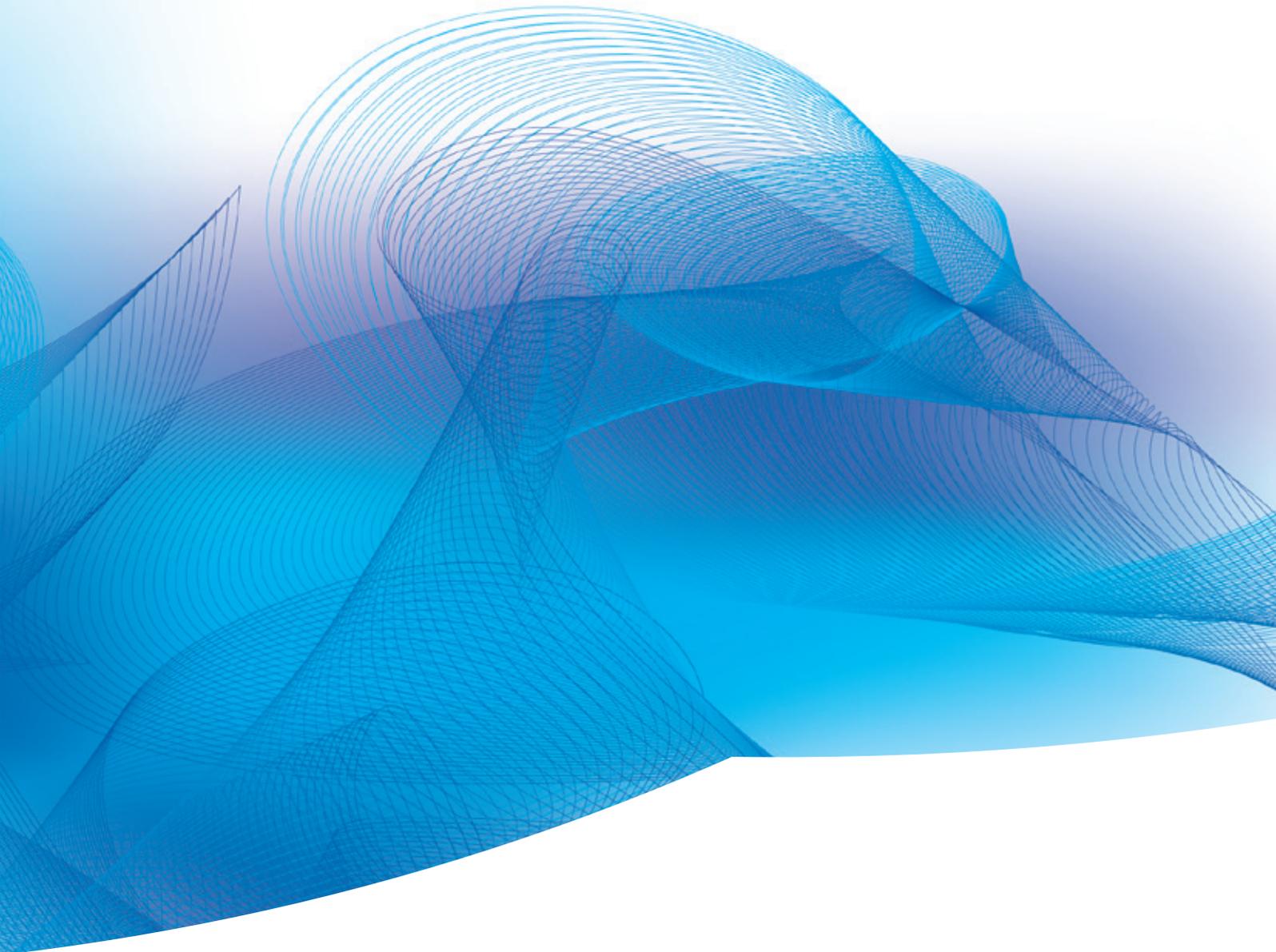


Scottish Investment Bank

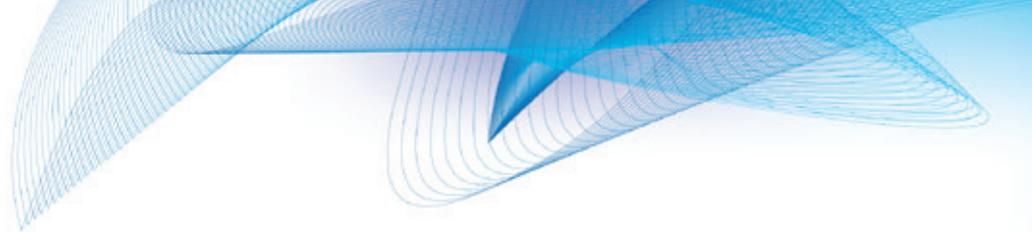
2011/12 Annual Review



EUROPE & SCOTLAND
European Regional Development Fund
Investing in your Future



Scottish Enterprise



Contents

Executive Summary	3
Investment Strategy	4
Operational Performance	
• Performance Summary	5
• Key Performance Measures	6
• Business Sector Analysis	7
• Deal Making Highlights	8
• Portfolio Management	10
The Financial Readiness Service	12
Scottish Loan Fund	12
Future Developments	13

Executive Summary

Access to affordable finance for business is crucial to both achieving economic recovery and supporting jobs in the short-term; and to delivering long-term sustainable economic growth. However, securing affordable finance remains a considerable challenge, in particular for the small and medium sized enterprises (SMEs) that make a vital contribution to the Scottish economy.

The Scottish Enterprise Business Plan recognises that weak demand and constrained access to finance are significant risks to economic recovery. The Scottish Investment Bank plays a critical role in collaboration with banks and private sector investors, in improving both the supply of finance, assisting companies in identifying suitable funding options and accessing appropriate funding and supporting companies to implement their growth plans.

As outlined in Scottish Enterprise's recently published Scottish Risk Capital Market Report¹ (2009-2011), 2011 saw a significant drop in market activity in the £2m plus category. While this is attributed to the timing of deals rather than a downward trend, in response the Scottish Investment Bank has focused efforts on market stimulation with a particular emphasis on attracting new and additional Venture Capital and Corporate investment to Scotland.

Despite the wider market dynamics, the Scottish Investment Bank has maintained and slightly increased total investment in the year to £23.9m leveraging a further £57.3m in private sector investment. An exciting feature of 2011-12 for the Scottish Investment Bank was the number of direct investments made into Scottish companies in the renewable energy sector. These are companies at the forefront of Scotland's recognised strengths in developing renewable technologies.

During the year and in response to the challenges faced by companies securing growth finance we significantly increased our Financial Readiness activity by increasing our team of specialists. This allowed the Scottish Investment Bank to engage with just under 300 companies either seeking equity finance, or external growth capital including bank finance.

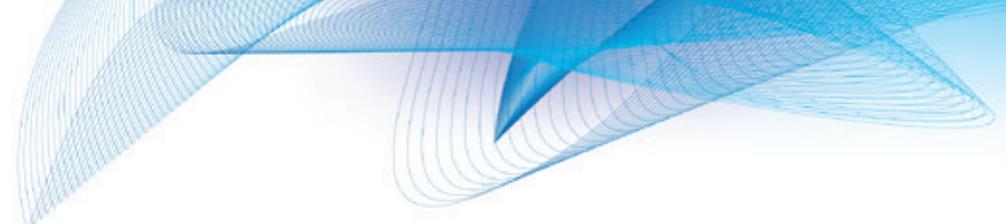
2010-11 saw the launch of the Scottish Loan Fund, managed by Maven Capital partners, the completion of the first two deals, and a healthy pipeline of dealflow. The Fund provides unsecured mezzanine debt to growth companies. As with our equity funds a key factor in developing activity of such scale has been success in securing European Regional Development Funding for the Scottish Loan Fund.

In summary, last year's turbulent economy created significant challenges for the Scottish investment market, providing a strong indication of how the Scottish Investment Bank needs to be increasingly flexible and adaptable to support even more of Scotland's most ambitious companies. To maximise our impact on these companies we will continue to work closely with other Scottish Enterprise teams to ensure that we bring the wider benefits of what Scottish Enterprise has to offer to help our investee companies achieve their full growth potential. The success of the Scottish Investment Bank could not have been achieved without the support of the European Regional Development Fund and the positive working relationships with our co-investment partners.

Kerry Sharp
Acting Head
Scottish Investment Bank

December 2012

1. Scottish Risk Capital Market Report (2009-2011), Jonathan Harris, YCF



Investment strategy

In support of Scottish Government's growth targets and Scottish Enterprise's Business Plan objectives, the available market evidence indicates strongly that the Scottish Investment Bank can produce the greatest economic impact by focusing activities on:

- **high growth potential and export based SMEs;**
- **developing interventions in areas of demonstrable market failure/ significant market gaps in the access to finance market for this cohort of companies.**

The Scottish Investment Bank aims to support Scotland's economic growth by:

“Growing Scotland's private sector funding market to ensure that both early stage and established SMEs with growth and export potential have adequate access to growth capital.”

The Scottish Investment Bank funds provide companies with equity and loan finance where the market is unable to provide the necessary funding at the levels required, or within the desired timescale. We aspire to work in a way that accelerates the process for establishing a supportive business environment, allowing more companies with growth

and export potential to access the capital they require and to work with the private sector to make new and additional sources of finance available with the ultimate objective of delivering economic growth in Scotland.

The Scottish Investment Bank is building on the strong foundations provided by our current delivery mechanisms and our strong partnerships with the private sector, for sharing risks/rewards and leveraging additional expertise and finance. Key to our future activities will be stimulating demand at the seed/start up stage, providing intensive Financial Readiness advice to an increasing number of companies ensuring they are in the best position to secure appropriate growth finance and considering targeted initiatives for key sectors with specific funding challenges.

The Scottish Investment Bank interventions aim to provide economic and commercial returns from our investee companies by offering an integrated package of Financial Readiness support, dedicated and experienced Portfolio Managers and access to wider Scottish Enterprise interventions and support to help companies achieve their growth and export potential.



Performance Summary

The Scottish Investment Bank's investment activity continues to play a key underpinning role, increasing in overall terms from 2010/11. We invested alongside private sector investors in deals totalling £81 million, which was a 5% increase on the previous year and an increase in private sector leverage to £57.3m. Follow on funding for our portfolio companies during 2011/12 witnessed a 30% increase on the previous year strongly reflecting our commitment to support our portfolio.

A total of 19 new companies were added to the portfolio during the year. Although there was an increase in the overall amount invested, there were 50% fewer new deals compared with the previous year, reflecting the wider market environment of constrained exit opportunities preventing recycling of investments and, in part, fewer investments in start ups. Addressing the reduction in start up activity will be a key challenge during 2012/13.

Exit timelines for the Scottish market as a whole have increased to on average 10 years from initial investment. Despite this, we generated income of £4.7 million during the year and we anticipate income will increase substantially in the years ahead as our portfolio matures.

2011/12 saw an increase in our direct investment activity, with £6.4 million invested in the marine renewables sector evidencing Scottish Enterprise's commitment to growing this young industry which represents a huge economic opportunity and in which Scotland has a recognised global competitive advantage. Investments in renewables, life sciences and technology companies continue to account for the vast majority of the Scottish Investment Bank's investment activity (82% of total portfolio value) which is closely aligned with early stage private investor portfolios.

Scottish Enterprise – commissioned market research confirms that Scottish Investment Bank investment activities continue to underpin Scotland's early stage risk capital market. Unlocking exits, creating liquidity and bringing in new investors are key to maintaining a buoyant market so that young, innovative companies can secure the finance they need to grow and create jobs in Scotland.



Key Performance Measures (Equity Funds)

SIB Investment	£23,968,888
Private Sector Investment	£57,302,159
Leverage Ratio	1:2.4
Total deal value	£81,271,047
Deals	123
Companies Receiving Investment	89
Companies Added to Portfolio	19
Exits	6
Income	£4.7m
Portfolio	230 (at 31st March 2012)
Portfolio Jobs Supported	3,859 (Full Time Equivalent)
Portfolio Turnover	£332m

Business Sector Analysis

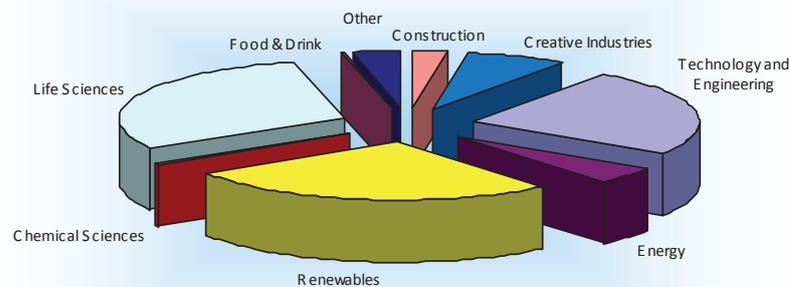
During 2011/12, the Scottish Investment Bank continued its strategy of providing investment support to sectors that offer significant opportunities for growth. These sectors are defined by their distinctive capabilities and businesses operating within these sectors often having the potential to internationalise their activities which supports realisation of Scotland's true potential and ambitions.

During 2011/12 31.9% of our investment was in the Energy sector (including Renewables), 29.8% in Life Sciences and 24.4% in Technology and Engineering which combined accounted for 86.1% of our total investment for the year. This

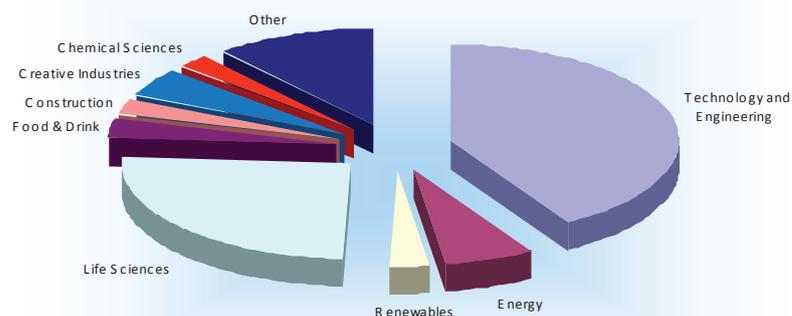
is largely in keeping with the trends of previous years, notwithstanding the upward shift in renewable energy investments.

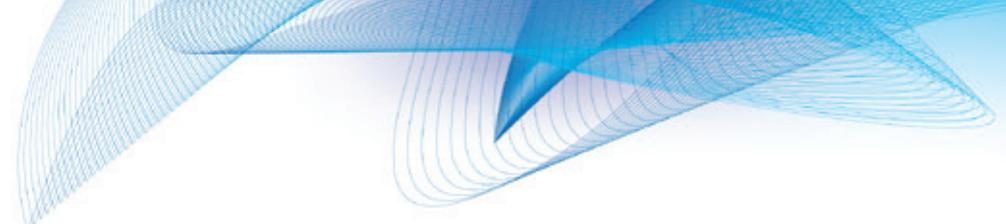
Traditionally, technology and its sub-sectors has proved to be where early-stage investors have sourced opportunities and whilst Technology and Engineering remains the largest sector in the Scottish Investment Bank portfolio at 41%, last year saw a significant increase in renewable energy investments in response to industry demand and Scottish Enterprise's significant commitment to this sector. Life sciences remains our second largest sector in the portfolio at 26%.

Investment by Sector



Portfolio by Sector





Deal making highlights

Whilst the early stage investment market showed signs of contraction during 2011/12, the Scottish Investment Bank directly invested significant amounts in growth potential companies via the three equity funds, alongside private sector partners.

***The Scottish Seed Fund**, invests alongside the private sector providing funding of **£20,000 to £250,000** for seed stage businesses. During the year, the upper limit was increased from £100,000 to £250,000 in response to market evidence, suggesting that companies may require larger amounts of capital at this stage.*

Notable deals during 2011/12 include:

GamesAnalytics Ltd

Edinburgh based GamesAnalytics Ltd, producers of software for analysis of computer game playing behaviours, received investment of £100,000 from the Scottish Investment Bank in June 2011, via the Scottish Seed Fund, as part of a £275,000 funding round.

The company specialises in personalising game playing experiences in online games by providing technology and services that delivers targeted in-game messages based on analysis of playing styles. It has ambitions to be the largest provider of these services to the games industry by

2016. Focusing on assisting publishers and developers attract and retain users is at the core of the company's activities. Founded in 2010, GamesAnalytics provides more than 80 years of expertise with Chris Wright (CEO) and Tim Christian (CFO) having vast knowledge and experience of the computer games industry.

The company is account managed by Scottish Enterprise and by July 2012 had trebled its workforce to 20 employees. In the summer of 2012, GamesAnalytics received positive press for its integration of their Predict technology in the BBC Worldwide's Top Gear Stunt School Revolution mobile game.

***The Scottish Co-investment Fund**, part funded by the European Regional Development Fund, invests between **£100,000 and £1million** alongside private sector partners in deals of up to £2 million.*

Airborne Energy Ltd

The Scottish Investment Bank's Scottish Co-investment Fund participated in a £300,000 funding round for renewable energy start-up, Airborne Energy Ltd. The deal, which was led by partner Archangel, completed in July 2011 and was our first investment in the Loanhead based company.



Airborne Energy is developing a vertical axis turbine, aimed at urban and suburban environments, where wind conditions do not favour traditional horizontal axis designs. This novel design seeks to take advantage of wind from all directions over a wide range of speeds, while avoiding the disadvantages traditionally associated with the vertical axis approach. The investment helped the company to optimise both the turbine and the generator designs to create a prototype capable of generating electricity quietly and reliably in all conditions and meeting the standards of the Microgeneration Certification Scheme. Airborne Energy is in the Business Gateway Growth Pipeline and is receiving Scottish Enterprise support including a £70,000 SMART Scotland award in 2010.

*The Scottish Venture Fund, part funded by the European Regional Development Fund, invests between **£500,000** and **£2 million** alongside private sector partners, in deals of between **£2 million** and **£10 million**.*

Nucana BioMed Ltd

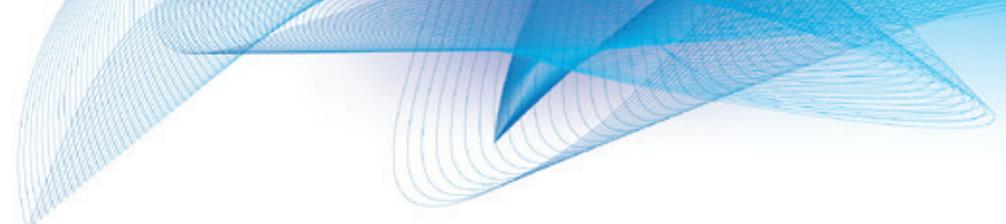
Following previous investment from the Scottish Co-investment Fund, the Scottish Investment Bank invested in Edinburgh based biopharmaceutical company,

Nucana BioMed Ltd, through the Scottish Venture Fund. The deal, which totalled £6.74m was led by Sofinnova Partners and was completed alongside Morningside Ventures and Alida Capital International.

Founded in 2008 by CEO, Hugh Griffith, and Executive Chairman, Chris Wood, NuCana BioMed has exclusive worldwide rights to the revolutionary ProTide technology platform. The ProTide technology allows certain cancer drugs to bypass the key pathways that make cancer cells resistant, and as such greatly extends their utility.

This latest investment was considered to be a very significant development for the company as it provided them with the opportunity to take a range of known cancer drugs, which have been improved by the ProTide technology, into the clinical development stage.

Nucana BioMed is account managed by Scottish Enterprise and has been nominated for the SE Life Sciences awards in 2013, in the category of Investment of the Year (2012).



Portfolio Management

At 31 March 2012, the Scottish Investment Bank portfolio was valued at over £116m across 230 active companies supporting 3,859 Full Time Equivalent jobs and generating combined turnover of over £332m.

The management of investments made by the Scottish Investment Bank is overseen by the Portfolio Management function which comprises a number of highly experienced managers. We adopt a proactive approach to the management of our investments, building strong relationships with private sector investment partners and management teams of investee companies, as well as working closely and collaboratively with colleagues across SE and other public sector organisations. During 2011/12 we increased our portfolio resources which allowed us to enhance the support to companies in implementing and delivering strategy, shaping and enhancing management teams and facilitating value-enhancing introductions from our extensive internal and external networks. Our approach enables companies to unlock their growth ambitions, ensuring that opportunities to achieve good commercial and economic returns on investments are optimised.

In Quarter 1 2012, we launched a pilot seminar programme targeted at investee companies within the Scottish Investment Bank portfolio. This programme covered

a range of topics, including strategy development, financial management, corporate governance and taxation issues. We will continue to hold events to support our investee companies in making valuable connections and contacts.

Independent evaluations of the equity funds² delivered by the Scottish Investment Bank have pointed to a positive economic impact and the importance of wider company support, post investment, which is considered crucial for companies in achieving their full growth potential. Interdependencies between Scottish Enterprise programmes and the wider innovation and business support system help strengthen the overall capacity of business support in Scotland and the expertise that companies can draw on.

To achieve our growth ambitions a key objective for the Scottish Investment Bank is to ensure that our investee companies can benefit from both Account Management and international support from Scottish Development International. The ambition for the majority of our investee companies is to sell their products and services in international markets: currently 53% of SIB companies are in receipt of international support from Scottish Enterprise.

Examples of portfolio activity include:

Calvatec Ltd

Edinburgh based semiconductor company, Calvatec Ltd, entered the Scottish Investment Bank portfolio in November 2008 on receiving investment of £100,000 via the Scottish Seed Fund. The company also benefited from a SMART: SCOTLAND award of £600,000 and support from Scottish Enterprise's High Growth Start Up team.

Founded in 2008, Calvatec has developed new and exciting technology, targeted at dramatically reducing the cost of the design and manufacture of complex, mixed-signal, System-on-Chip integrated circuits which are found at the core of most modern electronics products. The company has a highly qualified design team which possess extensive experience in analogue and mixed-signal ICs in high volume consumer and communication applications.

In June 2011, Calvatec was acquired by Silicone Valley Fortune 1000 company, Maxim Integrated Products in a move that is expected to generate significant opportunities, both in Scotland and globally. The acquisition will help to roll out the Calvatec technology much more quickly than would have been possible as a stand-alone business. The company fully intends to retain the existing workforce in Scotland and potentially expand the team in the future.

Calnex Solutions Limited

Calnex Solutions delivers test and measurement solutions to the telecommunications industry via its patented technology, providing in-line test solutions for the emerging Packet Transport and Carrier Ethernet network technologies. Based in Linthligow, the Company was set up in 2006 and now employs 33 staff, with BT, Vodafone, Siemens and Nokia amongst its clients. All of Calnex Solutions products are engineered and manufactured in Scotland and 95% of the company's products are sold outside of the UK, principally to the US, Europe and South East Asia/Chinese markets.

Scottish Enterprise has worked intensively with Calnex Solutions since its inception, supporting its access to finance, including equity investment of £575,000 through the Scottish Seed Fund and the Scottish Co-Investment Fund which brought in further private sector investment of £612,000. The company received support in its start up phase through Scottish Enterprise's High Growth team, and two years later became account managed, receiving a tailored and integrated package of business support which includes innovation support in the form of research and development and SMART:SCOTLAND grants as well as help to move into new markets overseas.

The company had a successful 2011 with revenues doubling to £2.8m with continued growth forecast for 2012 and beyond. The company also plans to expand its workforce which has already doubled in the last year, and increase its international sales operations with new offices in Beijing and Shanghai adding to its existing presence in Hong Kong.



The Financial Readiness Service

Recognised as a respected source of independent business advice and guidance, the Scottish Investment Bank's Financial Readiness specialists play a major role in providing advice to companies which are seeking to raise finance for growth. The service was subsumed within the Scottish Investment Bank in July 2011 and has already proved to be an integral part of our offering and the wider access to finance agenda. During 2011-12, 297 companies received support from the team.

The specialists work with companies to identify and secure funding packages

from a range of sources including traditional bank funding, equity, other debt providers and grant support such as SMART Scotland and Regional Selective Assistance. Their advice can help companies navigate through the complex field of finance, assist in identifying and securing access to the most appropriate form of finance and, where appropriate, access the relevant Scottish Enterprise and Scottish Government support schemes.

Scottish Loan Fund

The launch of the Scottish Loan Fund was the first new development from the Scottish Investment Bank. The Fund was established to help address a funding gap in the SME market across Scotland, and more specifically, to assist those businesses that (a) cannot access sufficient bank debt to support growth plans and/or (b) do not wish to consider private equity investment as a source of funding. The Fund provides unsecured mezzanine finance to growth companies and can be used by growth companies for a number of purposes, including working capital to help deliver on new contracts, funding for capital expenditure, and development capital to support new product initiatives. The Fund is aimed at growth SMEs with turnover of over £1million, with a specific focus on those which export or have export ambitions.

The Scottish Loan Fund is independently managed by private sector Fund

Managers, Maven Capital Partners LLP. Scottish Enterprise provided the cornerstone investment of £55m (including contributions from Highlands & Islands Enterprise and the European Regional Development Fund) alongside £39.2m from private sector investors at its launch in February 2011. An additional £19m from private sector investors was secured in March 2012, increasing the total fund size to over £113m. Private sector investors include Aberdeen City Council Pension Fund, Clydesdale Bank, Lloyds Banking Group, Royal Bank of Scotland, Santander and Strathclyde Pension Fund.

A significant amount of work was undertaken during the first year of operation aimed at increasing the level of knowledge and awareness of the Fund and promotion to companies and industry bodies, culminating in the completion of two deals during 2011/12.



Future Developments

Market evidence confirms that Scottish Enterprise's contribution to the Scottish early stage risk capital market since 2003 has been fundamentally positive. Growing Scotland's growth capital market will remain a priority for the Scottish Investment Bank but given the continuing challenging market conditions, the Scottish Investment Bank is augmenting established activities and shaping future interventions to meet the demands of what could be a faltering and unpredictable economy for years to come.

Our activities will continue to assist in the development of the indigenous investor

base, achieved through joint working with LINC Scotland and others, but increased focus will be made in attracting new international investors to Scotland. Evidence demonstrates that life sciences and renewables companies in particular, require large amounts of capital to reach commercialisation and the Scottish Investment Bank will play an increasingly prominent role in these sectors through enhancing existing provision and by developing and participating in new funds and initiatives, in conjunction with the private sector offering sector specific insight and knowledge.



Contact Us

Scottish Investment Bank

Atrium Court
50 Waterloo Street
Glasgow G2 6HQ

Tel 0845 607 8787

www.scottish-enterprise.com/sib

Kerry Sharp

Email: kerry.sharp@scotent.co.uk

Pat McHugh

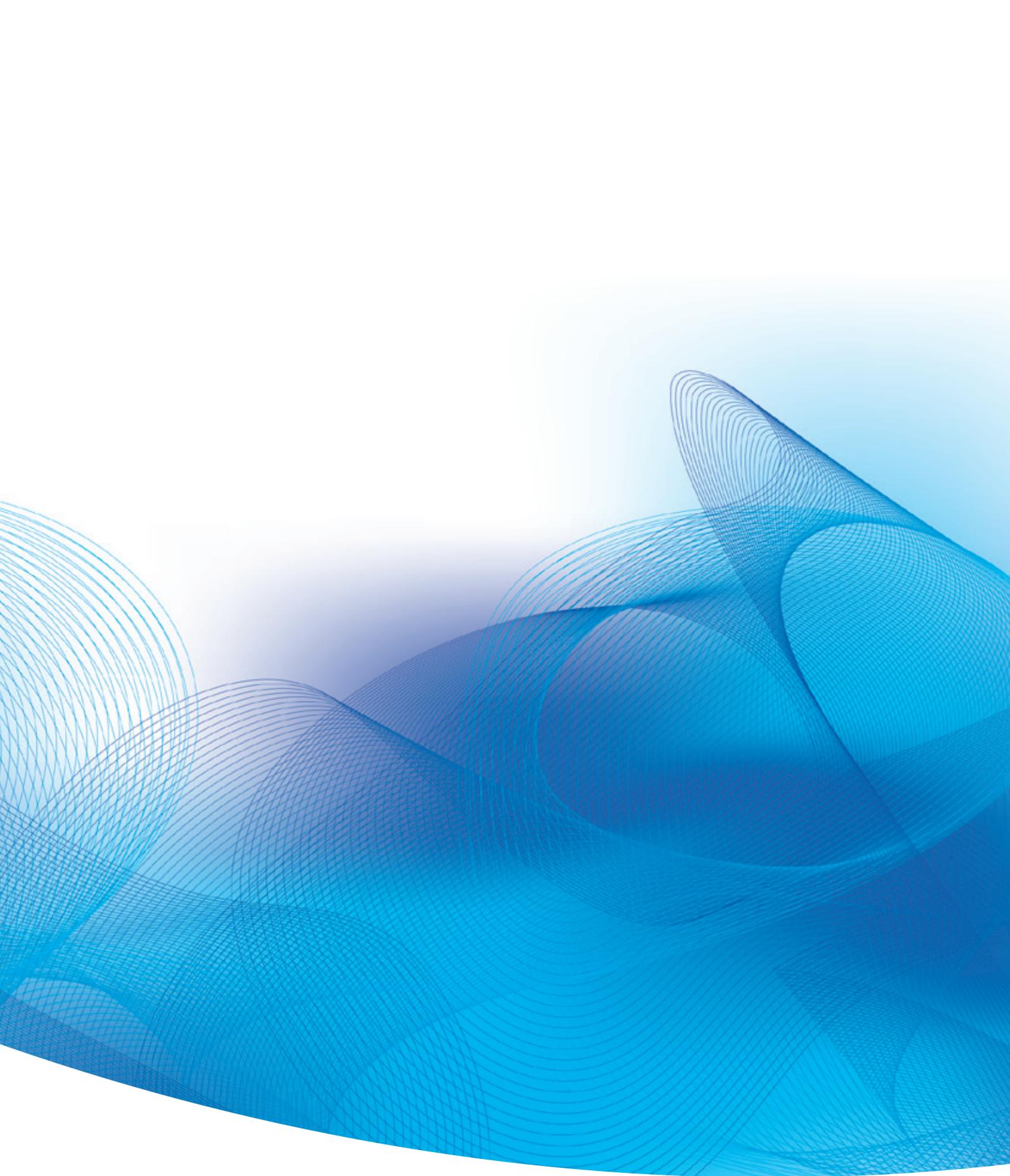
Email: pat.mchugh@scotent.co.uk

Michelle Kinnaird

Email: michelle.kinnaird@scotent.co.uk

Derek Shaw

Email: derek.shaw@scotent.co.uk



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