		11,576	
Advertising & exhibitions	11,255		22,691	
Bank Charges	552		656	
Gain on sale of fixed assets	(170)		(8,000)	
Impairment of Investments	-		58,528	
Patent amortisation	25,028		21,742	
Sundries	3,200		6,178	
Irrecoverable VAT	306,134		260,309	
Loss on foreign currency exchange	19,592		-	
<b>Total administrative costs</b>		<b>1,269,370</b>		<b>1,197,084</b>

This page does not form part of the statutory financial statements