Capital for Enterprise Ltd Consolidated Annual Report and Accounts 2011-2012

Capital for Enterprise

Registered number: 06179047

CAPITAL FOR ENTERPRISE LIMITED CONSOLIDATED REPORT AND ACCOUNTS TO THE PERIOD 31 MARCH 2012

Presented to Parliament by the Secretary of State for Business Innovation and Skills by Command of Her Majesty

CONTENTS

Directors	D W Quysner (Chair - Resigned 31 March 2012) L V W Armstrong (Chair – Appointed 1 April 2012) L R Earley A J B Loudon J McCrory P J Shortt (Resigned 31 March 2012) J A Spence
Company secretary	D G Campbell (1 April 2011 – 11 March 2012) C Stoppard (From 12 March 2012)
Company number	06179047
Registered office	1 Broadfield Close Sheffield South Yorkshire S8 0XN
Auditors	The Comptroller and Auditor General National Audit Office 157-197 Buckingham Palace Road London SW1W 9SP
Bankers	Barclays Bank PLC PO Box 456 Harrogate HG1 1ZT

MANAGEMENT COMMENTARY

This document is available on Capital for Enterprise's website, www.capitalforenterprise.gov.uk .

Company Overview

The UK Government provides a range of financial and other support for small and medium-sized enterprises (SMEs), and over the years has committed considerable funds to the sector through a number of different loan and equity schemes.

Capital for Enterprise is an investment management company. As the Government's principal centre of knowledge and expertise on the delivery of SME finance interventions, it designs, delivers and manages a wide range of schemes on behalf of the Government. It is sponsored by the Department for Business, Innovation and Skills (BIS) and operates at arm's length from Government. Its subsidiary undertaking, Capital for Enterprise Fund Managers Ltd, is regulated by the Financial Services Authority. At 31 March 2012, it was responsible for some £900m of Government commitments into equity and loan funds and for managing the EFG and SFLG loan guarantee schemes through which Government has facilitated some £1.7bn of currently active loans.

Context

The Government has made economic growth its top priority in tackling the fiscal deficit and providing economic stability. It has set out the measures that it proposes to take in order to achieve this in its Plan for Growth which was published as part of the 2011 Budget. The Plan comprises four overarching ambitions for the British economy one of which is to make the UK one of the best places in Europe to start, finance and grow a business.

Many businesses are struggling to access the finance they need to grow and this has become particularly acute in recent years for many innovative and high growth SMEs. In particular, the UK venture capital (VC) market has declined significantly, with total investment down by nearly half since 2008. In addition bank lending to SMEs has contracted significantly since 2008. High growth SMEs will be the main drivers of economic growth in the future and therefore it is vital that they are not starved of the funding that they need.

Capital for Enterprise delivers a variety of Government backed finance programmes aimed at improving access to finance for SMEs and consequently has a vital role to play in assisting the Government in meeting its growth objective.

About Capital for Enterprise

Capital for Enterprise is a non-departmental public body, a limited company which is wholly-owned by the Department for Business, Innovation and Skills (BIS). Its principal funding is by grant in aid from BIS, but in addition it generates income from services rendered to BIS and also to other public and private sector bodies. The Group consists of the parent company, Capital for Enterprise Ltd, and two subsidiary companies, Capital for Enterprise Fund Managers Limited and Capital for Enterprise (GP) Limited. The way in which the Group is currently funded aims to achieve a break even, or close to break even, operating position.

Its constitution is a Framework Agreement and the company's objectives are:-.

- To **design, develop and deliver** SME financial interventions meeting the objectives of the commissioning organisation and to deliver the schemes to agreed time, cost, specification and standard;

- To **manage SME financial interventions** efficiently, effectively and economically. CfEL will use its professional expertise to manage the schemes, delivering economic benefits in line with the Government's growth agenda;

- To be the **principal centre of expertise** within Government on the provision of SME financial interventions. Through its market knowledge and understanding of the public sector, Capital for Enterprise will inform and improve the quality of Government policy initiatives by providing on-going advice and market intelligence, in particular on "gaps" in the SME finance market.

Capital for Enterprise is expanding and currently has 24 permanent staff with a unique blend of skills drawn from both public and private sectors. Its activities are overseen and guided by an independent, Board of Directors comprising four non-executive experts in SME growth, investment and finance, and the Company's Chief Executive Officer. It is run as an independent organisation, with its own systems and procedures. It is audited by the National Audit Office.

Since it was established in 2008 the Company has consolidated its position as a reliable, innovative and cost effective organisation which manages Government financial interventions in a commercial manner. By virtue of its knowledge and experience of previous and current Government schemes, Capital for Enterprise is well placed to play a major role in identifying best practice, in evaluating the performance of lenders and funds and managers against stated objectives and in ensuring that any lessons learned from earlier interventions are built upon in the future.

Capital for Enterprise is committed to minimising the environmental impacts of its business operations. As such, it aims to manage all waste generated, ensuring that this is dealt with in accordance with either re-use or recycling as appropriate. It also ensures that employees are aware of their responsibility to operate in an environmentally friendly manner for both internal and external activities, resulting in a travel and subsistence policy which not only aims to save public money but also to reduce the carbon footprint of the business. These aims are supported by a Sustainable Development Action Plan for which all targets during the period were achieved excluding those for water and waste recycling. There was an increase in the latter during the period, due to data being archived to electronic files. However, all waste was recycled using the confidential shredding facility.

Activity in 2011-12

Delivering the Growth Agenda

The Company's core activity is the management of financial interventions that enable SMEs to access both loan and equity finance that would otherwise not be available to them. These interventions are designed to target start-up businesses and those needing additional finance in order to expand.

The Enterprise Finance Guarantee (EFG) programme, which facilitates debt-based lending to SMEs with insufficient security, has now been operating since January 2009, replacing the predecessor Small Firms Loan Guarantee (SFLG). Total lending facilitated by EFG in the three years from launch to end March 2012 is £1.5 billion, although in the most recent twelve months total lending only amounted to £301m, a significant reduction from the levels in the two preceding years. The reduction in EFG lending between 2009 and 2012 largely mirrors the decline in overall SME lending over the same period, largely as a consequence of subdued borrower demand and the perceived reduced risk appetite of the main lenders. Notwithstanding these macro-economic influences, Capital for Enterprise has worked closely with the lenders and BIS throughout 2011/12 to ensure that everything possible is done to facilitate maximum appropriate utilisation. This has included additional training of Relationship Managers (RMs) on the appropriate use of EFG followed by testing of the product knowledge and understanding of more than one thousand RMs nationally. In-depth auditing of defaulting EFG-backed propositions has been undertaken to identify common errors by lenders, with the information then fed back to lenders with the intention of improving overall knowledge and application of the scheme, including revision of their decision-making processes where necessary. In addition, the pool of accredited EFG lenders has been expanded by the addition of six further institutions so as to help ensure the programme has as broad a lender base as possible beyond the main high street banks, although the latter group still undertake in excess of 90% of all EFG lending. Beyond these activities, CfEL has worked with lenders, BIS and the BBA to identify possible enhancements to existing EFG scheme design and/or complimentary or alternative debt finance interventions, which may help deliver the Government's growth agenda.

The Enterprise Capital Fund programme makes equity funding available to potentially high growth SMEs. Government funding is by way of investment in VC funds and is used to leverage private investment into those funds. The allocation of ECFs in 2011-12 was slower than had been hoped, largely due to the prevailing economic conditions which continue to make the raising of matching private funds difficult for prospective ECF managers. One ECF was allocated in 2011-12 which brought the total number under management at the year end to 10, these funds being between £10.0m and £37.5m in size. In 2011-12 £30m of Government funding was invested in ECFs for onward investment in SMEs. This was matched by an additional £17m of funding from private investors.

An investment model that complements the ECFs as a method of making equity funding available to SMEs is the co-investment model by which investment into SMEs is made directly alongside other investors. Capital for Enterprise has been closely involved in the development of the co-investment model in the UK having previously worked closely with the Scottish Executive in the design of such a scheme, and having itself established the £75m Capital for Enterprise Fund in 2009, part of which is co-invested alongside private investors. It also established and manages the Aspire Fund which targets support for women led businesses across the UK making equity investments on a co-investment basis.

The Government has been keen to encourage investment by Business Angels into high growth potential early-stage SMEs, particularly in areas most affected by the public spending cuts. Capital for Enterprise supported a successful application to the Regional Growth Fund (RGF) for £50m of funding which is available to co-invest alongside Business Angel networks or syndicates into eligible SMEs. Going forward, Capital for Enterprise will continue to provide expertise and resources to ensure the successful execution of the fund which is called the Angel Co-Fund. The fund was established in November 2011 and by the end of March 2012 had made investments of £884k in three companies.

During the year new commitments to provide funding to SMEs has been made through the ECF programme and the Angel Co-Fund and the EFG scheme continues to provide guarantees for additional lending. In addition Capital for Enterprise manages a number of schemes that have committed funds in previous years and which are either still investing those funds or are legacy programmes with portfolios that still require rigorous monitoring and oversight.

Bringing Coherence and Consistency in the Delivery of Publicly Backed VC and Loan Funding to SMEs

One of Capital for Enterprise's objectives is to bring greater coherence and consistency to the establishment and management of existing and future publicly-backed VCLF schemes. Over many years a variety of schemes have been established by different Government agencies with different structures and objectives. Bringing these under the same oversight regime will ensure a consistent approach and enable economies of scale for programmes with a national coverage to be captured.

Throughout 2011-12, Capital for Enterprise worked closely with BIS, The Department for Communities and Local Government, HM Treasury and the Regional Development Agencies ("RDAs") to transition to it a number of schemes originally established by the RDAs.

The map of the landscape of regional funds illustrates the breadth and complexity of the different forms of SME interventions across England. There are some 90 ex-RDA funds, representing investment capital of c £1 billion, including private sector matched funds. Oversight of these schemes is now being integrated into Capital for Enterprise's portfolio and risk management systems benefiting from the wider knowledge and experience that Capital for Enterprise can bring.

An important part of this activity is in relation to the JEREMIE fund holding companies that were established by each of the three RDAs in the North of England. These vehicles are currently investing over £400m. Capital for Enterprise acts as the Government's nominated representative or observer on the Boards of the holding companies as well as an observer on their Investment Advisory Panels and is already making a valuable contribution in its oversight of these funds.

Acting as the Government's Centre of Expertise in SME Finance

During the year as well as working with Government departments and Agencies in managing existing initiatives Capital for Enterprise has provided advice to them on the development of future initiatives aimed at delivering the growth agenda. This includes:-

- Assessing evidence gathered from existing VCLF and loan guarantee schemes managed by the Company in order to inform Government thinking on future scheme design;
- Input on initiatives such as Big Society Capital, the Green Investment Bank and UK Green Investments, the National Loan Guarantee Scheme and the Business Finance Partnership;
- Advice to Government on the implication of regulatory changes on both current and future financial interventions;
- Working with other Government departments and Devolved Administrations to assist in the creation and oversight of their SME finance interventions;
- Working with a number of government departments in negotiations with the European commission over current and future ERDF regulations with respect to the use of ERDF money for SME interventions

Capital for Enterprise is recognised internationally as a leading expert in SME funding and during the year has provided advice to the EU, foreign governments and international industry bodies. For example, Capital for Enterprise signed a Memorandum of Understanding, as a member of the European Venture Fund Investors Network (EVFIN), to work towards a €250m pan-European fund-of-funds for SME finance. Through an open tendering process it was selected by the Irish Government to design its Temporary Partial Credit Guarantee Scheme which was launched earlier in 2012.

In giving advice on SME financial interventions Capital for Enterprise has been able to draw on its extensive experience of managing financial interventions as well as its close links with industry bodies such as the British Private Equity & Venture Capital Association (BVCA), the British Bankers Association (BBA), and the British Business Angels Association (BBAA).

The Future

In 2012-13 Capital for Enterprise will continue efficiently and effectively to manage the funds under its oversight and will also contribute to a continuous review by Government of SME finance interventions, including the EFG and ECF schemes, in the context of the economic conditions and the taxation system.

Up to £200m is available to be allocated for investment in ECFs in the four year Spending Review period 2011-15 of which £23m was committed in 2011-12. Further commitments will be made in the next year to fund managers who meet the necessary criteria for allocation. Capital for Enterprise will be reviewing the structure of the ECFs in the context of changing economic conditions and if appropriate will make recommendations to BIS as to how the programme might be improved in order to maximise its impact upon economic growth and value to the Exchequer.

Some of the legacy funds such as the RVCF and Early Growth Funds are now reaching the ends of their lives and in most cases BIS is the largest single investor in these funds. Capital for Enterprise will discharge its oversight role on BIS's behalf to ensure that the fund managers are focused on maximising the exit values of their SME portfolio companies.

Next year there will be a significant increase in the pace of direct investment by the Angel Co-Fund and it is anticipated that there will be around £13m of investment in approximately 40 SMEs.

The EFG programme has the capacity to facilitate guaranteed lending to SMEs of up to £500m in FY2012/13. An increase in the EFG Claim Limit for all new EFG lending during FY2012/13 was announced in the March 2012 Budget and CfEL will monitor the impact of this change on utilisation levels. Capital for Enterprise will continue to work with BIS and the scheme lenders to maximise appropriate lending under the scheme and to drive through increased efficiencies in its management of the scheme's delivery. A further accreditation round for potential new lenders has been announced and has attracted worthwhile interest. Beyond the EFG scheme, Capital for Enterprise will make recommendations to BIS regarding alternative and/or complementary initiatives which it feels could help stimulate additional lending to SMEs.

MANAGEMENT COMMENTARY (Continued)

Capital for Enterprise also anticipates having a leading role in the development and implementation of new financial initiatives designed to stimulate the SME sector and encourage growth. These include the Business Finance Partnership, a scheme which will deploy £100m over two years through funding channels outside the main UK clearing banks, and supporting BIS in the oversight of the £60m Regional Growth Fund project to create a wholesale fund to facilitate further lending by CDFIs.

The Company will develop its capability to collect information across the landscape of publicly-backed SME interventions to enable it to gain a deeper understanding of activity and financial performance, benchmarking these measures across schemes to assess performance against objectives and to identify whether interventions are coherent and consistent and what steps can be taken to improve value.

Capital for Enterprise looks forward with confidence to continuing to make a significant contribution in support of the growth agenda.

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L R Earley
Accounting Officer
Date 24 May 2012

THE GOVERNANCE STATEMENT

The Purpose of the Governance Statement
The Governance Statement is aimed at providing a clear understanding of the dynamics of the business and its control structure. It records the stewardship of the Group to supplement the accounts, providing a sense of its performance and of how successfully the Group has coped with and managed the challenges it has faced during the period.

The Statement explains how the Group has complied in all material respects with the principles of the UK Central Government Corporate Governance Code, in so far as those principles are applicable to the Group.
It also explains the governance framework that supports the efficient use of resources in order to deliver the Group's aims and objectives.

Scope of responsibility
The Board has responsibility for maintaining a sound system of internal control that supports the achievement of Capital for Enterprise Limited's policies, aims and objectives. Under the Board's supervision, I am responsible for establishing strategy and determining that CfEL has effective systems for internal controls and risk management. The Board's Audit and Risk Committee advises me on the adequacy of audit arrangements and systems of risk management and internal control. I report to senior BIS officials and the Board, on performance against these policies, aims and objectives, highlighting the main risks and how they are being managed.

The Governance Structure
The Framework Agreement sets out the Group's objectives as well as defining accountability between it and its Sponsor, the Department for Business Innovation and Skills (BIS). This document is currently being updated, a process which will be completed when the Cabinet Office has issued its revised guidance on framework agreements which is expected imminently.

Each year, the Group's policies, aims and objectives are reviewed and set out in the Business Plan, which is approved by the Board of Directors and by BIS. These provide an effective tool for assessing Group performance against agreed Key Performance Indicators (KPI's) which are continually assessed by the BIS Sponsor Team.

The Group is overseen by an independent, expert Board of non-Executive Directors (NED'S), predominantly drawn from private sector backgrounds in SME Finance, who are required to comply with the Cabinet Office Code of Conduct for Board Members of Public Bodies. Although the Corporate Governance Code is not directly applied by NDPB's the Board also applies the principles of this code as far as it is appropriate to do so.

The membership of the Board, has until 31 March 2012, comprised of five NED's and the Chief Executive Officer who is also the Accounting Officer. The NED who represented the interests of the shareholder resigned on this date, but will be replaced by another suitably experienced Civil Servant.

Members are appointed by the Secretary of State for BIS, in accordance with the Code of Practice of the Office of the Commissioner on Public Appointments. Details of the terms of appointment can be found within the Remuneration Report, along with a biography detailing the history and experience for each member.

Board meetings are held once every two months and there have been six formal meetings in the period 1 April 2011 to 31 March 2012, at which there were four instances of a Director not being in attendance.

THE GOVERNANCE STATEMENT (continued)

The Board has appointed an Audit and Risk Committee and a Remuneration Committee, both of which operate within terms of reference that are reviewed each year. The Chair of the Audit and Risk Committee annually submits a written report to the Board on the Committee's work during the previous year. This report gives assurance to the Board and the Accounting Officer as to the effectiveness of external and internal audit with regard to the identification and reporting of weaknesses in the control environment, and as to whether appropriate standards of governance are being met throughout the Group. The 2011-12 report gave positive assurance in these areas but also identified scope for improvement in the effectiveness of Internal Audit, which has subsequently been acted on.

Annually, the Board undertakes an assessment of its performance against a number of criteria. The process includes an objective assessment of the Board's performance by the Executive and the BIS Sponsor in order to ensure moderation of the Board's assessment of itself. The review assessed the Board as having performed to a high standard against its objectives in the previous year but also identified areas for improvement which were subsequently addressed in the period.

The Group has appointed a Senior Information Risk Officer (SIRO) who is a member of the Senior Executive Team and who has overall responsibility for managing the risks to its data and information. The SIRO reports to the Audit and Risk Committee.

The Risk and Internal Control Framework

Risk management is operated in line with the CfEL Risk Management Policy. This policy is reviewed and approved on an annual basis by the Audit and Risk Committee. As part of the risk management process, a procedure is in place to report both to the Audit and Risk Committee and the Board, including escalation procedures at various stages. The risk management reports have been re-designed during the year as part of a process of continual improvement, in order to improve focus as well as to make them clearer and more concise.

The Group has adopted a low tolerance risk appetite which along with clearly defined profiling criteria and reporting hierarchy, ensures that all risks are reviewed at the appropriate level. This in turn leads to more efficient internal controls and informed decision making. A low tolerance risk appetite means that Capital for Enterprise Limited will not accept risks without firstly having implemented all reasonable measures in order to minimise those risks. The two main elements of the risk management process are regular risk workshops for all staff and the procedures for monitoring and reporting.

The Group's two main priorities in managing risks are firstly in relation to the effective delivery of the objectives of the schemes that it manages, and secondly in relation to the appropriate application of the funds that are committed through these schemes. The Group oversees the provision of support by BIS to the markets providing finance to SME's through various schemes. This support is provided in order to meet certain policy objectives and it is essential that the risks of the schemes not meeting their objectives are properly considered. In addition, it is vital to consider the risks of financial loss, particularly as the Group is responsible for the management of significant amounts of Government funding.

The Group has prioritised the recruitment, retention and development of a professional workforce which is measured against high standards of behaviour and performance. Relevant risk management objectives are included in each individual's performance objectives as part of the Performance Management Process. This is designed to ensure that awareness of the importance of effective risk management is embedded in the culture of the organisation.

THE GOVERNANCE STATEMENT (continued)

Monitoring and reporting is controlled through the risk registers, which are an integral part of the process of managing risk. Each operational team has its own register for recording and monitoring operational and project risks, and there is also a strategic risk register for all risks which can be clearly linked to a strategic objective or aim. Every risk has a risk owner who is responsible for implementing the agreed control actions relating to the risk. The risk registers are regularly reviewed and updated, including by peer reviews. During the period, a fundamental re-appraisal of all risks was undertaken, in order to improve the focus for strategic risks, as well as ensuring that the registers continue to appropriately identify the risks to the Group and clearly explain the way in which they are being managed.

Historically project risk management has been less well executed within the Group. To address this a new audit approach was developed in 2011-12, whereby Internal Audit was involved from the early stages of a project's life, to ensure that projects are managed consistently across the business, as well as enabling Internal Audit to provide more real time advice and make recommendations which can be acted upon . The aim of this approach was to improve value added whilst also facilitating the development of a robust control framework within specific areas of activity. Although this approach has given rise to benefits, it has produced mixed results to date. However, it is planned to continue going forward, subject to continual review and improvements being implemented from lessons learnt.

During the period, the Group has undertaken financial process risk assessments and an organisational capability review as part of the project "Managing the Risk of Financial Loss" (MRoFL), from which a strategy for managing this particular area of risk going forward has been developed.

External assurance provided from Internal Audit on the risk management and governance for 2010-11 was that of 'a strong control environment'. Internal Audit has recently undertaken a similar review for 2011-12, including the strategy for MRoFL, and reported that risk management processes are well embedded within the business, still within a strong control environment.

Review of effectiveness

As Accounting Officer, I have responsibility for conducting an annual review of the effectiveness of the system of governance, risk management and internal control. This review is informed by the work of the management team and Internal Auditor, who have responsibility for the development and maintenance of the governance structures, internal control framework, and response to comments made by the external auditors in their management letter and other reports. The Governance Statement represents the end product of the review of the effectiveness of the governance framework, risk management and internal control.

The Group has effectively handled risks and outcomes arising from the risk management process as evidenced by the favourable trend within the profile of risks consistently being moved towards being within appetite. This is further evidenced by the reports received from both the Group's external and internal auditors, who have advised that no significant control weaknesses have been identified.

In 2011-12 the Group has managed significant change in its activities and internal structure. Responsibility for the oversight of around 90 venture capital and loan funds previously overseen by the English Regional Development Agencies (RDA's) was transferred to the Group in September 2011, resulting in a significant increase in both activity and in staff numbers. This has also impacted on the risk profile. The oversight role that the Group has taken on has, in the case of some of these funds such as the JEREMIEs in the North of England, given rise to greater responsibility with limited oversight controls given the scale of public money that is being deployed.

The Group has also been involved in the design of new programmes for the delivery of SME funding both for the UK Government and for other external agencies, which were in addition to its previous activities. This change management process has given rise to additional risks relating to capability, resourcing, and delivery which have had to be carefully managed. This has been done successfully to date but will remain an issue for the Group into 2012-13 as the change process continues. It is particularly so because of the small size of the Group and its consequent lack of depth of resource to assign to unforeseen events, should that be required.

THE GOVERNANCE STATEMENT (continued)

I have been advised on the implications of the result of the review of the effectiveness of the system of Governance, including internal control and risk management by the Internal Auditor and the Board's Audit and Risk Committee.

I have considered the evidence provided with regards to the production of the Annual Governance Statement. The conclusion of the review is that the overall governance and internal control structures are strong.

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L R Earley
Accounting Officer on behalf of the Board
Date: 24 May 2012

REMUNERATION REPORT

The remuneration of the employees and Board members of Capital for Enterprise Limited is determined by the Remuneration Committee which comprised of the Chair and two non-executive directors during the period. There is currently a vacancy for one non-executive director, pending the replacement of P Shortt who resigned on the 31 March 2012. In addition the remuneration of the Chief Executive Officer is subject to BIS Ministerial approval.

In reaching its recommendations, the Committee is to have regard to the following considerations:

- The need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- Regional/ local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- The funds available to departments as set out in the Government's departmental expenditure limits;
- The Government's measures for the redirection of the Budget deficit.

In the July 2011 Budget, the Chancellor of the Exchequer announced a two year pay freeze for public sector workers earning £21,000 or more. The Committee implemented this freeze for the years 2010 and 2011. In the November 2011 Autumn Statement the Chancellor announced that for the two years following the freeze all public sector pay awards will average one per cent, and the Committee will also implement this requirement for 2012 and 2013. In addition, it has continued to exercise restraint in the award of bonuses to staff.

Service Contracts
The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

The senior executives covered by this report all hold full time appointments which are open ended.
Early termination, other than for misconduct, would result in them receiving compensation as set out in the Civil Service Compensation Scheme. Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk

D W Quysner's appointment expired on 31 March 2012. A J B Loudon, J A Spence and J McCrory were initially appointed for three year terms which expired on the 31 March 2011 but which were subsequently extended. L V W Armstrong was appointed on 1 April 2012 for a three year term. Full details of terms of appointment are as follows.

	Date of Appointment	**Expiry Date of Appointment**
D Quysner	1 April 2009	31 March 2012
A J B Loudon	1 April 2009	30 June 2012
J A Spence	1 April 2009	31 March 2013
J McCrory	1 April 2009	31 March 2014
L V W Armstrong	1 April 2012	31 March 2015

The salaries and fees paid to the non-executive Board members quoted below relate solely to the period during the year when the individuals concerned served on the Board of the Company.

K D Cooper is a director of the two Capital for Enterprise Limited subsidiary undertakings, Capital for Enterprise Fund Managers Limited and Capital for Enterprise (GP) Limited, but is not a Director of Capital for Enterprise Limited. Details of his remuneration are not disclosed in the Annual Report and Accounts of the subsidiary undertakings, and so in accordance with the requirements of the Government Financial Reporting Manual (FReM) have been disclosed in this Report.

REMUNERATION REPORT (Continued)

Salary
"Salary" includes gross salary, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowances to the extent that they are subject to UK taxation. This report is based on payments made by the Company and thus recorded in these accounts.

Benefits in kind
The estimated monetary value of benefits in kind covers any benefits provided by Capital for Enterprise Ltd and treated by HM Revenue & Customs as a taxable emolument. No benefits in kind were received by any director or employee in the year.

Bonus Performance Related Pay Awards
Performance related non-consolidated bonus pay awards are based on performance and the outcome of annual performance reviews, along with the guidance contained in the HM Treasury Civil Service Pay Guidance. The appraisal process does not allow sufficient time to accrue individual bonuses relating to 2012 performance in the 2012 financial statements. As such, the remuneration report disclosure for 2012 is based on the comparative bonus for 2011, which has now been updated to record actual awards made.

Sickness Absence Data
During the period the employee absence rate due to sickness was 4% (2011 - 3%).

Remuneration of Group Directors (this information is subject to audit)

				2012			2011
		Salary £'000	**Bonus Payments £'000**	**Pension contribution £'000**	Salary £'000	Bonus Payments £'000	Pension contribution £'000
Non-executive							
Chair	D W Quysner[1]	**25-30**	**-**	**-**	60-65	-	-
Director	A J B Loudon	**15-20**	**-**	**-**	20-25	-	-
Director	J McCrory[1]	**15-20**	**-**	**-**	20-25	-	-
Director	P J Shortt[1]	**-**	**-**	**-**	-	-	-
Director	J A Spence	**15-20**	**-**	**-**	20-25	-	-
Executive							
Chief Executive Officer	L R Earley	**120-125**	**5-10**	**25-30**	120-125	5-10	25-30
M D - Equity	K D Cooper	**70-75**	**5-10**	**15-20**	70-75	5-10	15-20

As P J Shortt was a representative of the Board on behalf of BIS, his remuneration was paid directly by BIS and not CfEL.

[1] Remuneration Committee member in 2011-12.

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisations workforce.

During the period, the banded remuneration of the highest paid director was £130-135k (2011: 125-130k). For 2012 this was 3.0 times (2011: 3.9 times) the median remuneration of the annualised workforce as at 31 March 2012, which equated to £43,611 (2011: £32,657).

Total remuneration includes salary, non-consolidated performance related pay, benefits in kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

REMUNERATION REPORT (Continued)

There have been no changes to the structure of the remuneration of the highest paid director or to the workforce in accordance with the public sector pay freeze restrictions. The change in ratio is mainly due to an increase in the workforce from 23 to 29, due to the additional business activities as reported within the Management Commentary. Most of the increase is a result of five members of staff being transferred to the Company on TUPE transfer from Regional Development Agencies at an average rate that was significantly higher than the 2011 median.

	Band of Highest paid Director's Total Remuneration (£'000)	**Median Total Remuneration (£)**	**Ratio**
2012	**130-135**	**43,611**	**3.0**
2011	125-130	32,657	3.9

Remuneration of other Group employees
The numbers of other Group employees who received remuneration in excess of £50,000 in the year are shown below.

Salary band		**2012**		2011
£	**No. (Full Year Pro-Rata'd)**	**No. (Full Year Actuals)**	No. (Full Year Pro-Rata'd)	No. (Full Year Actuals)
50,000 - 55,000	**1**	**1**	1	1
55,000 - 60,000	**1**	**1**	-	-
60,000 - 65,000	**4**	**3**	2	2
65,000 - 70,000	**3**	**3**	1	1
70,000 - 75,000	**-**	**-**	1	1
90,000 - 95,000	**1**	**1**	1	1
105,000 -£110,000	**1**	**1**	1	1

Pension entitlements
Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (classic, premium or classic plus); or a whole career scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).
Non-executive directors are not eligible for any pension entitlement.

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2012. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website http://www.civilservice.gov.uk/pensions

Pension entitlements of Group Directors (this information is subject to audit)

	L R Earley		K D Cooper	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Increase in pension	**0.0–2.5**	0.0–2.5	**-**	0.0–2.5
Real increase/(decrease) in lump sum at pension age	**-**	-	**-**	0.0–2.5
Value of accrued pension at pension age	**60-65**	60–65	**20-25**	20–25
Related lump sum at pension age		-	**60-65**	60–65
Cash equivalent transfer value (CETV) at 31 March 2011 *	**969**	864	**323**	265
Cash equivalent transfer value (CETV) at 31 March 2012	**1,062**	935	**350**	298
Real increase in cash equivalent (CETV) in year	**8**	-	**-**	7

* The actuarial factors used to calculate CETVs were changed in 2011/12. The CETVs at 31 March 2011 and 31 March 2012 have both been calculated using the new factors for consistency. The CETV at 31 March 2011 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors. Taking account of inflation, the CETV funded by the employer has decreased in real terms.

Cash Equivalent Transfer Value

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme, or arrangement to secure pension benefits in another pension scheme, or an arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost.

CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real Increase in CETV

The real increase in CETV reflects the element of the increase in accrued pension effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Signature to be inserted here

L R Earley
Accounting Officer
Date 24 May 2012

BOARD OF DIRECTORS

Lucy Victoria Winwood Armstrong (Chair)

Lucy is the Chief Executive of The Alchemists, a boutique consultancy focused on supporting fast growing entrepreneurial SMEs'. Her early career was in private equity; corporate development and headhunting with 3i plc, Courtaulds Textiles and Tyzack. Her work involves matching up experienced and successful entrepreneurs with high growth mid-corporate businesses to accelerate their growth and success. Her experience ranges from funding start up and early stage manufacturing businesses in the North East through to mergers and disposals of international operations. She is a non-executive of a venture capital investment group and angel network; a national qualification body and Acting Chair of Northumbria University. Lucy is Chair of the CBI's SME Council. She recently participated in the Banking Taskforce and Future Shape of Business projects for the CBI and a similar BBC Governors' review of European Union coverage. She was educated at Oxford, holds an MBA and has recently completed a MSc in forensic psychology and criminology.

Rory Earley (Chief Executive Officer)

Rory Earley was appointed CEO and Chief Investment Officer of Capital for Enterprise in April 2008 following 4 years of advising the UK Government on the development and implementation of its venture capital programmes. Prior to that, he was Senior Investment Manager at Westport Private Equity Ltd, designing and investing in venture capital funds around the world. Rory was previously responsible for developing and implementing the Government's first interventions in venture capital funds in the 1990s. He has been Chair of, and investor in a successful University spinout Company, chair of an EU expert Group on risk capital, member of the Investment TaskForce advising Government and was until recently also a Director of Greece's first venture capital investment Company (TANEO). Rory holds an MBA from Sheffield University.

Alison Loudon

After qualifying as a Chartered Accountant with Grant Thornton, Alison helped found Aldus Europe Limited and as Finance and Commercial Director helped grow the Company from start-up to a Group employing 300 people with turnover of £67 million. She has since held more than a dozen board appointments in various market sectors including Simul8 Limited (advanced analytics) and Scottish Exhibition Centre Ltd. She is currently Chairman of Consolidated Carriers Ltd (logistics supermarket solutions) and Caledonia Contracts Ltd (retail fit-out provider). She has served on a number of community and Government bodies including National Trust of Scotland, Entrepreneurial Exchange, Advisory Board for the University of Edinburgh Business School, Merchiston Castle School, Edinburgh Leisure, Science Institute for Enterprise and various Enterprise and Lifelong Learning sub-committees as well as acting as an advisor to Bright Grey.

John McCrory OBE

John's early career was spent at West Midlands CC, as Principal Economist and subsequently as Joint Head of Investment at West Midlands CC Pension Fund, one of the UK's largest. He then founded and was Managing Director of Westport Private Equity, one of the first European Fund of Funds managers. He launched the first ever European Private Equity Fund of Funds in 1991 and was subsequently involved in some 17 other such funds, including the UK High Technology Fund, which was raised in association with the DTI in 2000. He has been a core/ founder investor and member of advisory boards for several significant UK venture firms. As a member of the relevant BVCA Committee, he designed and implemented the annual BVCA Performance Measurement Study, which is now a cornerstone of the industry.

John Spence OBE

John Spence left Lloyds TSB in 2005 after 32 years. His managing directorship positions included Business Banking, Retail Distribution, and Policy and Risk. He was in turn chair of the British Bankers Association, Business Banking and Retail committees.

John is non-executive Director and audit chairman of HM Revenue and Customs, chairman of the Spicerhaart group, and a non-executive director for Capital for Enterprise Limited. He is a deputy chairman of Business in the Community and third sector boards include the Church Commissioners, Anglia Ruskin University and Money Advice Service. He chairs the SE Local Enterprise Partnership.

DIRECTORS' REPORT

Company number: 06179047

The directors present their report and the financial statements for the period ended 31 March 2012.

Principal activities

The principal activity of the Company is to support the strategic aims and current Public Service Agreement of the Department for Business, Innovation and Skills (BIS).

Business review

Please see the Management Commentary for review of the activities of the Company during the year.

Results

The total comprehensive income for the period after taxation amounted to £4,280 (2011: £77,913).

Directors

The directors who served during the year were:

D W Quysner (Chair)
L R Earley
A J B Loudon
J McCrory
P J Shortt
J A Spence

Payment to suppliers

The Group is bound, under a statement issued from the Office of the Prime Minister to pay all correctly rendered invoices within five (2011 - five) working days of receipt. During the year the Group achieved an average performance against this target of 99.0% (2011 – 98.5%).

Financial instruments

For detailed disclosures see note 24 to the accounts.

Provision of information to auditor

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company and the Group's auditor is unaware, and

- the director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company and the Group's auditor is aware of that information.

This report was approved by the board on May 2012 and has been signed on its behalf.

Signature to be inserted here

L R Earley
Director
Date: 24 May 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the statement of comprehensive income of the Group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company’s website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CAPITAL FOR ENTERPRISE LIMITED AND SUBSIDIARY COMPANIES

I have audited the financial statements of Capital for Enterprise Limited for the year ended 31 March 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union, and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the directors and the auditor
As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity
In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements
In my opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2012 and of the group's net income for the year then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CAPITAL FOR ENTERPRISE LIMITED AND SUBSIDIARY COMPANIES (Continued)

Opinion on other matters
In my opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the part of the directors' remuneration report described as having been audited, has been prepared in accordance with the requirements of the Companies Act 2006 that would have applied if Capital for Enterprise Limited were a United Kingdom incorporated quoted company.

Matters on which I report by exception
I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept by the parent company; or
- the consolidated financial statements or part of the directors' remuneration report that is described as having been audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit.

Signature to be inserted here

Bryan Ingleby (Senior Statutory Auditor) **Dated 28 May 2012**
for and on behalf of the Comptroller and Auditor General (Statutory Auditor)

157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 MARCH 2012

	Note	2012 £	2011 £
REVENUE	3	**2,322,000**	2,071,500
Administrative expenses	5	**(3,167,331)**	(2,603,617)
Other income	4	**847,238**	613,286
NET OPERATING INCOME	6	**1,907**	81,169
Finance income		**3,134**	373
INCOME BEFORE TAX		**5,041**	81,542
Tax	9	**(761)**	(3,629)
OTHER COMPREHENSIVE INCOME		**-**	-
TOTAL COMPREHENSIVE INCOME		**4,280**	77,913

All amounts relate to continuing operations.

The notes on pages 29 to 41 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2012

	Note	£	**31 March 2012** £	£	31 March 2011 £
NON-CURRENT ASSETS					
Intangible assets	10		**98,347**		6,282
Property, plant and equipment	11		**109,246**		196,949
Investments	12		**22**		22
			207,615		203,253
CURRENT ASSETS					
Trade and other receivables	13	**125,995**		33,648	
Cash and cash equivalents	17	**493,612**		268,900	
		619,607		302,548	
CURRENT LIABILITIES					
Trade and other payables	14	**(646,395)**		(330,862)	
NET CURRENT LIABILITIES			**(26,788)**		(28,314)
NON-CURRENT LIABILITIES					
Deferred tax liability	15	**(4,390)**		(2,782)	
NET ASSETS			**176,437**		172,157
EQUITY					
Called up share capital	16		**49,901**		49,901
Retained earnings			**126,536**		122,256
TOTAL EQUITY			**176,437**		172,157

The financial statements were approved and authorised for issue by the board on 24 May 2012, and signed on its behalf.

Signature to be inserted here

L R Earley
Director.
Date: 24 May 2012

The notes on pages 29 to 41 form part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2012

	Note	£	31 March 2012 £	£	31 March 2011 £
NON-CURRENT ASSETS					
Intangible assets	10		**98,347**		6,282
Property, plant and equipment	11		**109,246**		196,949
Investments in subsidiaries	12		**50,001**		50,001
			257,594		253,232
CURRENT ASSETS					
Trade and other receivables	13	**124,620**		33,462	
Cash and cash equivalents		**422,295**		194,367	
		546,915		227,829	
CURRENT LIABILITIES:					
Trade and other payables	14	**(637,846)**		(320,393)	
NET CURRENT LIABILITIES			**(90,931)**		(92,564)
NET ASSETS			**166,663**		160,668
CAPITAL AND RESERVES					
Called up share capital	15		**49,901**		49,901
Retained earnings			**116,762**		110,767
TOTAL EQUITY			**166,663**		160,668

The financial statements were approved and authorised for issue by the board on 24 May 2012, and signed on its behalf.

Signature to be inserted here

L R Earley
Director
Date: 24 May 2012

The notes on pages 29 to 41 form part of these financial statements.

Company Registration Number: 06179047

CONSOLDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 MARCH 2012

	Note	2012 £	2011 £
Cash flows from operating activities			
Net operating income before tax	**6**	**1,907**	81,169
Amortisation of intangible non-current assets		**1,938**	1,938
Depreciation of property, plant and equipment		**46,812**	61,300
Non-current assets written off to income statement		**46,106**	-
Proceeds on sale of property, plant and equipment		**-**	(360)
Decrease/(increase) in trade and other receivables	**13**	**(91,500)**	27,321
Increase/(decrease) in trade and other payables	**14**	**316,380**	36,506
Tax	**9**	**(847)**	(298)
Net cash inflow from operating activities		**320,796**	207,576
Cash flows from investing activities			
Purchase of intangible non-current assets		**(94,003)**	-
Purchase of property, plant and equipment		**(5,215)**	(129,751)
Purchase of unlisted and other investments		**-**	(13)
Proceeds on sale of property, plant and equipment		**-**	1,000
Interest received		**3,134**	373
Cash flows from investing activities		**(96,084)**	(128,391)
MOVEMENT IN CASH AND CASH EQUIVALENTS IN THE YEAR		**224,712**	79,185
Cash and cash equivalents at beginning of year		**268,900**	189,715
CASH AND CASH EQUIVALENTS AT END OF YEAR	17	**493,612**	268,900

The notes on pages 29 to 41 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 MARCH 2012

	Share capital	Retained earnings	Total
	£	£	£
Balance at 31 March 2011	49,901	122,256	172,157
Total comprehensive income for the year	-	4,280	4,280
Balance at 31 March 2012	**49,901**	**126,536**	**176,437**

The notes on pages 29 to 41 form part of these financial statements.

NOTES TO THE ACCOUNTS
FOR THE PERIOD ENDED 31 MARCH 2012

1. ACCOUNTING POLICIES

1.1 Basis of preparation

The consolidated financial statements of Capital for Enterprise Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.

The financial statements are prepared in accordance with IFRS and Interpretations in force at the reporting date. The Group has not adopted any Standards or Interpretations in advance of the required implementation dates. It is not expected that adoption of Standards or Interpretations which have been issued by the International Accounting Standards Board but have not been adopted will have a material impact on the financial statements.

The accounts are prepared in accordance with the disclosure and accounting requirements contained in the Financial Reporting Manual (FReM) where these do not conflict with the Companies Act and the requirements of IFRS.

The accounts are also prepared in accordance with HM Treasury's Fees and Charges Guide insofar as these are appropriate to Capital for Enterprise Limited.

The accounts are prepared on a going concern basis as the Directors have been provided with written assurance from the Department for Business, Innovation and Skills that it will continue to provide sufficient funding for the financial year 2013, for the Company to be able to continue on a going concern basis for 12 months from the date of the statement of financial position.

The functional currency of the Group is pounds sterling and rounding is to the nearest £.

The reporting period for the financial statements is the financial year ended 31 March 2012. The comparative information relates to the year ended 31 March 2011.

1.2 Basis of consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Inter-Company transactions, balances and unrealised gains and losses arising on transactions between Group companies are eliminated.

Unless otherwise stated the notes to the accounts below relate to Group figures.

The Company has taken advantage of the exemption contained within 408 of the Companies Act 2006 not to present its own Statement of Comprehensive Income.

The total comprehensive income for the period dealt with in the accounts of the Company was £5,995 (2011: £68,763).

1.3 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

1.4 Intangible assets and amortisation

Separately acquired licences and other intangible software IT assets are shown at historical cost. Intangible assets have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of the assets over their estimated useful lives of 5 years.

Internally developed software is capitalised in accordance with IAS38, when it is not an integral part of computer hardware, if it is separately identifiable and the cost can be measured reliably. This software is amortised on a straight line basis, over the useful life of the development (between 3 and 10 years) from the date that the system is bought into use.

1.5 Property, plant and equipment

Property, plant and equipment are stated on a depreciated historical cost basis which is a proxy for fair value, due to their short useful lives and/or low values, or both. Depreciation is provided at rates calculated to write off the cost of these assets, less their estimated residual value, on a straight line basis over their expected useful lives on the following bases. Estimated useful lives are reviewed on an annual basis and adjusted where appropriate.

Office Premises	-	over the period of the lease
Fixtures & Fittings	-	between three and five years straight line
Information Technology	-	between two and five years straight line

Property, plant and equipment is capitalised when it meets the capitalisation criteria, is deemed to have a useful economic life in excess of one year, and has been purchased for a net value of £2,000 or more.

Assets under construction are not depreciated until the asset is bought into use.

1.6 Investments

Subsidiary undertakings

(i) Investments in subsidiaries are valued at cost less provision for impairment.

(ii) Other investments

Investments held as fixed assets are shown at cost less provision for impairment.

NOTES TO THE ACCOUNTS
FOR THE PERIOD ENDED 31 MARCH 2012 (Continued)

1.7 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

The amounts payable in the future under these operating lease arrangements are not discounted, these are disclosed at Note 19.

1.8 Current taxation

Tax on the result for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised outside of the statement of comprehensive income, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using the tax rates and tax laws that have been enacted or substantively enacted by the date of the statement of financial position, and any adjustment to tax payable in respect of previous years

1.9 Deferred taxation

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the statement of financial position and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are not discounted.

1.10 Value Added Tax

Value Added Tax (VAT) is accounted for in the accounts in the amounts are shown net of VAT except:

- irrecoverable VAT is charged to the consolidated statement of comprehensive income included under the relevant expenditure heading; and
- irrecoverable VAT on the purchase of an asset is included in additions.

1.11 Employee Benefits

Under IAS19 Employee Benefits, all staff costs are recorded as an expense as soon as the Company is obligated to pay them. This includes the cost of any untaken leave as at the year end, which is recorded in the financial statements as an accrual on an undiscounted basis.

1.12 Pensions

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme ("PCSPS"), details of which are described in note 18. The defined benefit scheme is unfunded and non-contributory except in respect of dependant's benefits. Capital for Enterprise Limited recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

In respect of defined contribution schemes, contributions are recognised in the year in which they are payable.

1.13 Financial instruments

The Group classes financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are recognised on trade date when the Group becomes a party to the contractual provisions of the instrument. Financial instruments are recognised initially at fair value plus, in the case of a financial instrument not at fair value through the statement of comprehensive income, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Financial instruments are derecognised on trade date when the Group is no longer a party to the contractual provisions of the instrument.

1.14 Trade receivables

Trade receivables are stated at their original invoiced value, as the interest that would be recognised from discounting future cash receipts over the short credit period is not considered to be material. Trade receivables are reduced by appropriate allowances for estimated irrecoverable amounts. Interest on overdue trade receivables is recognised as it accrues.

1.15 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

1.16 Trade payables

Trade payables are stated at their original invoice value, as the interest that would be recognised from discounted future cash payments over the short payment period is not considered to be material.

1.17 Retained earnings

The retained earnings, as shown in the consolidated statement of changes in equity, are used to assist with the funding of the ongoing activities of the Group.

2. ACCOUNTING ESTIMATES AND JUDGEMENTS

There are not considered to be any key areas of estimation uncertainty in the preparation of these financial statements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The critical judgement in applying the Group's accounting policies regards operating lease commitments. Management have undertaken a review of the material contracts and leases to which the Group is party, and as they have determined that the Group has not obtained substantially all the risks and rewards of the underlying assets, the leases have been classified as operating leases and accounted for accordingly.

3. REVENUE

The whole of the revenue is attributable to grant-in-aid.
All revenue arose within the United Kingdom, the Group's country of domicile.

4. OTHER INCOME

	2012	2011
	£	£
Priority Profit Share	**392,191**	389,090
Advisory and consultancy fees	**265,340**	168,581
Investment fees	**7,113**	28,183
Management fees	**182,594**	27,432
Total	**847,238**	613,286

NOTES TO THE ACCOUNTS
FOR THE PERIOD ENDED 31 MARCH 2012 (Continued)

5. ADMINISTRATIVE EXPENSES

	2012 £	2011 £
Staff costs	**1,822,242**	1,510,017
Operational costs	**660,230**	458,401
Professional fees	**195,693**	205,765
Loan guarantee audit assurance	**206,476**	239,016
Legal Fees	**149,928**	62,796
Premises expenses	**84,012**	64,384
Depreciation	**48,750**	63,238
Total	**3,167,331**	2,603,617

6. OPERATING INCOME

The operating income is stated after charging:

	2012 £	2011 £
Depreciation of property, plant and equipment:		
- owned by the Group	**46,812**	61,300
Disposal of property, plant and equipment	**39,043**	(360)
Auditors' remuneration	**14,500**	13,000
Operating lease rentals:		
- other operating leases	**37,756**	34,719
Amortisation of intangible assets	**1,938**	1,938

Auditors fees for the Group were £14,500 (2011: £13,000). The auditors fees for the audit of the parent Company were £6,000 (2011: £7,000).

The operating income of the Group for the year was £1,907 (2011: £81,169)

7. STAFF COSTS

Staff costs, including directors' remuneration, were as follows.

	2012 £	2011 £
Wages and salaries	**1,441,337**	1,182,978
Social security costs	**136,024**	115,625
Other pension costs	**244,881**	211,414
Total	**1,822,242**	1,510,017

The average monthly number of employees during the period was as follows.

	2012 No.	2011 No.
Directors	**7**	7
Management and Administration	**19**	16
Total	**26**	23

8. DIRECTORS' REMUNERATION

	2012 £	2011 £
Emoluments	**287,023**	339,935
Company pension contributions to defined benefit pension schemes	**43,886**	43,886

During the year retirement benefits were accruing to 2 Group directors (2011: 2) in respect of defined benefit pension schemes.

The highest paid director received remuneration of £131,561 (2011: £128,500).

The value of the Company's contributions paid to a defined benefit pension scheme in respect of the highest paid director amounted to £28,553 (2011: £28,553).

9. TAX

	2012	2011
Current tax expense	**£**	£
Current year	**-**	847
Prior year	**(847)**	-
Total current tax expense	**(847)**	847
Deferred tax expense		
Current year	**1,928**	2,782
Prior year	**(320)**	-
Total deferred tax expense	**1,608**	2,782
Total tax expense	**761**	3,629

Factors affecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK at 20% (2011: same as). The differences are explained below:

	2012 £	2011 £
Income on ordinary activities before tax	**5,041**	81,542
Income on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2011 - 21%)	**1,008**	17,124
Effects of:		
Income not taxable	**(381)**	(14,378)
Utilisation of brought forward losses	**(627)**	(1,899)
Adjustments in respect of prior periods	**(847)**	-
Current tax charge for the year (see note above)	**(847)**	847

NOTES TO THE ACCOUNTS
FOR THE PERIOD ENDED 31 MARCH 2012 (Continued)

9. TAX (continued)

Factors that may affect future tax charges

The Company has reached agreement with HM Revenue & Customs that it is currently liable to corporation tax only on investment income received. The Company received bank interest of £3,134 (2011: £373). However, group relief claims have now been made in respect of both 2012 and 2011, utilising the losses from Capital for Enterprise GP Ltd of £3,134 for 2012 and £4,035 for 2011. This gives rise to recoverable tax of £78 for Capital for Enterprise Limited (2011: tax liability of £78), and £769 for Capital for Enterprise Fund Managers Ltd (2011: tax liability of £769).

Capital for Enterprise Limited is not operating on a commercial basis with a view to realising profits, given that it could not operate without central grant in aid funding, and as a consequence its mainstream activities are not taxable income.

Capital for Enterprise (GP) Limited has tax losses carried forward of £1,367,618 (2011: £979,424*). The losses arise because the priority profit share credited to the Statement of Comprehensive Income is not taxable income. A deferred tax asset of £4,390 (2011: £2,782) has been recognised in respect of these losses as they are offset by short term timing differences.

* 2011 re-stated to reflect group relief now claimed.

NOTES TO THE ACCOUNTS
FOR THE PERIOD ENDED 31 MARCH 2012 (Continued)

10. INTANGIBLE ASSETS

The assets for both the Company and the Group are the same as and therefore have been disclosed as a single note.

Group and Company 2012	**Software IT £**	**Software licences £**	**Total £**
Cost			
As at 1 April 2011	7,981	2,270	10,251
Additions	52,720	41,283	94,003
As at 31 March	**60,701**	**43,553**	**104,254**
Amortisation			
As at 1 April 2011	2,910	1,059	3,969
Charge for the year	1,484	454	1,938
At 31 March 2012	**4,394**	**1,513**	**5,907**
Net book value			
At 31 March 2012	**56,307**	**42,040**	**98,347**
At 31 March 2011	5,071	1,211	6,282

Group and Company 2011	**Software IT £**	**Software licences £**	**Total £**
Cost			
As at 1 April 2010 and 31 March 2011	**7,981**	**2,270**	**10,251**
Amortisation			
As at 1 April 2010	1,426	605	2,031
Charge for the year	1,484	454	1,938
At 31 March 2011	**2,910**	**1,059**	**3,969**
Net book value			
At 31 March 2011	**5,071**	**1,211**	**6,282**
At 31 March 2010	6,555	1,665	8,220

NOTES TO THE ACCOUNTS
FOR THE PERIOD ENDED 30 MARCH 2012 (Continued)

11. PROPERTY, PLANT AND EQUIPMENT

The assets for both the Company and the Group are the same as and therefore have been disclosed as a single note.

Group and Company 2012	Fixtures and fittings £	Information technology £	Assets under construction £	Office premises £	Total £
Cost					
At 1 April 2011	24,218	146,178	112,345	39,471	322,212
			-		
Additions	-	5,215		-	5,215
Disposals	-	(81,896)	-	-	(81,896)
Reclassification	-	105,282	(112,345)	-	(7,063)
At 31 March 2012	**24,218**	**174,779**	**-**	**39,471**	**238,468**
Depreciation					
At 1 April 2011	11,973	78,499	-	34,791	125,263
Charge for the year	5,703	37,123	-	4,680	47,506
Disposals	-	(42,853)	-	-	(42,853)
Reclassification	-	(694)	-	-	(694)
At 31 March 2012	**17,676**	**72,075**	**-**	**39,471**	**129,222**
Net book value					
At 31 March 2012	**6,542**	**102,704**	**-**	**-**	**109,246**
At 31 March 2011	12,245	67,679	112,345	4,680	196,949

Group and Company 2011	Fixtures and fittings £	Information technology £	Assets under construction £	Office premises £	Total £
Cost					
At 1 April 2010	21,321	133,864	-	39,471	194,656
Additions	2,897	14,509	112,345	-	129,751
Disposals	-	(2,195)	-	-	(2,195)
At 31 March 2011	**24,218**	**146,178**	**112,345**	**39,471**	**322,212**
Depreciation					
At 1 April 2010	6,464	37,420	-	21,634	65,518
Charge for the year	5,509	42,634	-	13,157	61,300
Disposals	-	(1,555)	-	-	(1,555)
At 31 March 2011	**11,973**	**78,499**	**-**	**34,791**	**125,263**
Net book value					
At 31 March 2011	**12,245**	**67,679**	**112,345**	**4,680**	**196,949**
At 31 March 2010	14,857	96,444	-	17,837	129,138

12. INVESTMENTS

Group	Unlisted investments £
Cost or valuation	
At 1 April 2011 and 31 March 2012	**22**

Company	Shares in Group undertakings £
Cost or valuation	
At 1 April 2011 and 31 March 2012	**50,001**

Details of the principal subsidiaries can be found under note number 23.

As of 30 September 2011, Northwest Development Agency and Business Link North West transferred their respective memberships of the NW VCLF HF LLP to Capital for Enterprise Ltd (0.01%) and The Secretary of State for Business Innovation and Skills (99.99%). Although the Company has a nominal 1% share in the Partnership, it has no beneficial interest and it is not entitled to receive any income from it.

13. TRADE AND OTHER RECEIVABLES: Amounts falling due within one year

	Group		Company	
	2012	2011	**2012**	2011
	£	£	**£**	£
Trade receivables	**57,710**	3,779	**57,710**	3,779
Amounts owed by Group undertakings	**-**	-	**-**	15
Corporation Tax	**847**	-	**78**	
Social security and other taxes	**-**	-	**-**	-
Other receivables	**806**	201	**200**	-
Prepayments and accrued income	**66,632**	29,668	**66,632**	29,668
Total	**125,995**	33,648	**124,620**	33,462

14. TRADE AND OTHER PAYABLES: Amounts falling due within one year

	Group		Company	
	2012	2011	**2012**	2011
	£	£	**£**	£
Trade payables	**23,185**	13,525	**23,185**	13,525
Amounts owed to Group undertakings	**-**	-	**11**	-
Corporation tax	**-**	847	**-**	78
Social security and other taxes	**72,348**	50,010	**72,348**	50,010
Other payables	**-**	464	**-**	464
Accruals and deferred income	**550,862**	266,016	**542,302**	256,316
Total	**646,395**	330,862	**637,846**	320,393

15. DEFERRED TAX LIABILITY

	2012 £	2011 £
At 1 April	2,782	-
Movement	1,608	2,782
At 31 March	**4,390**	2,782

The deferred tax provision represents

	2012 £	2011 £
Short term timing differences	332,619	274,350
Losses carried forward	(328,229)	(271,568)
At 31 March	**4,390**	2,782

16. SHARE CAPITAL

	2012 £	2011 £
Authorised		
50,000- Ordinary shares of £1 each	**50,000**	50,000
Allotted, called up and fully paid		
49,901- Ordinary shares of £1 each	**49,901**	49,901

17. ANALYSIS OF CHANGES IN CASH FLOW

Group 2012	**1 April 2011** **£**	**Cash flow** **£**	**31 March 2012** **£**
Cash at bank and in hand:	**268,900**	**224,712**	**493,612**
Net funds	**268,900**	**224,712**	**493,612**

Group 2011	1 April 2009 £	Cash flow £	31 March 2010 £
Cash at bank and in hand:	189,715	79,185	268,900
Net funds	189,715	79,185	268,900

18. PENSION COMMITMENTS

The Principal Civil Service Pension Schemes (PCSPS) is an unfunded multi-employer defined benefit scheme, but Capital for Enterprise Limited is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/my-civil-service/pensions).

For the period to 31 March 2012, normal employer contribution contributions of £236,255 (2011: £211,589) were payable to the PCSPS, at one of the four rates in the range of 16.7% to 24.3%, based on salary bands. In addition, contributions of £5,001 were payable to a stakeholder partnership scheme (2011: £nil) and £nil (2011: £1,000) were payable to a personal pension plan.

The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2011-12 to be paid when the member retires and not the benefits paid during this period to existing pensioners. From 2012-13 the salary bands have been revised but the contribution rates remain the same.

Outstanding contributions amounting to £6,973 (2011: £3,236) payable to the PCSPS and £nil payable to a personal scheme at 31 March 2012 and are included in trade and other payables (note 14).

19. OPERATING LEASE COMMITMENTS

Future minimum lease payments under non-cancellable operating leases are shown below:

Land and buildings **Group**	**2012** **£**	2011 £
Expiry date:		
Expiry within 1 year	**28,125**	28,125
Expiry after 1 year but not more than 5 years	**-**	-

20. RELATED PARTY TRANSACTIONS

The following information is provided in accordance with IAS 24, Related Party Disclosures, as being material transactions with related parties during the year. These transactions are with the Department of Business, Innovation and Skills (BIS), the Department for Education, East Midlands Regional Development Agency, as well as with the associated subsidiary undertakings and also the Capital for Enterprise Fund LP, a limited partnership of which Capital for Enterprise (GP) Limited is the General Partner.

In addition, the Group has had a small number of transactions with other government departments and other central government bodies. Most of these transactions have been with The Cabinet Office, HM Revenue and Customs and the Department for Work and Pensions.

Remuneration to Directors is disclosed within the Remuneration Report.

Except as disclosed below, no related party transactions have been entered into during the year which might reasonably affect any decisions made by the users of these consolidated financial statements.

	2012	2011
	£	£ *
Grant in Aid Funding from BIS	**2,322,000**	2,071,500
Investment and priority profit share fees in relation to Capital for Enterprise Fund LP	**399,304**	417,273
Secondee costs	**94,564**	73,688
Internal Audit	**18,300**	27,250

At 31 March 2012, the Group had amounts receivable and payable amounting to £606 and £290,000 (2011: £201 and £2,800) respectively with related parties which are due on normal commercial terms.

No Minister, Board member, key manager or other related party has undertaken any material transactions with the Group during the year.

* 2011 re-stated

21. EVENTS AFTER THE YEAR END

There have been no significant events since the end of the year.

22. CONTROLLING PARTY

The Company is ultimately controlled by the Secretary of State of the Department for Business, Innovation and Skills.

23. PRINCIPAL SUBSIDIARIES

Company name	**Country of incorporation**	**Percentage Shareholding**	**Description**
Capital for Enterprise Fund Managers Limited	England and Wales	100	Fund manager
Capital for Enterprise (GP) Limited	Scotland	100	General partner of a limited partnership

24. FINANCIAL INSTRUMENTS

The financial assets held by the Group, (trade receivables and cash and cash equivalents), are classified as loans and receivables, and the financial liabilities held, (trade and other payables), are measured at amortised cost. It is the directors' opinion that the carrying value of trade receivables and trade payables approximates their fair value.

The Group's activities are not seen to expose it to any particularly significant financial risks in terms of market risk (including currency and interest rate risk), credit risk and liquidity risk.

The Group's revenue resource requirements are financed by resources voted annually by Parliament in the form of grant-in-aid funding from the Department for Business, Innovation and Skills. The Group is not, therefore, exposed to significant liquidity risks.

The Group does not carry out transactions in foreign currencies and all material assets and liabilities are denominated in sterling so it is not exposed to currency risk.

The Group's maximum exposure to credit risk represents the year end receivables balance of £58,516 (2011: £3,980). The receivables' age analysis is evaluated on a regular basis for potential doubtful debts. It is management's opinion that no provision for doubtful debts is required.

All of the Group's financial assets and liabilities carry nil rates of interest and it is not exposed to significant interest rate risk.

The counter-party to the financial assets of the Group are other government bodies therefore the exposure to credit risk is seen to be minimal.